MORGAN STANLEY
Form 10-Q
May 07, 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 March 31, 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** (Address of principal executive offices, including zip code)	(I.R.S. Employer Identification No.)	(Registrant s telephone number, including area code)

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

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

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

Large Accelerated Filer x	Accelerated Filer ¨
Non-Accelerated Filer ¨	Smaller reporting company ¨

(Do not check if a smaller reporting company)
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of April 30, 2013, there were 1,960,115,045 shares of the Registrant s Common Stock, par value $0.01 per share, outstanding.

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QUARTERLY REPORT ON FORM 10-Q

For the quarter ended March 31, 2013

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AVAILABLE INFORMATION

Morgan Stanley files annual, quarterly and current reports, proxy statements and other information with the 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)

	March 31, 2013	December 31, 2012
Assets		
Cash and due from banks ($584 and $526 at March 31, 2013 and December 31, 2012, respectively, related to consolidated variable interest entities generally not available to the Company)	$ 17,773	$ 20,878
Interest bearing deposits with banks	25,129	26,026
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	31,313	30,970
Trading assets, at fair value (approximately $138,143 and $147,348 were pledged to various parties at March 31, 2013 and December 31, 2012, respectively; $3,343 and $3,490 related to consolidated variable interest entities, generally not available to the Company at March 31, 2013 and December 31, 2012, respectively)	267,236	267,603
Securities available for sale, at fair value	41,454	39,869
Securities received as collateral, at fair value	17,971	14,278
Federal funds sold and securities purchased under agreements to resell (includes $873 and $621 at fair value at March 31, 2013 and December 31, 2012, respectively)	140,415	134,412
Securities borrowed	135,727	121,701
Customer and other receivables	62,271	64,288
Loans (net of allowances of $129 and $106 at March 31, 2013 and December 31, 2012, respectively)	30,615	29,046
Other investments	4,940	4,999
Premises, equipment and software costs (net of accumulated depreciation of $5,750 and $5,525 at March 31, 2013 and December 31, 2012, respectively) ($222 and $224 at March 31, 2013 and December 31, 2012, respectively, related to consolidated variable interest entities, generally not available to the Company)	5,928	5,946
Goodwill	6,633	6,650
Intangible assets (net of accumulated amortization of $1,336 and $1,250 at March 31,2013 and December 31, 2012, respectively) (includes $8 and $7 at fair value at March 31, 2013 and December 31, 2012, respectively)	3,694	3,783
Other assets ($577 and $593 at March 31, 2013 and December 31, 2012, respectively, related to consolidated variable interest entities, generally not available to the Company)	10,284	10,511
Total assets	$ 801,383	$ 780,960
Liabilities		
Deposits (includes $1,442 and $1,485 at fair value at March 31, 2013 and December 31, 2012, respectively)	$ 80,623	$ 83,266
Commercial paper and other short-term borrowings (includes $1,262 and $725 at fair value at March 31, 2013 and December 31, 2012, respectively)	2,475	2,138
Trading liabilities, at fair value	132,472	120,122
Obligation to return securities received as collateral, at fair value	23,510	18,226
Securities sold under agreements to repurchase (includes $565 and $363 at fair value at March 31, 2013 and December 31, 2012, respectively)	119,270	122,674
Securities loaned	40,351	36,849
Other secured financings (includes $9,624 and $9,466 at fair value at March 31, 2013 and December 31, 2012, respectively) ($739 and $976 at March 31, 2013 and December 31, 2012, respectively, related to consolidated variable entities and are non-recourse to the Company)	16,294	15,727
Customer and other payables	137,127	127,722
Other liabilities and accrued expenses ($116 and $117 at March 31, 2013 and December 31, 2012, respectively related to consolidated variable interest entities and are non-recourse to the Company)	13,622	14,928
Long-term borrowings (includes $42,510 and $44,044 at fair value at March 31, 2013 and December 31, 2012, respectively)	165,142	169,571
	730,886	711,223

Commitments and contingent liabilities (see Note 12)		
Redeemable noncontrolling interests (see Notes 3 and 14)	4,425	4,309
Equity		
Morgan Stanley shareholders equity:		
Preferred stock	1,508	1,508
Common stock, $0.01 par value:		
Shares authorized: 3,500,000,000 at March 31, 2013 and December 31, 2012;		
Shares issued: 2,038,893,979 at December 31, 2012 and March 31,2013;		
Shares outstanding: 1,960,582,868 at March 31, 2013 and 1,974,042,123 at December 31, 2012	20	20
Additional Paid-in capital	23,661	23,426
Retained earnings	40,750	39,912
Employee stock trust	1,872	2,932
Accumulated other comprehensive loss	(694)	(516)
Common stock held in treasury, at cost, $0.01 par value; 78,311,111 shares at March 31, 2013 and 64,851,856 shares at December 31, 2012	(2,541)	(2,241)
Common stock issued to employee trust	(1,872)	(2,932)
Total Morgan Stanley shareholders equity	62,704	62,109
Nonredeemable noncontrolling interests	3,368	3,319
Total equity	66,072	65,428
Total liabilities, redeemable noncontrolling interests and equity	$ 801,383	$ 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 March 31, 2013	Three Months Ended March 31, 2012
Revenues:		
Investment banking	$ 1,224	$ 1,063
Trading	2,694	2,402
Investments	338	85
Commissions and fees	1,168	1,177
Asset management, distribution and administration fees	2,346	2,152
Other	203	104
Total non-interest revenues	7,973	6,983
Interest income	1,398	1,542
Interest expense	1,213	1,601
Net interest	185	(59)
Net revenues	8,158	6,924
Non-interest expenses:		
Compensation and benefits	4,216	4,430
Occupancy and equipment	379	388
Brokerage, clearing and exchange fees	428	403
Information processing and communications	448	459
Marketing and business development	134	146
Professional services	440	412
Other	531	484
Total non-interest expenses	6,576	6,722
Income from continuing operations before income taxes	1,582	202
Provision for income taxes	332	54
Income from continuing operations	1,250	148
Discontinued operations:		
Gain (loss) from discontinued operations	(30)	28
Provision for (benefit from) income taxes	(11)	42
Net gain (loss) from discontinued operations	(19)	(14)
Net income	$ 1,231	$ 134
Net income applicable to redeemable noncontrolling interests	122	
Net income applicable to nonredeemable noncontrolling interests	147	228
Net income (loss) applicable to Morgan Stanley	$ 962	$ (94)

Earnings (loss) applicable to Morgan Stanley common shareholders	$	936	$	(119)
Amounts applicable to Morgan Stanley:				
Income (loss) from continuing operations	$	981	$	(79)
Net gain (loss) from discontinued operations		(19)		(15)
Net income (loss) applicable to Morgan Stanley	$	962	$	(94)
Earnings (loss) per basic common share:				
Income (loss) from continuing operations	$	0.50	$	(0.05)
Net gain (loss) from discontinued operations		(0.01)		(0.01)
Earnings (loss) per basic common share	$	0.49	$	(0.06)
Earnings (loss) per diluted common share:				
Income (loss) from continuing operations	$	0.49	$	(0.05)
Net gain (loss) from discontinued operations		(0.01)		(0.01)
Earnings (loss) per diluted common share	$	0.48	$	(0.06)
Dividends declared per common share	$	0.05	$	0.05
Average common shares outstanding:				
Basic		1,901,204,729		1,876,961,836
Diluted		1,940,264,085		1,876,961,836

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

Condensed Consolidated Statements of Comprehensive Income

(dollars in millions)

(unaudited)

	Three Months Ended March 31,	
	2013	2012
Net income	$ 1,231	$ 134
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments(1)	$ (245)	$ 20
Amortization of cash flow hedges(2)	1	2
Change in net unrealized losses on securities available for sale(3)	(27)	(19)
Pension, postretirement and other related adjustments(4)	1	2
Total other comprehensive income (loss)	$ (270)	$ 5
Comprehensive income	$ 961	$ 139
Net income applicable to redeemable noncontrolling interests	122	
Net income applicable to nonredeemable noncontrolling interests	147	228
Other comprehensive income applicable to redeemable noncontrolling interests		
Other comprehensive income (loss) applicable to nonredeemable noncontrolling interests	(92)	(92)
Comprehensive income applicable to Morgan Stanley	$ 784	$ 3

(1) Amounts are net of provision for income taxes of $165 million and $4 million for the quarters ended March 31, 2013 and 2012, respectively.
(2) Amounts are net of provision for income taxes of $1 million and $1 million for the quarters ended March 31, 2013 and 2012, respectively.
(3) Amounts are net of provision for (benefit from) income taxes of $(19) million and $(13) million for the quarters ended March 31, 2013 and 2012, respectively.
(4) Amounts are net of provision for income taxes of $5 million and $2 million for the quarters ended March 31, 2013 and 2012, respectively.

See Notes to Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Cash Flows

(dollars in millions)

(unaudited)

	Three Months Ended March 31,	
	2013	**2012**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,231	$ 134
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
(Income) loss on equity method investees	(64)	32
Compensation payable in common stock and options	265	372
Depreciation and amortization	360	375
Loss on business dispositions	5	
Gain on sale of securities available for sale	(3)	(1)
(Gain) loss on retirement of long-term debt		(14)
Impairment charges and other-than-temporary impairment charges	29	12
Provision for credit losses on lending activities	(39)	(2)
Changes in assets and liabilities:		
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	(343)	(698)
Trading assets, net of Trading liabilities	13,284	13,690
Securities borrowed	(14,026)	(14,536)
Securities loaned	3,502	3,969
Customer and other receivables and other assets	2,830	(5,179)
Customer and other payables and other liabilities	6,976	10,567
Federal funds sold and securities purchased under agreements to resell	(6,003)	(6,296)
Securities sold under agreements to repurchase	(3,404)	5,575
Net cash provided by operating activities	4,600	8,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from (payments for):		
Premises, equipment and software costs, net	(263)	(212)
Business dispositions, net of cash disposed	481	
Loans, net	(2,168)	(569)
Purchases of securities available for sale	(4,674)	(3,487)
Sales, maturities and redemptions of securities available for sale	3,380	1,003
Net cash used for investing activities	(3,244)	(3,265)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from (payments for):		
Commercial paper and other short-term borrowings	337	(826)
Distributions related to noncontrolling interests	(8)	(7)
Derivatives financing activities	36	(169)
Other secured financings	501	(1,674)
Deposits	(2,643)	779
Net proceeds from:		
Excess tax benefits associated with stock-based awards	12	34
Issuance of long-term borrowings	10,046	5,320
Payments for:		
Long-term borrowings	(12,018)	(16,043)
Repurchases of common stock for employee tax withholding	(306)	(183)
Cash dividends	(119)	(112)

Net cash used for financing activities	(4,162)	(12,881)
Effect of exchange rate changes on cash and cash equivalents	(612)	93
Effect of cash and cash equivalents related to variable interest entities	(584)	(534)
Net decrease in cash and cash equivalents	(4,002)	(8,587)
Cash and cash equivalents, at beginning of period	46,904	47,312
Cash and cash equivalents, at end of period	$ 42,902	$ 38,725
Cash and cash equivalents include:		
Cash and due from banks	$ 17,773	$ 10,133
Interest bearing deposits with banks	25,129	28,592
Cash and cash equivalents, at end of period	$ 42,902	$ 38,725

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments for interest were $728 million and $1,169 million for the quarters ended March 31, 2013 and 2012, respectively.

Cash payments for income taxes were $139 million and $145 million for the quarters ended March 31, 2013 and 2012, respectively.

See Notes to Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Changes in Total Equity

Three Months Ended March 31, 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				962						962
Net income applicable to nonredeemable noncontrolling interests									147	147
Dividends				(124)						(124)
Shares issued under employee plans and related tax effects			235		(1,060)		6	1,060		241
Repurchases of common stock							(306)			(306)
Foreign currency translation adjustments						(153)			(92)	(245)
Net change in cash flow hedges						1				1
Change in net unrealized losses on securities available for sale						(27)				(27)
Pension, postretirement and other related adjustments						1				1
Other net decreases									(6)	(6)
BALANCE AT MARCH 31, 2013	$ 1,508	$ 20	$ 23,661	$ 40,750	$ 1,872	$ (694)	$ (2,541)	$ (1,872)	$ 3,368	$ 66,072

See Notes to Condensed Consolidated Financial Statements.

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MORGAN STANLEY

Condensed Consolidated Statements of Changes in Total Equity (Continued)

Three Months Ended March 31, 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				(94)						(94)
Net income applicable to nonredeemable noncontrolling interests									228	228
Dividends				(129)						(129)
Shares issued under employee plans and related tax effects			94		86		490	(86)		584
Repurchases of common stock							(183)			(183)
Foreign currency translation adjustments						112			(92)	20
Net change in cash flow hedges						2				2
Change in net unrealized losses on securities available for sale						(19)				(19)
Pension, postretirement and other related adjustments						2				2
Other net increases									103	103
BALANCE AT MARCH 31, 2012	$ 1,508	$ 20	$ 22,930	$ 40,118	$ 3,252	$ (60)	$ (2,192)	$ (3,252)	$ 8,268	$ 70,592

See Notes to Condensed Consolidated Financial Statements.

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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, Global Wealth Management Group and Asset 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.

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.

Global Wealth Management Group, which includes the Company s 65% interest in Morgan Stanley Smith Barney Holdings LLC (the Wealth Management Joint Venture or Wealth Management JV) (see Note 3), 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.

Asset 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 Global Wealth Management Group 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. and Morgan Stanley Private Bank, National Association.

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 quarter ended March 31, 2013, other than the following, 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 quarter ended March 31, 2012, the Company s significant non-cash activities included approximately $0.1 billion of net assets received from Citigroup, Inc. (Citi) related to Citi s required equity contribution in connection with the Morgan Stanley Wealth Management platform integration (see Notes 3 and 14).

During the third quarter of 2012, the Company identified that activities related to certain loans had been reported as cash flows from operating activities that should have been presented as investing activities. The Company corrected the previously presented cash flows for these loans and in doing so, the condensed consolidated statements of cash flows for the quarter ended March 31, 2012 has been adjusted to increase net cash flows from operating activities by $0.6 billion, with the corresponding decreases in net cash flows from investing activities. The Company has evaluated the effect of the incorrect presentation, both qualitatively and quantitatively, and concluded that it did not have a material impact on, nor require amendment of, any previously filed annual or quarterly consolidated financial statements.

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).

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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).

3. Wealth Management Joint Venture.

On May 31, 2009, the Company and Citi consummated the combination of the Company s Global Wealth Management Group business segment and the businesses of Citi s Smith Barney in the U.S., Quilter Holdings Ltd. (see Note 21) in the U.K. and Smith Barney Australia (collectively, Smith Barney). The combined businesses operate as Morgan Stanley Wealth Management. Prior to September 2012, the Company owned 51% and Citi owned 49% of the Wealth Management JV.

In September 2012, the Company reached an agreement with Citi to purchase an additional 14% stake in the Wealth Management JV, and a transfer of approximately $5.4 billion of deposits at no premium from Citi. In addition, the agreement specifies that the Company must use reasonable best efforts to obtain the regulatory approvals required to purchase the remaining 35% stake in the Wealth Management JV by June 1, 2015 and, subject to receipt of such approvals, the Company must consummate such acquisition by that date at a purchase price of $4.725 billion (or a pro rata portion of such amount if less than 35% of the total outstanding stake is being purchased) and receive a transfer of deposits currently estimated to be $57 billion at no premium from Citi, no later than June 1, 2015.

The Company completed the purchase of the additional 14% stake in the Wealth Management JV from Citi on September 17, 2012 for $1.89 billion. The related $5.4 billion of deposits were transferred at no premium in October of 2012. At March 31, 2013, the Company held a 65% stake in the Wealth Management JV.

The change in the terms of the Wealth Management JV s agreement to acquire the remaining noncontrolling interest resulted in a reclassification of approximately $4.3 billion from nonredeemable noncontrolling interests to redeemable noncontrolling interests. At December 31, 2012 and March 31, 2013, the redeemable noncontrolling interest is not reflected as a liability at its redemption amount because it is not deemed probable that the noncontrolling interest will become redeemable due to the required regulatory approvals.

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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. 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.

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 or credit default swap spreads obtained from independent external parties such as vendors and brokers adjusted for any basis difference between cash and derivative instruments. The spread data used are for the same maturity as the bond. If the spread data do not reference the issuer, then data that reference a comparable issuer are used. When position-specific external price data are not observable, fair value is determined based on either benchmarking to similar

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 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

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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.

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

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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.

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.

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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 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.

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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 March 31, 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 March 31, 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 March 31, 2013
			(dollars in millions)		
Assets at Fair Value					
Trading assets:					
U.S. government and agency securities:					
U.S. Treasury securities	$ 24,411	$	$	$	$ 24,411
U.S. agency securities	2,040	22,796			24,836
Total U.S. government and agency securities	26,451	22,796			49,247
Other sovereign government obligations	29,893	8,577	3		38,473
Corporate and other debt:					
State and municipal securities		2,228			2,228
Residential mortgage-backed securities		1,684	19		1,703
Commercial mortgage-backed securities		1,122	174		1,296
Asset-backed securities		1,040	11		1,051
Corporate bonds		18,453	888		19,341
Collateralized debt obligations		442	1,666		2,108
Loans and lending commitments		11,175	5,284		16,459
Other debt		9,104	1		9,105
Total corporate and other debt		45,248	8,043		53,291
Corporate equities(1)	74,280	923	270		75,473
Derivative and other contracts:					
Interest rate contracts	711	708,732	3,640		713,083
Credit contracts		58,131	4,134		62,265
Foreign exchange contracts	24	50,395	5		50,424
Equity contracts	965	42,508	1,044		44,517
Commodity contracts	3,674	15,559	2,332		21,565
Other		90			90
Netting(2)	(4,892)	(774,480)	(6,543)	(70,200)	(856,115)
Total derivative and other contracts	482	100,935	4,612	(70,200)	35,829
Investments:					
Private equity funds			2,291		2,291
Real estate funds		7	1,370		1,377
Hedge funds		370	545		915
Principal investments	20	2	2,855		2,877
Other	190	77	496		763
Total investments	210	456	7,557		8,223
Physical commodities		6,700			6,700
Total trading assets	131,316	185,635	20,485	(70,200)	267,236

Securities available for sale	14,049	27,405			41,454
Securities received as collateral	17,920	51			17,971
Federal funds sold and securities purchased under agreements to resell		873			873
Intangible assets(3)			8		8
Total assets measured at fair value	$ 163,285	$ 213,964	$ 20,493	$ (70,200)	$ 327,542
Liabilities at Fair Value					
Deposits	$	$ 1,442	$	$	$ 1,442
Commercial paper and other short-term borrowings		1,257	5		1,262
Trading liabilities:					
U.S. government and agency securities:					
U.S. Treasury securities	21,303				21,303
U.S. agency securities	1,765	96			1,861
Total U.S. government and agency securities	23,068	96			23,164
Other sovereign government obligations	26,928	3,325			30,253

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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 March 31, 2013
			(dollars in millions)		
Corporate and other debt:					
State and municipal securities		47			47
Residential mortgage-backed securities			4		4
Asset-backed securities		1			1
Corporate bonds		6,979	424		7,403
Collateralized debt obligations		317			317
Unfunded lending commitments		252	25		277
Other debt		87	11		98
Total corporate and other debt		7,683	464		8,147
Corporate equities(1)	28,705	1,547	4		30,256
Derivative and other contracts:					
Interest rate contracts	747	681,975	3,662		686,384
Credit contracts		56,326	2,731		59,057
Foreign exchange contracts	3	51,466	240		51,709
Equity contracts	891	47,321	2,384		50,596
Commodity contracts	4,164	15,027	1,629		20,820
Other		30	3		33
Netting(2)	(4,892)	(774,480)	(6,543)	(42,032)	(827,947)
Total derivative and other contracts	913	77,665	4,106	(42,032)	40,652
Total trading liabilities	79,614	90,316	4,574	(42,032)	132,472
Obligation to return securities received as collateral	23,452	58			23,510
Securities sold under agreements to repurchase		410	155		565
Other secured financings		9,349	275		9,624
Long-term borrowings		39,726	2,784		42,510
Total liabilities measured at fair value	$ 103,066	$ 142,558	$ 7,793	$ (42,032)	$ 211,385

(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 Ended March 31, 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 ended March 31, 2013, there were no material transfers between Level 1 and Level 2.

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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 underagreements 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
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

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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)		
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 March 31, 2012.

Trading assets Derivative and other contracts and Trading liabilities Derivative and other contracts. During the quarter ended March 31, 2012, the Company reclassified approximately $1.1 billion of derivative assets and approximately $1.2 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 March 31, 2012, the Company reclassified approximately $0.3 billion of derivative assets and approximately $0.4 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 ended March 31, 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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 March 31, 2013.

	Beginning Balance at December 31, 2012	Total Realized and Unrealized Gains (Losses) (1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at March 31, 2013	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at March 31, 2013(2)
					(dollars in millions)				
Assets at Fair Value									
Trading assets:									
Other sovereign government obligations	$ 6	$	$ 1	$ (3)	$	$	$ (1)	$ 3	$
Corporate and other debt:									
Residential mortgage-backed securities	45	26	15	(42)			(25)	19	9
Commercial mortgage-backed securities	232	15	6	(80)			1	174	7
Asset-backed securities	109		1	(99)				11	
Corporate bonds	660	62	437	(247)		(12)	(12)	888	5
Collateralized debt obligations	1,951	191	314	(695)		(95)		1,666	63
Loans and lending commitments	4,694	20	944	(149)		(738)	513	5,284	1
Other debt	45	(8)	14	(49)			(1)	1	(1)
Total corporate and other debt	7,736	306	1,731	(1,361)		(845)	476	8,043	84
Corporate equities	288	(22)	85	(61)			(20)	270	5
Net derivative and other contracts(3):									
Interest rate contracts	(82)	(106)	1		(1)	192	(26)	(22)	18
Credit contracts	1,822	(452)	42		(15)	(4)	10	1,403	(418)
Foreign exchange contracts	(359)	8				109	7	(235)	(2)
Equity contracts	(1,144)	(140)	85	(1)	(93)	(76)	29	(1,340)	(125)
Commodity contracts	709	(10)	9		(4)	(8)	7	703	(30)
Other	(7)	(2)				6		(3)	(2)
Total net derivative and other contracts	939	(702)	137	(1)	(113)	219	27	506	(559)
Investments:									
Private equity funds	2,179	114	70	(72)				2,291	104
Real estate funds	1,370	80	3	(83)				1,370	90
Hedge funds	552	2	31	(34)			(6)	545	(3)
Principal investments	2,833	63	35	(85)			9	2,855	78
Other	486	17	11	(17)			(1)	496	16
Total investments	7,420	276	150	(291)			2	7,557	285
Intangible assets	7	4				(3)		8	2
Liabilities at Fair Value									
	$ 19	$	$	$	$ 1	$ (1)	$ (14)	$ 5	$

Commercial paper and other short-term borrowings									
Trading liabilities:									
Corporate and other debt:									
Residential mortgage-backed securities	4							4	
Corporate bonds	177		(131)	371			7	424	3
Unfunded lending commitments	46	21						25	20
Other debt	49	11	(37)	10				11	10
Total corporate and other debt	276	32	(168)	381			7	464	33
Corporate equities	5		(3)	1			1	4	1
Securities sold under agreements to repurchase	151	(4)						155	(4)
Other secured financings	406	12			13	(132)		275	5
Long-term borrowings	2,789	(17)			543	(188)	(377)	2,784	(17)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Total realized and unrealized gains (losses) are primarily included in Trading in the condensed consolidated statements of income except for $276 million related to Trading assets Investments, which is included in Investments revenues.
(2) Amounts represent unrealized gains (losses) for the quarter ended March 31, 2013 related to assets and liabilities still outstanding at March 31, 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 March 31, 2012.

	Beginning Balance at December 31, 2011	Total Realized and Unrealized Gains (Losses)(1)	Purchases	Sales	Issuances	Settlements	Net Transfers	Ending Balance at March 31, 2012	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at March 31, 2012(2)
					(dollars in millions)				
Assets at Fair Value									
Trading assets:									
U.S. agency securities	$ 8	$	$ 42	$ (26)	$	$	$ (1)	$ 23	$
Other sovereign government obligations	119	(1)	8	(118)				8	
Corporate and other debt:									
State and municipal securities							3	3	
Residential mortgage-backed securities	494	(21)	6	(245)			(191)	43	(18)
Commercial mortgage-backed securities	134	23	5	(21)		(1)	(13)	127	16
Asset-backed securities	31	1		(28)			(1)	3	1
Corporate bonds	675	45	426	(225)			(22)	899	39
Collateralized debt obligations	980	123	296	(161)			(73)	1,165	82
Loans and lending commitments	9,590	(20)	496	(1,018)		(421)	(30)	8,597	(35)
Other debt	128	2	27	(123)			23	57	
Total corporate and other debt	12,032	153	1,256	(1,821)		(422)	(304)	10,894	85
Corporate equities	417	(45)	901	(758)			39	554	(9)
Net derivative and other contracts(3):									
Interest rate contracts	420	170	6		(5)	(139)	(430)	22	179
Credit contracts	5,814	(1,381)	63		(10)	(47)	(58)	4,381	(1,786)
Foreign exchange contracts	43	(99)				162	(40)	66	(83)
Equity contracts	(1,234)	(99)	199	(58)	(50)	(250)	50	(1,442)	(161)
Commodity contracts	570	199	4		(4)	37	(3)	803	101
Other	(1,090)	58				269	740	(23)	56
Total net derivative and other contracts	4,523	(1,152)	272	(58)	(69)	32	259	3,807	(1,694)
Investments:									
Private equity funds	1,936	(7)	101	(36)				1,994	1
Real estate funds	1,213	52	87	(14)				1,338	5
Hedge funds	696	25	22	(33)			(87)	623	23
Principal investments	2,937	38	180	(65)			104	3,194	57
Other	501	(33)	34	(3)			28	527	(41)
Total investments	7,283	75	424	(151)			45	7,676	45
Physical commodities	46					(46)			
Intangible assets	133	(34)						99	(34)

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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 March 31, 2012	Unrealized Gains (Losses) for Level 3 Assets/ Liabilities Outstanding at March 31, 2012(2)
					(dollars in millions)				
Liabilities at Fair Value									
Commercial paper and other short-term borrowings	$ 2	$	$	$	$ 13	$	$	$ 15	$
Trading liabilities:									
Other sovereign government obligations	8		(7)					1	
Corporate and other debt:									
Residential mortgage-backed securities	355		(294)					61	(61)
Corporate bonds	219	(59)	(186)	126			(25)	193	(74)
Unfunded lending commitments	85	25						60	25
Other debt	73	1				(55)	16	33	3
Total corporate and other debt	732	(33)	(480)	126		(55)	(9)	347	(107)
Corporate equities	1	(2)	(2)	10			(9)	2	
Securities sold under agreements to repurchase	340	1					(153)	186	3
Other secured financings	570	(44)			12	(32)		594	(44)
Long-term borrowings	1,603	(173)			262	(78)	183	2,143	(171)

(1) Total realized and unrealized gains (losses) are primarily included in Trading in the condensed consolidated statements of income except for $75 million related to Trading assets Investments, which is included in Investments revenues.
(2) Amounts represent unrealized gains (losses) for the quarter ended March 31, 2012 related to assets and liabilities still outstanding at March 31, 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 March 31, 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 disclosures below also include qualitative information on the sensitivity of the fair value measurements to changes in the significant unobservable inputs.

At March 31, 2013.

	Balance at March 31, 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:					
Commercial mortgage-backed securities	$ 174	Comparable pricing	Comparable bond price /(A)	57 to 101 points	81 points
Corporate bonds	888	Comparable pricing	Comparable bond price / (A)	4 to 145 points	92 points
Collateralized debt obligations	1,666	Comparable pricing(6)	Comparable bond price / (A)	16 to 95 points	63 points
		Correlation model	Credit correlation / (B)	23 to 54 %	41%
Loans and lending commitments	5,284	Corporate loan model	Credit spread / (C)	44 to 1,045 basis points	245 basis points
		Comparable pricing	Comparable bond price / (A)	80 to 120 points	100 points
		Comparable pricing(6)	Comparable loan price / (A)	30 to 103 points	86 points
Corporate equities(3)	270	Net asset value(6)	Discount to net asset value / (C)	0 to 51 %	20%
		Comparable pricing	Comparable equity price / (A)	0 to 100 %	50%
		Comparable pricing	Comparable price / (A)	43 to 74 points	52 points
		Market approach	EBITDA multiple / (A)	8 to 10 times	9 times
Net derivative and other contracts:					
Interest rate contracts	(22)	Option model	Interest rate volatility concentration liquidity multiple / (C)(D)	0 to 10 times	0 times / 0 times (4)
			Comparable bond price / (A)(D)	5 to 98 points	52 points / 52 points (4)
			Interest rate - Foreign exchange correlation /(A)(D)	2 to 63 %	35% / 43%(4)
			Interest rate volatility skew / (A)(D)	9 to 117 %	53% / 48%(4)
			Interest rate quanto correlation / (A)(D)	-53 to 37 %	8% / -1%(4)
			Interest rate curve correlation / (A)(D)	42 to 98 %	78% / 82%(4)
			Inflation volatility / (A)(D)	60 to 83 %	70% / 66%(4)
Credit contracts	1,403	Comparable pricing	Cash synthetic basis / (C)(D)	1 to 10 points	3 points
			Comparable bond price / (C)(D)	0 to 83 points	27 points
		Correlation model(6)	Credit correlation / (B)	20 to 94 %	47%
Foreign exchange contracts(5)	(235)	Option model	Comparable bond price / (A)(D)	5 to 98 points	52 points / 52 points (4)
			Interest rate quanto correlation / (A)(D)	-53 to 37 %	8% / -1%(4)
			Interest rate - Credit spread correlation /(A)(D)	-59 to 60 %	-5% / -3%(4)
			Interest rate - Foreign exchange correlation /(A)(D)	2 to 63 %	35% / 43%(4)

			Interest rate volatility skew / (A)(D)	9 to 117 %	53% / 48%(4)
Equity contracts(5)	(1,340)	Option model	At the money volatility / (C)(D)	14 to 44 %	30%
			Volatility skew / (C)(D)	-2 to 0 %	-1%
			Equity - Equity correlation / (C)(D)	40 to 99 %	71%
			Equity - Foreign exchange correlation / (C)(D)	-60 to 38 %	-15%
			Equity - Interest rate correlation / (C)(D)	1 to 66 %	42% /40%(4)
Commodity contracts	703	Option model	Forward power price / (C)(D)	$18 to $110 per Megawatt hour	$42 per Megawatt hour
			Commodity volatility / (A)(D)	12 to 31 %	13%
			Cross commodity correlation / (C)(D)	43 to 97 %	91%
Investments(3):					
Principal investments	2,855	Discounted cash flow	Implied weighted average cost of capital / (C)(D)	10 to 15 %	11%
			Exit multiple / (A)(D)	6 to 10 times	9 times
		Discounted cash flow(6)	Capitalization rate / (C)(D)	6 to 10 %	7%
			Equity discount rate / (C)(D)	15 to 35 %	22%
		Market approach	EBITDA multiple / (A)	6 to 18 times	9 times
Other	496	Discounted cash flow	Implied weighted average cost of capital /(C)(D)	8 to 11 %	8%
			Exit multiple / (A)(D)	6 to 7 times	7 times
		Market approach(6)	EBITDA multiple / (A)	7 to 14 times	11 times

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Balance at March 31, 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)
Liabilities					
Trading liabilities:					
Corporate and other debt:					
Corporate bonds	$ 424	Comparable pricing	Comparable bond price / (A)	10 to 147 points	100 points
Securities sold under agreements to repurchase	155	Discounted cash flow	Funding spread / (A)	98 to 144 basis points	115 basis points
Other secured financings	275	Comparable pricing(6)	Comparable bond price / (A)	103 to 117 points	110 points
		Discounted cash flow	Funding spread / (A)	144 to 146 basis points	145 basis points
Long-term borrowings	2,784	Option model	At the money volatility / (A)(D)	24 to 30 %	27%
			Volatility skew / (A)(D)	-1 to 0 %	-1%
			Equity - Equity correlation /(C)(D)	50 to 98 %	74%
			Equity - Foreign exchange correlation /(A)(D)	-60 to 35 %	2%

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, 101 points would be 101% of par. A basis point equals 1/100th of 1%; for example, 1,045 basis points would equal 10.45%.
(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 net asset value 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.

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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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	Internal rate of return /(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		See (3)
			liquidity multiple / (C)(D)	0 to 8 times	
			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 %	
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

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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
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 / (C)(D)	50 to 90 %	77%
			Equity - Foreign exchange correlation / (A)(D)	-70 to 36 %	-15%

LIBOR London Interbank Offered Rate

(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 net asset value 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.

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 March 31, 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

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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.

Internal rate of return the discount factor required for the net present value of future cash flows to equal zero. The internal rate of return represents the minimum average annual return required for an investment.

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.

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 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.

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.

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.

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.

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.

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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 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.

Fair Value of Investments that Calculate Net Asset Value.

The Company s Investments measured at fair value were $8,223 million and $8,346 million at March 31, 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 net asset value at March 31, 2013 and December 31, 2012, respectively.

	At March 31, 2013		At December 31, 2012	
	Fair Value	Unfunded Commitment	Fair Value	Unfunded Commitment
	(dollars in millions)			
Private equity funds	$ 2,291	$ 617	$ 2,179	$ 644
Real estate funds	1,377	214	1,376	221
Hedge funds(1):				
Long-short equity hedge funds	473		475	
Fixed income/credit-related hedge funds	84		86	
Event-driven hedge funds	43		52	
Multi-strategy hedge funds	315	3	321	3
Total	$ 4,583	$ 834	$ 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 March 31, 2013, approximately 39% of the fair value amount of long-short equity hedge funds is redeemable at least quarterly, 39% is redeemable every six months and 22% of these funds have a redemption frequency of greater than six months. The notice period for long-short equity hedge funds at March 31, 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 March 31, 2013, it is estimated that 9% of the fair value of the funds will be liquidated in the next five years, another 58% of the fair value of the funds will be liquidated between five to 10 years and the remaining 33% 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 March 31, 2013, it is estimated that 3% of the fair value of

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the funds will be liquidated within the next five years, another 49% of the fair value of the funds will be liquidated between five to 10 years and the remaining 48% 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 stocks perceived to be overvalued. Investments representing approximately 8% 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 March 31, 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 March 31, 2013, investments representing approximately 8% of the fair value of the investments in fixed income/credit-related hedge funds 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 over three years at March 31, 2013.

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 March 31, 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 March 31, 2013, investments representing approximately 57% 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 March 31, 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 March 31, 2013.

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

measured at fair value pursuant to the fair value option election for the quarters ended March 31, 2013 and 2012, respectively:

	Trading	Interest Income (Expense)	Gains (Losses) Included in Net Revenues
		(dollars in millions)	
Three Months Ended March 31, 2013			
Federal funds sold and securities purchased under agreements to resell	$ 1	$ 1	$ 2
Deposits	14	(17)	(3)
Commercial paper and other short-term borrowings(1)	63	(1)	62
Securities sold under agreements to repurchase	(4)	(1)	(5)
Long-term borrowings(1)	91	(297)	(206)
Three Months Ended March 31, 2012			
Federal funds sold and securities purchased under agreements to resell	$ (4)	$ 1	$ (3)
Deposits	10	(22)	(12)
Commercial paper and other short-term borrowings(1)	(129)		(129)
Securities sold under agreements to repurchase	(2)	(1)	(3)
Long-term borrowings(1)	(2,951)	(344)	(3,295)

(1) Of the total gains (losses) recorded in Trading for short-term and long-term borrowings for the quarters ended March 31, 2013 and 2012, $(317) million and $(1,978) 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 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 and largely offset the gains and losses on short-term and long-term borrowings attributable to market risk.

At March 31, 2013 and December 31, 2012, a breakdown of the short-term and long-term borrowings by business unit responsible for risk-managing each borrowing is shown in the table below:

Business Unit	Short-term and Long-term Borrowings At March 31, 2013	At December 31, 2012
	(dollars in millions)	
Interest rates	$ 21,228	$ 23,330
Equity	18,746	17,326
Credit and foreign exchange	3,100	3,337

Commodities	698	776
Total	$ 43,772	$ 44,769

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 March 31,	
	2013	**2012**
	(dollars in millions)	
Short-term and long-term borrowings(1)	$ (317)	$ (1,978)
Loans(2)	60	293
Unfunded lending commitments(3)	134	407

(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.

Net Difference between Contractual Principal Amount and Fair Value.

	Contractual Principal Amount Exceeds Fair Value	
	At March 31, 2013	**At December 31, 2012**
	(dollars in millions)	
Short-term and long-term borrowings(1)	$ (1,476)	$ (436)
Loans(2)	23,992	25,249
Loans 90 or more days past due and/or on non-accrual status(2)(3)	19,334	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 $1,528 million and $1,360 million at March 31, 2013 and December 31, 2012, respectively. The aggregate fair value of loans that were 90 or more days past due was $813 million and $840 million at March 31, 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 ended March 31, 2013 and 2012, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three Months Ended March 31, 2013.

	Carrying Value at March 31, 2013	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) for 2013(1)
		(dollars in millions)			
Loans(2)	$ 2,532	$	$ 490	$ 2,042	$ (9)
Other investments(3)	69			69	(18)
Premises, equipment and software costs(3)	25			25	(1)
Intangible assets(3)	2			2	(1)
Total	$ 2,628	$	$ 490	$ 2,138	$ (29)

(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 fair value for loans held for investment were calculated based upon the fair value of the underlying collateral. The fair value of the collateral was determined using internal expected recovery models. The non-recurring change in fair value for mortgage loans held for sale is based upon a valuation model incorporating market observable inputs.
(3) 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 ended March 31, 2013.

Three Months Ended March 31, 2012.

	Carrying Value at March 31, 2012	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses) for 2012(1)
		(dollars in millions)			
Loans(2)	$ 298	$	$ 144	$ 154	$ (6)
Other investments(3)	47			47	(3)
Premises, equipment and software costs(3)	3			3	(1)
Intangible assets(4)	2	2			(2)

Total	$ 350	$ 2	$ 144	$ 204	$ (12)

(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 fair value for loans held for investment were calculated based upon the fair value of the underlying collateral. The fair value of the collateral was determined using internal expected recovery models. The non-recurring change in fair value for mortgage loans held for sale is based upon a valuation model incorporating market observable inputs.
(3) Losses recorded were determined primarily using discounted cash flow models.
(4) Losses were determined using discounted cash flow models or a valuation technique incorporating an observable market index.

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 quarter ended March 31, 2012 in connection with the disposition of Saxon (see Notes 1 and 21). This pre-tax gain was primarily due to the subsequent

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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 ended March 31, 2012.

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 is 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 March 31, 2013 and December 31, 2012.

At March 31, 2013.

	At March 31, 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	$ 17,773	$ 17,773	$ 17,773	$	$
Interest bearing deposits with banks	25,129	25,129	25,129		
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	31,313	31,313	31,313		
Federal funds sold and securities purchased under agreements to resell	139,542	139,695		138,334	1,361
Securities borrowed	135,727	135,726		135,574	152
Customer and other receivables(1)	57,422	57,295		51,656	5,639
Loans(2)	30,615	31,053		6,478	24,575
Financial Liabilities:					
Deposits	$ 79,181	$ 79,181	$	$ 79,181	$
Commercial paper and other short-term borrowings	1,213	1,213		959	254
Securities sold under agreements to repurchase	118,705	118,837		107,677	11,160
Securities loaned	40,351	40,400		38,073	2,327
Other secured financings	6,670	6,693		3,436	3,257
Customer and other payables(1)	133,842	133,842		133,842	
Long-term borrowings	122,632	125,618		115,726	9,892

(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 March 31, 2013 was $756 million, of which $542 million and $214 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 $53.6 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 March 31, 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	$ 13,938	$ 105	$ 2	$	$ 14,041
U.S. agency securities	15,199	99	10		15,288
Total U.S. government and agency securities	29,137	204	12		29,329
Corporate and other debt:					
Commercial mortgage-backed securities:					
Agency	2,370	2	15		2,357
Non-Agency	459	2	1		460
Auto loan asset-backed securities	2,171	3	1		2,173
Corporate bonds	3,530	15	3		3,542
Collateralized debt and loan obligations	677				677
FFELP student loan asset-backed securities(1)	2,884	25	1		2,908
Total Corporate and other debt	12,091	47	21		12,117
Total debt securities available for sale	41,228	251	33		41,446
Equity securities available for sale	15		7		8
Total	$ 41,243	$ 251	$ 40	$	$ 41,454

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

At March 31, 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	$ 805	$ 2	$	$	$ 805	$ 2
U.S. agency securities	2,927	10	23		2,950	10
Total U.S. government and agency securities	3,732	12	23		3,755	12
Corporate and other debt:						
Commercial mortgage-backed securities:						
Agency	1,703	15			1,703	15
Non-Agency	169	1			169	1
Auto loan asset-backed securities	1,072	1			1,072	1
Corporate bonds	907	3			907	3
FFELP student loan asset-backed securities	458	1			458	1
Total Corporate and other debt	4,309	21			4,309	21
Total debt securities available for sale	8,041	33	23		8,064	33
Equity securities available for sale			8	7	8	7
Total	$ 8,041	$ 33	$ 31	$ 7	$ 8,072	$ 40

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 losses are recorded in Accumulated other comprehensive income.

For debt securities available for sale in an unrealized loss position, 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 March 31, 2013.

For equity securities available for sale in an unrealized loss position, the Company does not intend to sell these securities or expect to be required to sell these securities prior to the recovery of the amortized cost basis. The Company believes that the equity securities with an unrealized loss in Accumulated other comprehensive income were not other-than-temporarily impaired at March 31, 2013.

The following table presents the amortized cost and fair value of debt securities available for sale by contractual maturity dates at March 31, 2013.

At March 31, 2013	Amortized Cost	Fair Value	Annualized Average Yield
		(dollars in millions)	
U.S. government and agency securities:			
U.S. Treasury securities:			
Due within 1 year	$ 1,550	$ 1,571	1.7%
After 1 year through 5 years	12,388	12,470	0.7%
Total	13,938	14,041	
U.S. agency securities:			
After 5 years through 10 years	2,017	2,029	1.1%
After 10 years	13,182	13,259	1.1%
Total	15,199	15,288	
Total U.S. government and agency securities	29,137	29,329	0.9%
Corporate and other debt:			
Commercial mortgage-backed securities:			
Agency:			
After 1 year through 5 years	487	487	0.9%
After 5 years through 10 years	547	547	0.9%
After 10 years	1,336	1,323	1.5%
Total	2,370	2,357	
Non-Agency:			
After 1 year through 5 years	105	105	1.1%
After 5 years through 10 years	38	38	0.8%
After 10 years	316	317	0.9%

Total	459	460	
Auto loan asset-backed securities:			
After 1 year through 5 years	1,982	1,984	0.7%
After 5 years through 10 years	189	189	0.6%
Total	2,171	2,173	

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At March 31, 2013	Amortized Cost	Fair Value	Annualized Average Yield
		(dollars in millions)	
Corporate bonds:			
Due within 1 year	203	203	0.6%
After 1 year through 5 years	3,041	3,053	1.1%
After 5 years through 10 years	286	286	1.8%
Total	3,530	3,542	
Collateralized debt and loan obligations:			
After 1 year through 5 years	50	50	1.7%
After 10 years	627	627	1.4%
Total	677	677	
FFELP student loan asset-backed securities:			
After 1 year through 5 years	124	124	0.7%
After 5 years through 10 years	507	511	1.0%
After 10 years	2,253	2,273	1.1%
Total	2,884	2,908	
Total Corporate and other debt	12,091	12,117	1.1%
Total debt securities available for sale	$ 41,228	$ 41,446	1.0%

See Note 7 for additional information on securities issued by VIEs, including U.S. agency 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 months ended March 31, 2013 and 2012:

	Three Months Ended March 31,	
	2013	2012
	(dollars in millions)	
Gross realized gains	$ 5	$ 2
Gross realized losses	$ 2	$ 1
Proceeds of sales of securities available for sale	$ 2,029	$

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 arrangements with counterparties that provide the Company, in the

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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 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 March 31, 2013				
	Gross Amounts(1)	Amounts Offset in the Condensed Consolidated Statements of Financial Condition(2)(3)	Net Amounts Presented in the Condensed Consolidated Statements of Financial Condition	Financial Instruments Not Offset in the Condensed Consolidated Statements of Financial Condition(2)	Net Exposure
	(dollars in millions)				
Assets					
Federal funds sold and securities purchased under agreements to resell	$ 228,101	$ (87,686)	$ 140,415	$ (129,911)	$ 10,504
Securities borrowed	141,667	(5,940)	135,727	(115,717)	20,010
Liabilities					
Securities sold under agreements to repurchase	$ 206,956	$ (87,686)	$ 119,270	$ (89,815)	$ 29,455
Securities loaned	46,291	(5,940)	40,351	(37,348)	3,003

(1) Amounts include all instruments, irrespective of whether there is a legally enforceable master netting arrangement in place.
(2) Amounts relate to master netting arrangements and collateral arrangements which have been determined by the Company to be legally enforceable in the event of default.
(3) Amounts are reported on a net basis in the condensed consolidated statements of financial condition when subject to a legally enforceable master netting arrangement and when certain other criteria are met in accordance with applicable offsetting accounting guidance.

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	At December 31, 2012				
	Gross Amounts(1)	Amounts Offset in the Condensed Consolidated Statements of Financial Condition(2)(3)	Net Amounts Presented in the Condensed Consolidated Statements of Financial Condition	Financial Instruments Not Offset in the Condensed Consolidated Statements of Financial Condition(2)	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

(1) Amounts include all instruments, irrespective of whether there is a legally enforceable master netting arrangement in place.
(2) Amounts relate to master netting arrangements and collateral arrangements which have been determined by the Company to be legally enforceable in the event of default.
(3) Amounts are reported on a net basis in the condensed consolidated statements of financial condition when subject to a legally enforceable master netting arrangement and when certain other criteria are 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 March 31, 2013 and December 31, 2012, there were approximately $25.1 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

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(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 March 31, 2013	At December 31, 2012
	(dollars in millions)	
Trading assets:		
U.S. government and agency securities	$ 14,125	$ 15,273
Other sovereign government obligations	4,569	3,278
Corporate and other debt	16,450	11,980
Corporate equities	9,130	26,377
Total	$ 44,274	$ 56,908

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 March 31, 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 $613 billion and $560 billion, respectively, and the fair value of the portion that had been sold or repledged was $469 billion and $397 billion, respectively.

At March 31, 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 March 31, 2013	At December 31, 2012
	(dollars in millions)	
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements	$ 31,313	$ 30,970
Securities(1)	13,999	13,424
Total	$ 45,312	$ 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,

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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.
- 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

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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.

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 March 31, 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 March 31, 2013				
	Mortgage and Asset-Backed Securitizations	**Collateralized Debt Obligations**	**Managed Real Estate Partnerships**	**Other Structured Financings**	**Other**
			(dollars in millions)		
VIE assets	$ 881	$	$ 2,486	$ 992	$ 1,500
VIE liabilities	$ 565	$	$ 134	$ 65	$ 176

	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

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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 March 31, 2013 and December 31, 2012, managed real estate partnerships reflected nonredeemable noncontrolling interests in the Company s condensed consolidated financial statements of $1,854 million and $1,804 million, respectively. The Company also had additional maximum exposure to losses of approximately $60 million and $58 million at March 31, 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.

The following tables present information about certain non-consolidated VIEs in which the Company had variable interests at March 31, 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 March 31, 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)	$ 260,828	$ 18,864	$ 3,668	$ 1,742	$ 13,781
Maximum exposure to loss:					
Debt and equity interests(2)	$ 22,170	$ 1,803	$ 190	$ 1,057	$ 2,984
Derivative and other contracts	35	33	2,174		248
Commitments, guarantees and other	51			669	562
Total maximum exposure to loss	$ 22,256	$ 1,836	$ 2,364	$ 1,726	$ 3,794
Carrying value of exposure to loss Assets:					
Debt and equity interests(2)	$ 22,170	$ 1,803	$ 190	$ 672	$ 2,979
Derivative and other contracts	35	8	4		79
Total carrying value of exposure to loss Assets	$ 22,205	$ 1,811	$ 194	$ 672	$ 3,058
Carrying value of exposure to loss Liabilities:					
Derivative and other contracts	$	$ 4	$	$	$ 50
Commitments, guarantees and other				11	214
Total carrying value of exposure to loss Liabilities	$	$ 4	$	$ 11	$ 264

(1) Mortgage and asset-backed securitizations include VIE assets as follows: $21.8 billion of residential mortgages; $45.5 billion of commercial mortgages; $131.9 billion of U.S. agency collateralized mortgage obligations; and $61.6 billion of other consumer or commercial loans.

(2) Mortgage and asset-backed securitizations include VIE debt and equity interests as follows: $0.9 billion of residential mortgages; $1.1 billion of commercial mortgages; $14.9 billion of U.S. agency collateralized mortgage obligations; and $5.3 billion of other consumer or commercial loans.

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	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 $4.3 billion at March 31, 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

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consist of $1.6 billion of securities backed primarily by residential mortgage loans, $0.5 billion of securities backed by U.S. agency collateralized mortgage obligations, $0.7 billion of securities backed by commercial mortgage loans, $0.6 billion of securities backed by collateralized debt obligations or collateralized loan obligations and $0.9 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 March 31, 2013 regarding transactions with SPEs in which the Company, acting as principal, transferred financial assets with continuing involvement and received sales treatment:

	At March 31, 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)	$ 34,516	$ 53,905	$ 18,614	$ 12,956
Retained interests (fair value):				
Investment grade	$ 1	$ 52	$ 1,100	$
Non-investment grade	83	90		1,403
Total retained interests (fair value)	$ 84	$ 142	$ 1,100	$ 1,403
Interests purchased in the secondary market (fair value):				
Investment grade	$ 58	$ 90	$ 44	$ 404
Non-investment grade	92	29		24
Total interests purchased in the secondary market (fair value)	$ 150	$ 119	$ 44	$ 428
Derivative assets (fair value)	$	$ 915	$	$ 171
Derivative liabilities (fair value)	$ 2	$	$	$ 239

(1) Amounts include assets transferred by unrelated transferors.

MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	At March 31, 2013			
	Level 1	Level 2	Level 3	Total
	(dollars in millions)			
Retained interests (fair value):				
Investment grade	$	$ 1,101	$ 52	$ 1,153
Non-investment grade		91	1,485	1,576
Total retained interests (fair value)	$	$ 1,192	$ 1,537	$ 2,729
Interests purchased in the secondary market (fair value):				
Investment grade	$	$ 596	$	$ 596
Non-investment grade		110	35	145
Total interests purchased in the secondary market (fair value)	$	$ 706	$ 35	$ 741
Derivative assets (fair value)	$	$ 775	$ 311	$ 1,086
Derivative liabilities (fair value)	$	$ 237	$ 4	$ 241

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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	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

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 quarters ended March 31, 2013 and 2012, respectively.

During the quarters ended March 31, 2013 and 2012, the Company received proceeds from new securitization transactions of $7.5 billion and $6.0 billion, respectively. During the quarters ended March 31, 2013 and 2012, the Company received proceeds from cash flows from retained interests in securitization transactions of $1.2 billion and $1.7 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.

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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 March 31, 2013 Carrying Value of		At December 31, 2012 Carrying Value of	
	Assets	Liabilities	Assets	Liabilities
	(dollars in millions)			
Credit-linked notes	$ 221	$ 203	$ 283	$ 222
Equity-linked transactions	347	343	422	405
Other	37	36	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 March 31, 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.

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 March 31, 2013 and December 31, 2012 totaled approximately $64 million and $49 million, respectively. There were no allowances at March 31, 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 March 31, 2013 and December 31, 2012:

	At March 31, 2013			
	Residential Mortgage Unconsolidated SPEs	Residential Mortgage Consolidated SPEs	Commercial Mortgage Unconsolidated SPEs	Commercial Mortgage Consolidated SPEs
	(dollars in millions)			
Assets serviced (unpaid principal balance)	$ 750	$ 914	$ 4,395	$
Amounts past due 90 days or greater (unpaid principal balance)(1)	$ 80	$ 49	$	$
Percentage of amounts past due 90 days or greater(1)	10.6%	5.4%		
Credit losses	$ 1	$ 4	$	$

(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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	At December 31, 2012			
	Residential Mortgage Unconsolidated SPEs	Residential Mortgage Consolidated SPEs	Commercial Mortgage Unconsolidated SPEs	Commercial Mortgage Consolidated 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.

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

	At March 31, 2013	At December 31, 2012
	(dollars in millions)	
Commercial and industrial	$ 11,009	$ 9,449
Consumer loans	8,200	7,618
Residential real estate loans	6,929	6,630
Wholesale real estate loans	328	326
Total loans held for investment, gross of allowance for loan losses	26,466	24,023
Allowance for loan losses	(129)	(106)
Total loans held for investment, net of allowance for loan losses	$ 26,337	$ 23,917

The above table does not include loans held for sale of $4,278 million and $5,129 million at March 31, 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 corporate and 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 $49 million were impaired at March 31, 2013. Approximately 99% of the Company s loan portfolio was current at March 31, 2013. Commercial and industrial loans of

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

approximately $19 million and residential real estate loans of approximately $1 million were impaired 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 $72 million and $25 million at March 31, 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.

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	(3)		(1)		(4)
Net charge-offs	(3)		(1)		(4)
Provision for loan losses(1)	30	(2)	(1)		27
Balance at March 31, 2013	$ 123	$ 1	$ 3	$ 2	$ 129
Allowance for loan losses by impairment methodology:					
Collectively evaluated for impairment	$ 112	$ 1	$ 3	$ 2	$ 118
Individually evaluated for impairment	11				11
Total allowance for loan losses at March 31, 2013	$ 123	$ 1	$ 3	$ 2	$ 129
Loans evaluated by impairment methodology(2):					
Collectively evaluated for impairment	$ 10,933	$ 8,200	$ 6,925	$ 328	$ 26,386
Individually evaluated for impairment	76		4		80
Total loan evaluated at March 31, 2013	$ 11,009	$ 8,200	$ 6,929	$ 328	$ 26,466
Allowance for lending-related commitments:					
Balance at December 31, 2012	$ 90	$	$	$ 1	$ 91
Provision for lending-related commitments(3)	12				12
Balance at March 31, 2013	$ 102	$	$	$ 1	$ 103
Allowance for lending-related commitments by impairment methodology:					

Collectively evaluated for impairment	$ 98	$	$	$ 1	$ 99
Individually evaluated for impairment	4				4
Total allowance for lending-related commitments at March 31, 2013	$ 102	$	$	$ 1	$ 103
Lending-related commitments evaluated by impairment methodology:					
Collectively evaluated for impairment	$ 46,792	$ 1,579	$ 1,105	$ 262	$ 49,738
Individually evaluated for impairment	1				1
Total lending-related commitments evaluated at March 31, 2013	$ 46,793	$ 1,579	$ 1,105	$ 262	$ 49,739

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) The Company records charges to the provisions for loan losses within Other revenues.
(2) Balances are gross of the allowance and represent recorded investment in the loans.
(3) The Company records charges to the provisions for lending-related commitments within Other non-interest expenses.

	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	(2)				(2)
Gross recoveries	1				1
Net charge-offs	(1)				(1)
Provision for loan losses(1)	8	1	1		10
Balance at March 31, 2012	$ 21	$ 2	$ 2	$ 1	$ 26
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	$ 18
Provision for lending-related commitments(3)	(6)	(2)			(8)
Balance at March 31, 2012	$ 13	$ (5)	$	$ 2	$ 10
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 records charges to the provisions for loan losses within Other revenues.
(2) Balances are gross of the allowance and represent recorded investment in the loans.
(3) The Company records charges to the provisions for lending-related commitments within Other non-interest expenses.

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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 Global Wealth Management Group 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 March 31, 2013, the Company had $5,602 million of employee loans, net of an allowance of approximately $135 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 March 31, 2013, the balance of these loans was $164 million, net of an allowance of approximately $104 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, 2012. 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 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 quarter ended March 31, 2013, were as follows:

	Institutional Securities(1)	Global Wealth Management Group(1)	Asset Management	Total
		(dollars in millions)		
Goodwill at December 31, 2012(2)	$ 337	$ 5,573	$ 740	$ 6,650
Goodwill disposed of during the period(3)	(17)			(17)
Goodwill at March 31, 2013(2)	$ 320	$ 5,573	$ 740	$ 6,633

(1) On January 1, 2013, the International Wealth Management business was transferred from the Global Wealth Management Group 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 Asset Management business segment, was $7,333 million and $7,350 million at March 31, 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), whereby PDT employees will acquire certain assets from the Company and launch an independent advisory firm. This transaction closed on January 1, 2013.

Net Intangible Assets.

Changes in the carrying amount of the Company s intangible assets for the quarter ended March 31, 2013 were as follows:

	Institutional Securities	Global Wealth Management Group	Asset 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	(3)			(3)
Amortization expense	(3)	(83)		(86)

Impairment losses(1)	(1)			(1)
Amortizable net intangible assets at March 31, 2013	168	3,517	1	3,686
Mortgage servicing rights (see Note 7)		8		8
Net intangible assets at March 31, 2013	$ 168	$ 3,525	$ 1	$ 3,694

(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 March 31, 2013	At December 31, 2012
	(dollars in millions)	
Senior debt	$ 154,531	$ 158,899
Subordinated debt	5,783	5,845
Junior subordinated debentures	4,828	4,827
Total	$ 165,142	$ 169,571

During the quarter ended March 31, 2013, the Company issued and reissued notes with a principal amount of approximately $10 billion including the Company s issuance of $4.5 billion in senior unsecured debt on February 25, 2013. During the quarter ended March 31, 2013, approximately $12 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 March 31, 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 March 31, 2013	At December 31, 2012
	(dollars in millions)	
Secured financings with original maturities greater than one year	$ 12,700	$ 14,431
Secured financings with original maturities one year or less	3,012	641
Failed sales(1)	582	655
Total(2)	$ 16,294	$ 15,727

(1) For more information on failed sales, see Note 7.
(2) Amounts include $9,624 million and $9,466 million at fair value at March 31, 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 arrangements and collateral arrangements 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. The Company s policy is generally to receive securities and cash posted as collateral (with rights of rehypothecation), although 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 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 March 31, 2013					
				Amounts Not Offset in the Condensed Consolidated Statements of Financial Condition(2)		
	Gross Amounts(1)	Amounts Offset in the Condensed Consolidated Statements of Financial Condition(2)(3)	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	$ 549,368	$ (519,065)	$ 30,303	$ (6,688)	$ (135)	$ 23,480
Cleared OTC(4)	315,330	(315,138)	192			192
Exchange traded	27,246	(21,912)	5,334			5,334
Total derivative assets	$ 891,944	$ (856,115)	$ 35,829	$ (6,688)	$ (135)	$ 29,006
Derivative liabilities						
Bilateral OTC	$ 524,588	$ (492,049)	$ 32,539	$ (7,973)	$ (82)	$ 24,484
Cleared OTC(4)	314,030	(313,986)	44			44
Exchange traded	29,981	(21,912)	8,069	(1,853)		6,216
Total derivative liabilities	$ 868,599	$ (827,947)	$ 40,652	$ (9,826)	$ (82)	$ 30,744

(1) Amounts include all derivative instruments, irrespective of whether there is a legally enforceable master netting arrangement in place.
(2) Amounts relate to master netting arrangements and collateral arrangements which have been determined by the Company to be legally enforceable in the event of default.
(3) Amounts are reported on a net basis in the condensed consolidated statements of financial condition when subject to a legally enforceable master netting arrangement and when certain other criteria are met in accordance with applicable offsetting accounting guidance.
(4) Includes OTC derivatives that are centrally cleared in accordance with certain regulatory requirements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	At December 31, 2012					
				Amounts Not Offset in the Condensed Consolidated Statements of Financial Condition(2)		
	Gross Amounts(1)	Amounts Offset in the Condensed Consolidated Statements of Financial Condition(2)(3)	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	$ 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 all derivative instruments, irrespective of whether there is a legally enforceable master netting arrangement in place.
(2) Amounts relate to master netting arrangements and collateral arrangements which have been determined by the Company to be legally enforceable in the event of default.
(3) Amounts are reported on a net basis in the condensed consolidated statements of financial condition when subject to a legally enforceable master netting arrangement and when certain other criteria are 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.

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 March 31, 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 March 31, 2013(1)

	Years to Maturity						
Credit Rating(2)	Less than 1	1 - 3	3 - 5	Over 5	Cross-Maturity and Cash Collateral Netting(3)	Net Exposure Post-Cash Collateral	Net Exposure Post-Collateral
	(dollars in millions)						

AAA	$ 396	$ 468	$ 1,318	$ 5,553	$ (4,819)	$ 2,916	$ 2,682
AA	2,251	2,094	2,848	10,133	(11,349)	5,977	4,514
A	8,299	9,894	12,251	26,845	(49,419)	7,870	6,227
BBB	2,762	4,255	3,063	18,143	(19,725)	8,498	7,303
Non-investment grade	2,285	2,548	1,672	3,669	(5,075)	5,099	2,946
Total	$ 15,993	$ 19,259	$ 21,152	$ 64,343	$ (90,387)	$ 30,360	$ 23,672

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(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.

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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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 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):

	Assets at March 31, 2013		Liabilities at March 31, 2013	
	Fair Value	Notional	Fair Value	Notional
	(dollars in millions)			
Derivatives designated as accounting hedges:				
Interest rate contracts	$ 7,585	$ 76,175	$ 276	$ 5,030
Foreign exchange contracts	650	10,812	102	4,559
Total derivatives designated as accounting hedges	8,235	86,987	378	9,589
Derivatives not designated as accounting hedges(1):				
Interest rate contracts	705,498	18,634,245	686,108	18,577,861
Credit contracts	62,265	1,865,650	59,057	1,791,783
Foreign exchange contracts	49,774	2,025,369	51,607	2,088,219
Equity contracts	44,517	694,383	50,596	714,161
Commodity contracts	21,565	403,627	20,820	360,219
Other	90	4,167	33	3,623
Total derivatives not designated as accounting hedges	883,709	23,627,441	868,221	23,535,866
Total derivatives	$ 891,944	$ 23,714,428	$ 868,599	$ 23,545,455
Cash collateral netting	(67,743)		(39,575)	
Counterparty netting	(788,372)		(788,372)	
Total derivatives	$ 35,829	$ 23,714,428	$ 40,652	$ 23,545,455

(1) Notional amounts include gross notionals related to open long and short futures contracts of $73 billion and $71 billion, respectively. The unsettled fair value on these futures contracts (excluded from the table above) of $900 million and $4 million is included in Customer and other receivables and Customer and

other payables, respectively, on the condensed consolidated statements of financial condition.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Assets at December 31, 2012		Liabilities at December 31, 2012	
	Fair Value	Notional	Fair Value	Notional
	(dollars in millions)			
Derivatives designated as accounting hedges:				
Interest rate contracts	$ 8,347	$ 75,115	$ 168	$ 2,660
Foreign exchange contracts	367	10,291	319	17,156
Total derivatives designated as accounting hedges	8,714	85,406	487	19,816
Derivatives not designated as accounting hedges(1):				
Interest rate contracts	815,454	18,130,030	793,936	17,682,566
Credit contracts	68,267	1,932,786	64,494	1,867,807
Foreign exchange contracts	52,427	1,841,186	56,094	1,886,073
Equity contracts	38,600	587,700	41,870	587,199
Commodity contracts	20,646	341,556	21,831	325,101
Other	143	4,908	61	5,161
Total derivatives not designated as accounting hedges	995,537	22,838,166	978,286	22,353,907
Total derivatives	$ 1,004,251	$ 22,923,572	$ 978,773	$ 22,373,723
Cash collateral netting	(69,248)		(43,009)	
Counterparty netting	(898,806)		(898,806)	
Total derivatives	$ 36,197	$ 22,923,572	$ 36,958	$ 22,373,723

(1) Notional amounts include gross notionals related to open long and short futures contracts of $73 billion and $68 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.

The following tables summarize the gains or losses reported on derivative instruments designated and qualifying as accounting hedges for the quarters ended March 31, 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:

Product Type	Gains (Losses) Recognized Three Months Ended March 31, 2013	2012
	(dollars in millions)	
Derivatives	$ (872)	$ (546)
Borrowings	1,162	698
Total	$ 290	$ 152

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Derivatives Designated as Net Investment Hedges.

Product Type	Gains (Losses) Recognized in OCI (effective portion) Three Months Ended March 31, 2013	2012
	(dollars in millions)	
Foreign exchange contracts(1)	$ 308	$ 21
Total	$ 308	$ 21

(1) Losses of $32 million and $66 million were recognized in income related to amounts excluded from hedge effectiveness testing during the quarters ended March 31, 2013 and 2012, respectively.

The table below summarizes gains (losses) on derivative instruments not designated as accounting hedges for the quarters ended March 31, 2013 and 2012, respectively:

Product Type	Gains (Losses) Recognized in Income(1)(2) Three Months Ended March 31, 2013	2012
	(dollars in millions)	
Interest rate contracts	$ (144)	$ 1,607
Credit contracts	(80)	(672)
Foreign exchange contracts	807	595
Equity contracts	(3,032)	(828)
Commodity contracts	423	(576)
Other contracts	(2)	55
Total derivative instruments	$ (2,028)	$ 181

(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 $57 million and $53 million at March 31, 2013 and December 31, 2012, respectively and a notional value of $2,149 million and $2,178 million at March 31, 2013 and December 31, 2012, respectively. The Company recognized losses of $2 million and gains of $7 million related to changes in the fair value of its bifurcated embedded derivatives for the quarters ended March 31, 2013 and 2012, respectively.

At March 31, 2013 and December 31, 2012, the amount of payables associated with cash collateral received that was netted against derivative assets was $67.7 billion and $69.2 billion, respectively, and the amount of receivables in respect of cash collateral paid that was netted against derivative liabilities was $39.6 billion and $43.0 billion, respectively. Cash collateral receivables and payables of $140 million and $99 million, respectively, at March 31, 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 March 31, 2013, the aggregate fair value of OTC derivative contracts that contain credit-risk-related contingent features that are in a net liability position totaled $30,396 million, for which the Company has posted collateral of $26,568 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 March 31, 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: $397 million (Baa1 Moody s/BBB+ S&P) and $2,257 million (Baa2 Moody s/BBB S&P). Of these amounts, $2,125 million at March 31, 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 March 31, 2013 and December 31, 2012:

	At March 31, 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	$ 1,004,144	$ 1,412	$ 960,778	$ (1,299)
Index and basket credit default swaps	550,972	4,930	458,150	(4,550)
Tranched index and basket credit default swaps	271,525	905	411,864	(4,606)
Total	$ 1,826,641	$ 7,247	$ 1,830,792	$ (10,455)

	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)

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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 March 31, 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	$ 1,809	$ 5,780	$ 16,531	$ 3,673	$ 27,793	$ (61)
AA	10,141	17,863	36,987	6,476	71,467	(557)
A	64,263	68,132	67,702	9,668	209,765	(2,343)
BBB	119,304	130,055	138,543	30,832	418,734	312
Non-investment grade	84,290	88,959	86,589	16,547	276,385	4,061
Total	279,807	310,789	346,352	67,196	1,004,144	1,412
Index and basket credit default swaps(3):						
AAA	42,730	53,491	50,189	14,238	160,648	(1,574)
AA	1,159	10,123	12,124	8,375	31,781	(161)
A	4,349	5,562	11,546	2,517	23,974	216
BBB	31,459	103,097	125,754	32,271	292,581	(397)
Non-investment grade	66,319	68,392	139,218	39,584	313,513	7,751
Total	146,016	240,665	338,831	96,985	822,497	5,835
Total credit default swaps sold	$ 425,823	$ 551,454	$ 685,183	$ 164,181	$ 1,826,641	$ 7,247
Other credit contracts(4)(5)	$ 466	$ 82	$ 138	$ 1,139	$ 1,825	$ (195)
Total credit derivatives and other credit contracts	$ 426,289	$ 551,536	$ 685,321	$ 165,320	$ 1,828,466	$ 7,052

(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 $1.4 trillion and $1.5 trillion at March 31, 2013 and December 31, 2012, respectively, compared with a notional amount of approximately $1.6 trillion at both March 31, 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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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 March 31, 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 March 31, 2013
			(dollars in millions)		
Letters of credit and other financial guarantees obtained to satisfy collateral requirements	$ 1,460	$ 9	$	$ 1	$ 1,470
Investment activities	778	100	36	273	1,187
Primary lending commitments investment grade(1)	7,353	10,801	34,106	926	53,186
Primary lending commitments non-investment grade(1)	818	4,711	10,337	1,919	17,785
Secondary lending commitments(2)	78	41	27	40	186
Commitments for secured lending transactions	340				340
Forward starting reverse repurchase agreements and securities borrowing agreements(3)(4)	63,397				63,397
Commercial and residential mortgage-related commitments	1,125	18	179	193	1,515
Underwriting commitments	40				40
Other commitments	1,763	340	115	100	2,318
Total	$ 77,152	$ 16,020	$ 44,800	$ 3,452	$ 141,424

(1) This amount includes $36.9 billion of investment grade and $9.5 billion of non-investment grade unfunded commitments accounted for as held for investment and $1.1 billion of investment grade and $2.8 billion of non-investment grade unfunded commitments accounted for as held for sale at March 31, 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 March 31, 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 March 31, 2013, $55.3 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 $2.3 billion.

The above table does not include the Company s commitment to purchase an additional 35% of the Wealth Management JV for $4.725 billion upon obtaining all regulatory approvals (see Note 3).

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

Guarantees.

The table below summarizes certain information regarding the Company s obligations under guarantee arrangements at March 31, 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)	$ 425,823	$ 551,454	$ 685,183	$ 164,181	$ 1,826,641	$ 7,247	$
Other credit contracts	466	82	138	1,139	1,825	(195)	
Non-credit derivative contracts(1)	1,147,217	766,393	321,798	397,311	2,632,719	71,979	
Standby letters of credit and other financial guarantees issued(2)(3)	735	1,246	1,484	5,504	8,969	(205)	7,090
Market value guarantees		83	101	541	725	10	106
Liquidity facilities	2,342	148			2,490	(4)	3,723
Whole loan sales representations and warranties				23,967	23,967	82	
Securitization representations and warranties				70,927	70,927	35	
General partner guarantees	71	45	32	165	313	74	

(1) Carrying amounts of derivative contracts are shown on a gross basis prior to cash collateral or counterparty netting. For further information on derivative contracts, see Note 11.
(2) Approximately $2.1 billion of standby letters of credit are also reflected in the Commitments table above in primary and secondary lending commitments. Standby letters of credit are recorded at fair value within Trading assets or Trading liabilities in the condensed consolidated statements of financial condition.
(3) Amounts include guarantees issued by consolidated real estate funds sponsored by the Company of approximately $85.4 million. These guarantees relate to obligations of the fund s investee entities, including guarantees related to capital expenditures and principal and interest debt payments. Accrued losses under these guarantees of approximately $3.9 million are reflected as a reduction of the carrying value of the related fund investments, which are reflected in Trading assets on the condensed consolidated statement of financial condition.

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

The Company has obligations under certain guarantee arrangements, including contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying measure (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or non-occurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. Also included as guarantees are contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity s failure to perform under an agreement, as well as indirect guarantees of the indebtedness of others. The Company s use of guarantees is described below by type of guarantee:

MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other Guarantees and Indemnities.

In the normal course of business, the Company provides guarantees and indemnifications in a variety of commercial transactions. These provisions generally are standard contractual terms. Certain of these guarantees and indemnifications are described below.

Trust Preferred Securities. The Company has established Morgan Stanley Capital Trusts for the limited purpose of issuing trust preferred securities to third parties and lending the proceeds to the Company in exchange for junior subordinated debentures. The Company has directly guaranteed the repayment of the trust preferred securities to the holders thereof to the extent that the Company has made payments to a Morgan Stanley Capital Trust on the junior subordinated debentures. In the event that the Company does not make payments to a Morgan Stanley Capital Trust, holders of such series of trust preferred securities would not be able to rely upon the guarantee for payment of those amounts. The Company has not recorded any liability in the condensed consolidated financial statements for these guarantees and believes that the occurrence of any events (*i.e.*, non-performance on the part of the paying agent) that would trigger payments under these contracts is remote. See Note 11 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10-K for details on the Company s junior subordinated debentures.

Indemnities. The Company provides standard indemnities to counterparties for certain contingent exposures and taxes, including U.S. and foreign withholding taxes, on interest and other payments made on derivatives, securities and stock lending transactions, certain annuity products and other financial arrangements. These indemnity payments could be required based on a change in the tax laws or change in interpretation of applicable tax rulings or a change in factual circumstances. Certain contracts contain provisions that enable the Company to terminate the agreement upon the occurrence of such events. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated.

Exchange/Clearinghouse Member Guarantees. The Company is a member of various U.S. and non-U.S. exchanges and clearinghouses that trade and clear securities and/or derivative contracts. Associated with its membership, the Company may be required to pay a proportionate share of the financial obligations of another member who may default on its obligations to the exchange or the clearinghouse. While the rules governing different exchange or clearinghouse memberships vary, in general the Company s guarantee obligations would arise only if the exchange or clearinghouse had previously exhausted its resources. The maximum potential payout under these membership agreements cannot be estimated. The Company has not recorded any contingent liability in the condensed consolidated financial statements for these agreements and believes that any potential requirement to make payments under these agreements is remote.

Merger and Acquisition Guarantees. The Company may, from time to time, in its role as investment banking advisor be required to provide guarantees in connection with certain European merger and acquisition transactions. If required by the regulating authorities, the Company provides a guarantee that the acquirer in the merger and acquisition transaction has or will have sufficient funds to complete the transaction and would then be required to make the acquisition payments in the event the acquirer s funds are insufficient at the completion date of the transaction. These arrangements generally cover the time frame from the transaction offer date to its closing date and, therefore, are generally short term in nature. The maximum potential amount of future payments that the Company could be required to make cannot be estimated. The Company believes the likelihood of any payment by the Company under these arrangements is remote given the level of the Company s due diligence associated with its role as investment banking advisor.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In the ordinary course of business, the Company guarantees the debt and/or certain trading obligations (including obligations associated with derivatives, foreign exchange contracts and the settlement of physical commodities) of certain subsidiaries. These guarantees generally are entity or product specific and are required by investors or trading counterparties. The activities of the subsidiaries covered by these guarantees (including any related debt or trading obligations) are included in the Company s condensed consolidated financial statements.

Contingencies.

Legal. In the normal course of business, the Company has been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with its activities as a global diversified financial services institution. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the entities that would otherwise be the primary defendants in such cases are bankrupt or are in financial distress. These actions have included, but are not limited to, residential mortgage and credit crisis related matters. Over the last several years, the level of litigation and investigatory activity focused on residential mortgage and credit crisis related matters has increased materially in the financial services industry. As a result, the Company expects that it may become the subject of increased claims for damages and other relief regarding residential mortgages and related securities in the future and, while the Company has identified below any individual proceedings where the Company believes a material loss to be reasonably possible and reasonably estimable, there can be no assurance that material losses will not be incurred from claims that have not yet been notified to the Company or are not yet determined to be probable or possible and reasonably estimable losses.

The Company is also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding the Company s business and involving, among other matters, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

The Company contests liability and/or the amount of damages as appropriate in each pending matter. Where available information indicates that it is probable a liability had been incurred at the date of the condensed consolidated financial statements and the Company can reasonably estimate the amount of that loss, the Company accrues the estimated loss by a charge to income. In many proceedings, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. In addition, even where loss is possible or an exposure to loss exists in excess of the liability already accrued with respect to a previously recognized loss contingency, it is not always possible to reasonably estimate the size of the possible loss or range of loss.

For certain legal proceedings, the Company cannot reasonably estimate such losses, particularly for proceedings that are in their early stages of development or where plaintiffs seek substantial or indeterminate damages. Numerous issues may need to be resolved, including through potentially lengthy discovery and determination of important factual matters, determination of issues related to class certification and the calculation of damages, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a loss or additional loss or range of loss or additional loss can be reasonably estimated for any proceeding.

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On March 15, 2010, the Federal Home Loan Bank of San Francisco filed two complaints against the Company and other defendants in the Superior Court of the State of California. These actions are styled *Federal Home Loan Bank of San Francisco v. Credit Suisse Securities (USA) LLC, et al.*, and *Federal Home Loan Bank of San Francisco v. Deutsche Bank Securities Inc. et al.*, respectively. Amended complaints filed on June 10, 2010 allege that defendants made untrue statements and material omissions in connection with the sale to plaintiff of a number of mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans. The amount of certificates allegedly sold to plaintiff by the Company in these cases was approximately $704 million and $276 million, respectively. The complaints raise claims under both the federal securities laws and California law and seek, among other things, to rescind the plaintiff s purchase of such certificates. On July 29, 2011 and September 8, 2011, the court presiding over both actions sustained defendants demurrers with respect to claims brought under the Securities Act, and overruled defendants demurrers with respect to all other claims. At March 25, 2013, the current unpaid balance of the mortgage pass-through certificates at issue in these cases was approximately $356 million, and the certificates had incurred actual losses of approximately $1.7 million. Based on currently available information, the Company believes it could incur a loss up to the difference between the $356 million unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Company, plus pre- and post-judgment interest, fees and costs. The Company may be entitled to be indemnified for some of these losses and to an offset for interest received by the plaintiff prior to a judgment.

On July 9, 2010 and February 11, 2011, Cambridge Place Investment Management Inc. filed two separate complaints against the Company and other defendants in the Superior Court of the Commonwealth of Massachusetts, both styled *Cambridge Place Investment Management Inc. v. Morgan Stanley & Co., Inc., et al.* The complaints assert claims on behalf of certain clients of plaintiff s affiliates and allege that defendants made untrue statements and material omissions in the sale of a number of mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly issued by the Company or sold to plaintiff s affiliates clients by the Company in the two matters was approximately $344 million. The complaints raise claims under the Massachusetts Uniform Securities Act and seek, among other things, to rescind the plaintiff s purchase of such certificates. On October 14, 2011, plaintiffs filed an amended complaint in each action. On November 22, 2011, defendants filed a motion to dismiss the amended complaints. On March 12, 2012, the court denied defendants motion to dismiss with respect to plaintiff s standing to bring suit. Defendants sought interlocutory appeal from that decision on April 11, 2012. On April 26, 2012, defendants filed a second motion to dismiss for failure to state a claim upon which relief can be granted, which the court denied, in substantial part, on October 2, 2012. Based on currently available information, the Company believes it could incur a loss for these actions of up to the difference between the as yet undetermined unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Company, plus pre- and post-judgment interest, fees and costs. The Company may be entitled to be indemnified for some of these losses and to an offset for interest received by the plaintiff prior to a judgment.

On July 15, 2010, China Development Industrial Bank (CDIB) filed a complaint against the Company, which is styled *China Development Industrial Bank v. Morgan Stanley & Co. Incorporated et al.* and is pending in the Supreme Court of the State of New York, New York County (Supreme Court of NY). The complaint relates to a $275 million credit default swap referencing the super senior portion of the STACK 2006-1 CDO. The complaint asserts claims for common law fraud, fraudulent inducement and fraudulent concealment and alleges that the Company misrepresented the risks of the STACK 2006-1 CDO to CDIB, and that the Company knew that the assets backing the CDO were of poor quality when it entered into the credit default swap with CDIB. The complaint seeks compensatory damages related to the approximately $228 million that CDIB alleges it has already lost under the credit default swap, rescission of CDIB s obligation to pay an additional $12 million,

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

punitive damages, equitable relief, fees and costs. On February 28, 2011, the court presiding over this action denied the Company s motion to dismiss the complaint and on March 21, 2011, the Company appealed that order. On July 7, 2011, the appellate court affirmed the lower court s decision denying the motion to dismiss. Based on currently available information, the Company believes it could incur a loss of up to approximately $240 million plus pre- and post-judgment interest, fees and costs.

On October 15, 2010, the Federal Home Loan Bank of Chicago filed a complaint against the Company and other defendants in the Circuit Court of the State of Illinois styled *Federal Home Loan Bank of Chicago v. Bank of America Funding Corporation et al*. The complaint alleges that defendants made untrue statements and material omissions in the sale to plaintiff of a number of mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly sold to plaintiff by the Company in this action was approximately $203 million. The complaint raises claims under Illinois law and seeks, among other things, to rescind the plaintiff s purchase of such certificates. On March 24, 2011, the court granted plaintiff leave to file an amended complaint. On May 27, 2011, defendants filed a motion to dismiss the amended complaint, which motion was denied on September 19, 2012. The Company filed its answer on December 21, 2012. At March 25, 2013, the current unpaid balance of the mortgage pass-through certificates at issue in this case was approximately $103 million and certain certificates had incurred actual losses of approximately $700,000. Based on currently available information, the Company believes it could incur a loss up to the difference between the $103 million unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Company, plus pre- and post-judgment interest, fees and costs. The Company may be entitled to be indemnified for some of these losses and to an offset for interest received by the plaintiff prior to a judgment.

On July 18, 2011, the Western and Southern Life Insurance Company and certain affiliated companies filed a complaint against the Company and other defendants in the Court of Common Pleas in Ohio, styled *Western and Southern Life Insurance Company, et al. v. Morgan Stanley Mortgage Capital Inc., et al*. An amended complaint was filed on April 2, 2012 and alleges that defendants made untrue statements and material omissions in the sale to plaintiffs of certain mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans. The amount of the certificates allegedly sold to plaintiffs by the Company was approximately $153 million. The amended complaint raises claims under the Ohio Securities Act, federal securities laws, and common law and seeks, among other things, to rescind the plaintiffs purchases of such certificates. On May 21, 2012, the Company filed a motion to dismiss the amended complaint, which motion was denied on August 3, 2012. The court has set a trial date of November 2013. At March 25, 2013, the current unpaid balance of the mortgage pass-through certificates at issue in this case was approximately $122 million, and the certificates had incurred actual losses of approximately $55,000. Based on currently available information, the Company believes it could incur a loss up to the difference between the $122 million unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Company, plus post-judgment interest, fees and costs. The Company may be entitled to an offset for interest received by the plaintiff prior to a judgment.

On September 2, 2011, the Federal Housing Finance Agency (FHFA), as conservator for Fannie Mae and Freddie Mac, filed 17 complaints against numerous financial services companies, including the Company. A complaint against the Company and other defendants was filed in the Supreme Court of NY, styled *Federal Housing Finance Agency, as Conservator v. Morgan Stanley et al*. The complaint alleges that defendants made untrue statements and material omissions in connection with the sale to Fannie Mae and Freddie Mac of residential mortgage pass-through certificates with an original unpaid balance of approximately $11 billion. The complaint raises claims under federal and state securities laws and common law and seeks, among other things, rescission and compensatory and punitive damages. On September 26, 2011, defendants removed the

action to the United States District Court for the Southern District of New York and on October 26, 2011, the FHFA moved to remand the action back to the Supreme Court of NY. On May 11, 2012, plaintiff withdrew its motion to remand. On July 13, 2012, the Company filed a motion to dismiss the complaint, which motion was denied in large part on November 19, 2012. Trial is currently scheduled to begin in January 2015. At March 25, 2013, the current unpaid balance of the mortgage pass-through certificates at issue in these cases was approximately $2.87 billion, and the certificates had incurred actual losses of approximately $54 million. Based on currently available information, the Company believes it could incur a loss up to the difference between the $2.87 billion unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Company, plus pre- and post-judgment interest, fees and costs. The Company may be entitled to be indemnified for some of these losses and to an offset for interest received by the plaintiff prior to a judgment.

On April 25, 2012, The Prudential Insurance Company of America and certain affiliates filed a complaint against the Company and certain affiliates in the Superior Court of the State of New Jersey styled *The Prudential Insurance Company of America, et al. v. Morgan Stanley, et al.* The complaint alleges that defendants made untrue statements and material omissions in connection with the sale to plaintiffs of certain mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly sponsored, underwritten and/or sold by the Company is approximately $1 billion. The complaint raises claims under the New Jersey Uniform Securities Law, as well as common law claims of negligent misrepresentation, fraud and tortious interference with contract and seeks, among other things, compensatory damages, punitive damages, rescission and rescissionary damages associated with plaintiffs purchases of such certificates. On October 16, 2012, plaintiffs filed an amended complaint which, among other things, increases the total amount of the certificates at issue by approximately $80 million, adds causes of action for fraudulent inducement, equitable fraud, aiding and abetting fraud, and violations of the New Jersey RICO statute, and includes a claim for treble damages. On January 23, 2013, defendants filed a motion to dismiss the amended complaint, which was denied on March 15, 2013. At March 25, 2013, the current unpaid balance of the mortgage pass through certificates at issue in these cases was approximately $598 million, and the certificates had not yet incurred actual losses. Based on currently available information, the Company believes it could incur a loss up to the difference between the $598 million unpaid balance of these certificates (plus any losses incurred) and their fair market value at the time of a judgment against the Company, plus pre- and post-judgment interest, fees and costs. The Company may be entitled to be indemnified for some of these losses and to an offset for interest received by the plaintiff prior to a judgment.

In addition to the matters referenced above, on April 24, 2013, the parties reached an agreement to settle *Abu Dhabi Commercial Bank, et al. v. Morgan Stanley & Co. Inc., et al.* On April 26, 2013, the court dismissed the action with prejudice. The settlement does not cover certain claims that were previously dismissed.

13. Regulatory Requirements.

Morgan Stanley. The Company is a financial holding company under the Bank Holding Company Act of 1956, as amended, and is subject to the regulation and oversight of the Federal Reserve. The Federal Reserve establishes capital requirements for the Company, including well-capitalized standards, and evaluates the Company s compliance with such capital requirements. The Office of the Comptroller of the Currency establishes similar capital requirements and standards for Morgan Stanley Bank, N.A. and Morgan Stanley Private Bank, National Association.

The Company calculates its capital ratios and risk-weighted assets (RWAs) in accordance with the capital adequacy standards for financial holding companies adopted by the Federal Reserve. These standards are based upon a framework described in the International Convergence of Capital Measurement and Capital Standards,

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 1988, as amended, also referred to as Basel I. In December 2007, the U.S. banking regulators published final regulation incorporating the Basel II Accord, which requires internationally active banking organizations, as well as certain of their U.S. bank subsidiaries, to implement Basel II standards over the next several years. In July 2010, the Company began reporting its capital adequacy standards on a parallel basis to its regulators under Basel I and Basel II as part of a phased implementation of Basel II.

In December 2010, the Basel Committee reached an agreement on Basel III. In June 2012, the U.S. banking regulators proposed rules to implement many aspects of Basel III (the U.S. Basel III proposals). The U.S. Basel III proposals contemplate that the new capital requirements would be phased in over several years, beginning in 2013. In November 2012, the U.S. banking regulators announced that the U.S. Basel III proposals would not become effective on January 1, 2013. The announcement did not specify new implementation or phase in dates for the U.S. Basel III proposals.

In June 2011, the U.S. banking regulators published final regulations implementing a provision of the Dodd-Frank Act requiring that certain institutions supervised by the Federal Reserve, including the Company, be subject to minimum capital requirements that are not less than the generally applicable risk-based capital requirements. Currently, this minimum capital floor is based on Basel I. The U.S. Basel III proposals would replace the current Basel I-based capital floor with a standardized approach that, among other things, modifies the existing risk weights for certain types of asset classes. Effective January 1, 2013, in accordance with the U.S. banking regulators rules the Company implemented the Basel Committee s market risk capital framework amendment, commonly referred to as Basel 2.5 , which increased the capital requirements for securitizations and correlation trading within the Company's trading book as well as incorporated add-ons for stressed VaR and incremental risk requirements (market risk capital framework amendment).

At March 31, 2013, the Company was in compliance with Basel I, inclusive of the market risk capital framework amendment, with ratios of Tier 1 capital to RWAs of 13.9% and total capital to RWAs of 14.5% (6% and 10% being well-capitalized for regulatory purposes, respectively). The ratio of Tier 1 common capital to RWAs was 11.5% (5% being the minimum under the Federal Reserve s Comprehensive Capital Analysis and Review (CCAR) framework). Financial holding companies are subject to a Tier 1 leverage ratio as defined by the Federal Reserve. The Company calculated its Tier 1 leverage ratio as Tier 1 capital divided by adjusted average total assets (which reflects adjustments for disallowed goodwill, certain intangible assets, deferred tax assets and financial and non-financial equity investments). The adjusted average total assets are derived using weekly balances for the year. At March 31, 2013, the Company was also in compliance with the Federal Reserve s Tier 1 leverage requirement, with a Tier 1 leverage ratio of 7.0% (5% being well-capitalized for regulatory purposes).

The following table summarizes the capital measures for the Company:

	March 31, 2013		December 31, 2012	
	Balance	Ratio	Balance	Ratio
	(dollars in millions)			
Tier 1 common capital	$ 46,512	11.5%	$ 44,794	14.6%
Tier 1 capital	56,129	13.9%	54,360	17.7%
Total capital	58,382	14.5%	56,626	18.5%
RWAs	403,237		306,746	
Adjusted average assets	800,699		769,495	
Tier 1 leverage		7.0%		7.1%

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The Company s U.S. Bank Operating Subsidiaries. The Company s U.S. bank operating subsidiaries are subject to various regulatory capital requirements as administered by U.S. federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company s U.S. bank operating subsidiaries financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company s U.S. bank operating subsidiaries must meet specific capital guidelines that involve quantitative measures of the Company s U.S. bank operating subsidiaries assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices.

At March 31, 2013, the Company s U.S. bank operating subsidiaries met all capital adequacy requirements to which they are subject and exceeded all regulatory mandated and targeted minimum regulatory capital requirements to be well-capitalized. There are no conditions or events that management believes have changed the Company s U.S. bank operating subsidiaries category.

The table below sets forth the capital information for the Company s U.S. bank operating subsidiaries, which are U.S. depository institutions, calculated in a manner consistent with the guidelines described under Basel I, inclusive of the market risk capital framework amendment:

	March 31, 2013		December 31, 2012	
	Amount	Ratio	Amount	Ratio
	(dollars in millions)			
Total capital (to RWAs):				
Morgan Stanley Bank, N.A.	$ 11,752	15.8%	$ 11,509	17.2%
Morgan Stanley Private Bank, National Association	$ 1,696	27.6%	$ 1,673	28.8%
Tier I capital (to RWAs):				
Morgan Stanley Bank, N.A.	$ 10,144	13.6%	$ 9,918	14.9%
Morgan Stanley Private Bank, National Association	$ 1,690	27.5%	$ 1,665	28.7%
Leverage ratio:				
Morgan Stanley Bank, N.A.	$ 10,144	12.7%	$ 9,918	13.3%
Morgan Stanley Private Bank, National Association	$ 1,690	10.3%	$ 1,665	10.6%

Under regulatory capital requirements adopted by the U.S. federal banking agencies, U.S. depository institutions, in order to be considered well-capitalized, must maintain a ratio of total capital to RWAs of 10%, a capital ratio of Tier 1 capital to RWAs of 6%, and a ratio of Tier 1 capital to average book assets (leverage ratio) of 5%. Each U.S. depository institution subsidiary of the Company must be well-capitalized in order for the Company to continue to qualify as a financial holding company and to continue to engage in the broadest range of financial activities permitted for financial holding companies. At March 31, 2013 and December 31, 2012, the Company s U.S. depository institutions maintained capital at levels in excess of the universally mandated well-capitalized levels. These subsidiary depository institutions maintain capital at levels sufficiently in excess of the well-capitalized requirements to address any additional capital needs and requirements identified by the federal banking regulators.

MS&Co. and Other Broker-Dealers. MS&Co. is a registered broker-dealer and registered futures commission merchant and, accordingly, is subject to the minimum net capital requirements of the U.S. Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority, Inc. and the U.S. Commodity Futures Trading Commission. MS&Co. has consistently operated with capital in excess of its regulatory capital requirements. MS&Co. s net capital totaled $8,848 million and $7,820 million at March 31, 2013 and December 31, 2012, respectively, which exceeded the amount required by $7,348 million and $6,453 million, respectively. MS&Co. is required to hold tentative net capital in excess of $1 billion and net capital in excess of $500 million in accordance with the market and credit risk standards of Appendix E of SEC Rule 15c3-1.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MS&Co. is also required to notify the SEC in the event that its tentative net capital is less than $5 billion. At March 31, 2013, MS&Co. had tentative net capital in excess of the minimum and the notification requirements.

MSSB LLC is a registered broker-dealer and registered futures commission merchant and, accordingly, is subject to the minimum net capital requirements of the SEC, the Financial Industry Regulatory Authority, Inc. and the U.S. Commodity Futures Trading Commission. MSSB LLC has consistently operated with capital in excess of its regulatory capital requirements. MSSB LLC clears certain customer activity directly and introduces other business to MS&Co. and Citi. Subsequent to July 6, 2012, MSSB LLC clears customer activity that was previously introduced to Citi.

MSIP, a London-based broker-dealer subsidiary, is subject to the capital requirements of the Financial Services Authority, and MSMS, a Tokyo-based broker-dealer subsidiary, is subject to the capital requirements of the Financial Services Agency. MSIP and MSMS have consistently operated in excess of their respective regulatory capital requirements.

Other Regulated Subsidiaries. Certain other U.S. and non-U.S. subsidiaries are subject to various securities, commodities and banking regulations, and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. These subsidiaries have consistently operated in excess of their local capital adequacy requirements.

Morgan Stanley Derivative Products Inc. (MSDP), a derivative products subsidiary rated A2 by Moody s and AAA by S&P, maintains certain operating restrictions that have been reviewed by Moody s and S&P. MSDP is operated such that creditors of the Company should not expect to have any claims on the assets of MSDP, unless and until the obligations to its own creditors are satisfied in full. Creditors of MSDP should not expect to have any claims on the assets of the Company or any of its affiliates, other than the respective assets of MSDP.

14. Redeemable Noncontrolling Interests and Total Equity.
Redeemable Noncontrolling Interests.

Redeemable noncontrolling interests relates to the Wealth Management JV (see Note 3). Changes in redeemable noncontrolling interests for the quarter ended March 31, 2013 were as follows (dollars in millions):

Balance at December 31, 2012	$ 4,309
Net income applicable to redeemable noncontrolling interests	122
Other	(6)
Balance at March 31, 2013	$ 4,425

Total Equity.

Morgan Stanley Shareholders Equity.

Common Equity Offerings. During the quarters ended March 31, 2013 and 2012, the Company did not purchase any of its common stock as part of its share repurchase program. At March 31, 2013, the Company had approximately $1.6 billion remaining under its current share repurchase authorization. Share repurchases by the Company are subject to regulatory approval.

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Accumulated Other Comprehensive Income (Loss).

The following table presents Changes in Accumulated Other Comprehensive Income (Loss) by Component, net of tax and net of noncontrolling interests, for the quarter ended March 31, 2013 (dollars in millions):

	Foreign Currency Translation Adjustments	Net Change in Cash Flow Hedges	Change in Net Unrealized Gains (Losses) on Securities Available for Sale	Pension, Postretirement and Other Related Adjustments	Total
Balance at December 31, 2012	$ (123)	$ (5)	$ 151	$ (539)	$ (516)
Other comprehensive income (loss) before reclassifications	(153)		(25)	(3)	(181)
Amounts reclassified from accumulated other comprehensive income (loss)		1	(2)	4	3
Net other comprehensive income (loss) during the period	(153)	1	(27)	1	(178)
Balance at March 31, 2013	$ (276)	$ (4)	$ 124	$ (538)	$ (694)

The Company had no significant reclassifications out of accumulated other comprehensive loss for the quarter ended March 31, 2013.

Nonredeemable Noncontrolling Interests.

Changes in nonredeemable noncontrolling interests were not material in the quarter ended March 31, 2013. Changes in nonredeemable noncontrolling interests in the quarter ended March 31, 2012 primarily resulted from $113 million in net assets received from Citi related to Citi s required equity contribution in connection with the Morgan Stanley Wealth Management platform integration.

15. Earnings per Common Share.

Basic earnings per common share (EPS) is computed by dividing earnings (loss) applicable to Morgan Stanley common shareholders by the weighted average number of common shares outstanding for the period. Common shares outstanding include common stock and vested restricted stock units (RSUs) where recipients have satisfied either the explicit vesting terms or retirement eligibility requirements. Diluted EPS reflects the assumed conversion of all dilutive securities. The Company calculates EPS using the two-class method and determines whether instruments granted in share-based payment transactions are participating securities (see Note 2 to the

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

consolidated financial statements for the year ended December 31, 2012 in the Form 10-K). The following table presents the calculation of basic and diluted EPS (in millions, except for per share data):

	Three Months Ended March 31,	
	2013	2012
Basic EPS:		
Income from continuing operations	$ 1,250	$ 148
Net gain (loss) from discontinued operations	(19)	(14)
Net income	1,231	134
Net income applicable to redeemable noncontrolling interests	122	
Net income applicable to nonredeemable noncontrolling interests	147	228
Net income (loss) applicable to Morgan Stanley	962	(94)
Less: Preferred dividends (Series A Preferred Stock)	(11)	(11)
Less: Preferred dividends (Series C Preferred Stock)	(13)	(13)
Less: Allocation of (earnings) loss to participating RSUs(1):		
From continuing operations	(2)	(1)
Earnings (loss) applicable to Morgan Stanley common shareholders	$ 936	$ (119)
Weighted average common shares outstanding	1,901	1,877
Earnings (loss) per basic common share:		
Income (loss) from continuing operations	$ 0.50	$ (0.05)
Net gain (loss) from discontinued operations	(0.01)	(0.01)
Earnings (loss) per basic common share	$ 0.49	$ (0.06)
Diluted EPS:		
Earnings (loss) applicable to Morgan Stanley common shareholders	$ 936	$ (119)
Weighted average common shares outstanding	1,901	1,877
Effect of dilutive securities:		
Stock options and RSUs(1)	39	
Weighted average common shares outstanding and common stock equivalents	1,940	1,877
Earnings (loss) per diluted common share:		
Income (loss) from continuing operations	$ 0.49	$ (0.05)
Net income (loss) from discontinued operations	(0.01)	(0.01)
Earnings (loss) per diluted common share	$ 0.48	$ (0.06)

(1) RSUs that are considered participating securities participate in all of the earnings of the Company in the computation of basic EPS, and, therefore, such RSUs are not included as incremental shares in the diluted calculation.

The following securities were considered antidilutive and, therefore, were excluded from the computation of diluted EPS:

Number of Antidilutive Securities Outstanding at End of Period:	Three Months Ended March 31, 2013	2012
	(shares in millions)	
RSUs and performance-based stock units	5	103
Stock options	37	45
Total	42	148

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Interest Income and Interest Expense.

Details of Interest income and Interest expense were as follows:

	Three Months Ended March 31,	
	2013	2012
	(dollars in millions)	
Interest income(1):		
Trading assets(2)	$ 604	$ 791
Securities available for sale	96	86
Loans	244	118
Interest bearing deposits with banks	26	27
Federal funds sold and securities purchased under agreements to resell and Securities borrowed	92	113
Other	336	407
Total interest income	$ 1,398	$ 1,542
Interest expense(1):		
Deposits	$ 41	$ 45
Commercial paper and other short-term borrowings	9	13
Long-term debt	960	1,254
Securities sold under agreements to repurchase and Securities loaned	450	463
Other	(247)	(174)
Total interest expense	$ 1,213	$ 1,601
Net interest	$ 185	$ (59)

(1) Interest income and expense are recorded within the condensed consolidated statements of income depending on the nature of the instrument and related market conventions. When interest is included as a component of the instrument s fair value, interest is included within Trading revenues or Investments revenues. Otherwise, it is included within Interest income or Interest expense.

(2) Interest expense on Trading liabilities is reported as a reduction to Interest income on Trading assets.

17. Employee Benefit Plans.

The Company sponsors various pension plans for the majority of its U.S. and non-U.S. employees. The Company provides certain other postretirement benefits, primarily health care and life insurance, to eligible U.S. employees. The Company also provides certain postemployment benefits to certain former employees or inactive employees prior to retirement.

Effective January 1, 2011, the Morgan Stanley Employees Retirement Plan (the Pension Plan) for U.S. participants ceased accruals of benefits under the Pension Plan.

MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The components of the Company s net periodic benefit expense for its pension and postretirement plans were as follows:

	Three Months Ended March 31,	
	2013	2012
	(dollars in millions)	
Service cost, benefits earned during the period	$ 7	$ 8
Interest cost on projected benefit obligation	39	41
Expected return on plan assets	(28)	(28)
Net amortization of prior service costs	(4)	(3)
Net amortization of actuarial loss	10	7
Net periodic benefit expense	$ 24	$ 25

18. Income Taxes.

The Company is under continuous examination by the Internal Revenue Service (the IRS) and other tax authorities in certain countries, such as Japan and the U.K., and in states in which the Company has significant business operations, such as New York. The Company is currently under review by the IRS Appeals Office for the remaining issues covering tax years 1999 2005. Also, the Company is currently at various levels of field examination with respect to audits with the IRS, as well as New York State and New York City, for tax years 2006 2008 and 2007 2009, respectively. During 2013, the Company expects to reach a conclusion with the U.K. tax authorities on substantially all issues through tax year 2010.

The Company believes that the resolution of tax matters will not have a material effect on the condensed consolidated statements of financial condition of the Company, although a resolution could have a material impact on the Company s condensed consolidated statements of income for a particular future period and on the Company s effective income tax rate for any period in which such resolution occurs. The Company has established a liability for unrecognized tax benefits that the Company believes is adequate in relation to the potential for additional assessments. Once established, the Company adjusts unrecognized tax benefits only when more information is available or when an event occurs necessitating a change.

It is reasonably possible that significant changes in the gross balance of unrecognized tax benefits may occur within the next 12 months. At this time, however, it is not possible to reasonably estimate the expected change to the total amount of unrecognized tax benefits and impact on the effective tax rate over the next 12 months.

The Company s effective tax rate from continuing operations for the quarter ended March 31, 2013 included a discrete tax benefit of $81 million due to the retroactive effective date of the American Taxpayer Relief Act of 2012 (the Relief Act). The Relief Act that was enacted on January 2, 2013, among other things, extended with retroactive effect to January 1, 2012 a provision of U.S. tax law that defers the imposition of tax on certain active financial services income of certain foreign subsidiaries earned outside of the U.S. until such income is repatriated to the U.S. as a dividend. Additionally, the Company s effective tax rate from continuing operations for the quarter ended March 31, 2013 included a discrete net tax benefit of $61 million associated with remeasurement of reserves and related interest based on new information regarding the status of certain tax authority examinations. Excluding these discrete tax benefits, the annual effective tax rate in the quarter ended March 31, 2013 would have been 30.0%.

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MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Segment and Geographic Information.

Segment Information.

The Company structures its segments primarily based upon the nature of the financial products and services provided to customers and the Company s management organization. The Company provides a wide range of financial products and services to its customers in each of its business segments: Institutional Securities, Global Wealth Management Group and Asset Management. For further discussion of the Company s business segments, see Note 1.

Revenues and expenses directly associated with each respective segment are included in determining its operating results. Other revenues and expenses that are not directly attributable to a particular segment are allocated based upon the Company s allocation methodologies, generally based on each segment s respective net revenues, non-interest expenses or other relevant measures.

As a result of treating certain intersegment transactions as transactions with external parties, the Company includes an Intersegment Eliminations category to reconcile the business segment results to the Company s consolidated results. Intersegment Eliminations also reflect the effect of fees paid by the Institutional Securities business segment to the Global Wealth Management Group business segment related to the bank deposit program.

Selected financial information for the Company s segments is presented below:

Three Months Ended March 31, 2013	Institutional Securities	Global Wealth Management Group	Asset Management	Intersegment Eliminations	Total
			(dollars in millions)		
Total non-interest revenues	$ 4,313	$ 3,057	$ 649	$ (46)	$ 7,973
Interest income	1,024	488	2	(116)	1,398
Interest expense	1,248	75	6	(116)	1,213
Net interest	(224)	413	(4)		185
Net revenues(1)	$ 4,089	$ 3,470	$ 645	$ (46)	$ 8,158
Income from continuing operations before income taxes	$ 798	$ 597	$ 187	$	$ 1,582
Provision for income taxes	60	220	52		332
Income from continuing operations	738	377	135		1,250
Discontinued operations(2):					
Gain (loss) from discontinued operations	(30)	(1)	1		(30)
Provision for (benefit from) income taxes	(11)				(11)
Net gain (loss) on discontinued operations	(19)	(1)	1		(19)
Net income	719	376	136		1,231
Net income applicable to redeemable noncontrolling interests	1	121			122
Net income applicable to nonredeemable noncontrolling interests	96		51		147

Net income applicable to Morgan Stanley	$ 622	$ 255	$ 85	$	$ 962

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MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three Months Ended March 31, 2012	Institutional Securities(3)	Global Wealth Management Group(3)	Asset Management	Intersegment Eliminations	Total
			(dollars in millions)		
Total non-interest revenues	$ 3,586	$ 2,891	$ 541	$ (35)	$ 6,983
Interest income	1,177	458	3	(96)	1,542
Interest expense	1,628	58	11	(96)	1,601
Net interest	(451)	400	(8)		(59)
Net revenues(1)	$ 3,135	$ 3,291	$ 533	$ (35)	$ 6,924
Income (loss) from continuing operations before income taxes	$ (329)	$ 403	$ 128	$	$ 202
Provision for (benefit from) income taxes	(106)	122	38		54
Income (loss) from continuing operations	(223)	281	90		148
Discontinued operations(2):					
Gain from discontinued operations	25	2	1		28
Provision for income taxes	41	1			42
Net gain (loss) on discontinued operations	(16)	1	1		(14)
Net income (loss)	(239)	282	91		134
Net income applicable to nonredeemable noncontrolling interests	79	84	65		228
Net income (loss) applicable to Morgan Stanley	$ (318)	$ 198	$ 26	$	$ (94)

(1) In certain management fee arrangements, the Company is entitled to receive performance-based fees (also referred to as incentive fees) when the return on assets under management exceeds certain benchmark returns or other performance targets. In such arrangements, performance fee revenue is accrued (or reversed) quarterly based on measuring account fund performance to date versus the performance benchmark stated in the investment management agreement. The amount of performance-based fee revenue at risk of reversing if fund performance falls below stated investment management agreement benchmarks was approximately $274 million at March 31, 2013 and approximately $205 million at December 31, 2012 (see Note 2 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10-K).

(2) See Notes 1 and 21 for discussion of discontinued operations.

(3) On January 1, 2013, the International Wealth Management business was transferred from the Global Wealth Management Group 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.

Total Assets(1)	Institutional Securities(2)	Global Wealth Management Group(2)	Asset Management	Total
		(dollars in millions)		
At March 31, 2013	$ 675,327	$ 118,557	$ 7,499	$ 801,383
At December 31, 2012	$ 648,049	$ 125,565	$ 7,346	$ 780,960

(1) Corporate assets have been fully allocated to the Company s business segments.
(2) Prior period amounts have been recast to reflect the transfer of the International Wealth Management business from Global Wealth Management Group business segment to the Institutional Securities business segment.

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MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Geographic Information.

The Company operates in both U.S. and non-U.S. markets. The Company s non-U.S. business activities are principally conducted and managed through European and Asian locations. The net revenues disclosed in the following table reflect the regional view of the Company s consolidated net revenues on a managed basis, based on the following methodology:

Institutional Securities: advisory and equity underwriting client location, debt underwriting revenue recording location, sales and trading trading desk location.

Global Wealth Management Group: global representative coverage location.

Asset Management: client location, except for Merchant Banking and Real Estate Investing businesses, which are based on asset location.

Net Revenues	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
	(dollars in millions)	
Americas	$ 5,956	$ 4,784
Europe, Middle East and Africa	1,066	1,149
Asia	1,136	991
Net revenues	$ 8,158	$ 6,924

20. Equity Method Investments.

The Company has investments accounted for under the equity method of accounting (see Note 1) of $4,618 million and $4,682 million at March 31, 2013 and December 31, 2012, respectively, included in Other investments in the condensed consolidated statements of financial condition. Gains (losses) from these investments were $64 million and $(32) million for the quarters ended March 31, 2013 and 2012, respectively, and are included in Other revenues in the condensed consolidated statements of income.

Japanese Securities Joint Venture

On May 1, 2010, the Company and Mitsubishi UFJ Financial Group, Inc. (MUFG) formed a joint venture in Japan of their respective investment banking and securities businesses. MUFG and the Company have integrated their respective Japanese securities companies by forming two joint venture companies. MUFG contributed the investment banking, wholesale and retail securities businesses conducted in Japan by Mitsubishi UFJ Securities Co., Ltd. into Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (MUMSS). The Company contributed the investment banking operations conducted in Japan by its subsidiary MSMS, formerly known as Morgan Stanley Japan Securities Co., Ltd., into MUMSS (MSMS, together with MUMSS, the Joint Venture). MSMS will continue its sales and trading and capital markets business conducted in Japan. Following the respective contributions to the Joint Venture and a cash payment of 23 billion yen ($247 million), from MUFG to the Company, the Company owns a 40% economic interest in the Joint Venture and MUFG owns a 60% economic interest in the Joint Venture.

The Company holds a 40% voting interest and MUFG holds a 60% voting interest in MUMSS, while the Company holds a 51% voting interest and MUFG holds a 49% voting interest in MSMS. The Company continues to consolidate MSMS in its condensed consolidated financial statements and, commencing on May 1, 2010, accounted for its interest in MUMSS as an equity method investment within the Institutional Securities

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MORGAN STANLEY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

business segment. During the quarters ended March 31, 2013 and 2012, the Company recorded income of $125 million and $27 million, respectively, within Other revenues in the condensed consolidated statements of income, arising from the Company s 40% stake in MUMSS.

21. Discontinued Operations.

See Note 1 for a discussion of the Company s discontinued operations.

The table below provides information regarding amounts included in discontinued operations:

	Three Months Ended March 31,	
	2013	2012
	(dollars in millions)	
Net revenues(1):		
Saxon	$	$ 76
Quilter	(1)	31
Other(2)	(9)	10
	$ (10)	$ 117
Pre-tax gain (loss) on discontinued operations(1):		
Saxon	$ (20)	$ 25
Quilter	(1)	2
Other(2)	(9)	1
	$ (30)	$ 28

(1) Amounts included eliminations of intersegment activity.
(2) Amounts included in Other are related to the sale of a principal investment and other.

22. Subsequent Events.

The Company has evaluated subsequent events for adjustment to or disclosure in the condensed consolidated financial statements through the date of this report and the Company has not identified any recordable or disclosable events, not otherwise reported in these condensed consolidated financial statements or the notes thereto, except for the following:

Common Dividend.

On April 18, 2013, the Company announced that its Board of Directors declared a quarterly dividend per common share of $0.05. The dividend is payable on May 15, 2013 to common shareholders of record on April 30, 2013.

Long-Term Borrowings.

On April 25, 2013, the Company issued $3.7 billion in senior unsecured debt.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Morgan Stanley:

We have reviewed the accompanying condensed consolidated statement of financial condition of Morgan Stanley and subsidiaries (the Company) as of March 31, 2013, and the related condensed consolidated statements of income, comprehensive income, cash flows and changes in total equity for the three-month periods ended March 31, 2013 and March 31, 2012. These condensed consolidated financial statements are the responsibility of the management of the Company.

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

Based on our review, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition of the Company as of December 31, 2012, and the consolidated statements of income, comprehensive income, cash flows and changes in total equity for the year then ended (not presented herein) included in the Company s Annual Report on Form 10-K; and in our report dated February 26, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial condition as of December 31, 2012 is fairly stated, in all material respects, in relation to the consolidated statement of financial condition from which it has been derived.

/s/ Deloitte & Touche LLP

New York, New York

May 7, 2013

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.
Introduction.

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, Global Wealth Management Group and Asset 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.

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.

Global Wealth Management Group, which includes the Company s 65% interest in Morgan Stanley Smith Barney Holdings LLC (the Wealth Management Joint Venture or Wealth Management JV), 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.

Asset 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.

See Notes 1 and 21 to the condensed consolidated financial statements for a discussion of the Company s discontinued operations.

The results of operations in the past have been, and in the future may continue to be, materially affected by many factors, including the effect of economic and political conditions and geopolitical events; the effect of market conditions, particularly in the global equity, fixed income, credit and commodities markets, including corporate and mortgage (commercial and residential) lending and commercial real estate markets; the impact of current, pending and future legislation (including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act)), regulation (including capital, leverage and liquidity requirements), and legal actions in the United States of America (U.S.) and worldwide; the level and volatility of equity, fixed income, and commodity prices and interest rates, currency values and other market indices; the availability and cost of both credit and capital as well as the credit ratings assigned to the Company s unsecured short-term and long-term debt; investor, consumer and business sentiment and confidence in the financial markets; the performance of the Company s acquisitions, joint ventures, strategic alliances or other strategic arrangements (including the Wealth Management JV and with Mitsubishi UFJ Financial Group, Inc. (MUFG)); the Company s reputation; inflation, natural disasters and acts of war or terrorism; the actions and initiatives of current and potential competitors as well as governments, regulators and self-regulatory organizations; the effectiveness of the Company s risk management policies; and technological changes; or a combination of these or other factors. In addition, legislative, legal and regulatory developments related to the Company s businesses are likely to increase costs, thereby affecting results of operations. These factors also may have an adverse impact on the Company s ability to achieve its strategic objectives. For a further discussion of these and other important factors that could affect the Company s business, see Business Competition and Business Supervision and Regulation in Part I, Item 1, and Risk Factors in Part I, Item 1A o the Company s Annual Report on Form 10-K for the year ended December 31, 2012 (the Form 10-K), and Other Matters herein.

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The discussion of the Company s results of operations below may contain forward-looking statements. These statements, which reflect management s beliefs and expectations, are subject to risks and uncertainties that may cause actual results to differ materially. For a discussion of the risks and uncertainties that may affect the Company s future results, please see Forward-Looking Statements immediately preceding Business Competition and Business Supervision and Regulation in Part I, Item 1, Risk Factors in Part I, Item 1A, and Executive Summary Significant Items in Part II, Item 7 of the Form 10-K and Other Matters herein.

Executive Summary.

Financial Information and Statistical Data (dollars in millions, except where noted and per share amounts).

	Three Months Ended March 31,	
	2013	**2012**
Net revenues:		
Institutional Securities(1)	$ 4,089	$ 3,135
Global Wealth Management Group(1)	3,470	3,291
Asset Management	645	533
Intersegment Eliminations	(46)	(35)
Consolidated net revenues	$ 8,158	$ 6,924
Net income	$ 1,231	$ 134
Net income applicable to redeemable noncontrolling interests(2)	122	
Net income applicable to nonredeemable noncontrolling interests(2)	147	228
Net income (loss) applicable to Morgan Stanley	$ 962	$ (94)
Income (loss) from continuing operations applicable to Morgan Stanley:		
Institutional Securities(1)	$ 641	$ (302)
Global Wealth Management Group(1)	256	198
Asset Management	84	25
Intersegment Eliminations		
Income (loss) from continuing operations applicable to Morgan Stanley	$ 981	$ (79)
Amounts applicable to Morgan Stanley:		
Income (loss) from continuing operations applicable to Morgan Stanley	$ 981	$ (79)
Net gain (loss) from discontinued operations applicable to Morgan Stanley(3)	(19)	(15)
Net income (loss) applicable to Morgan Stanley	$ 962	$ (94)
Earnings (loss) applicable to Morgan Stanley common shareholders	$ 936	$ (119)
Earnings (loss) per basic common share:		
Income (loss) from continuing operations	$ 0.50	$ (0.05)
Net gain (loss) from discontinued operations(3)	(0.01)	(0.01)
Earnings (loss) per basic common share(4)	$ 0.49	$ (0.06)
Earnings (loss) per diluted common share:		
Income (loss) from continuing operations	$ 0.49	$ (0.05)
Net gain (loss) from discontinued operations(3)	(0.01)	(0.01)

Earnings (loss) per diluted common share(4)	$ 0.48	$ (0.06)
Regional net revenues:		
Americas	$ 5,956	$ 4,784
Europe, Middle East and Africa	1,066	1,149
Asia	1,136	991
Net revenues	$ 8,158	$ 6,924

Financial Information and Statistical Data (dollars in millions, except where noted and per share amounts) (Continued).

	Three Months Ended March 31,	
	2013	2012
Average common equity (dollars in billions):		
Institutional Securities	$ 39.9	$ 29.5
Global Wealth Management Group	13.4	13.3
Asset Management	2.8	2.5
Parent capital	4.8	15.2
Consolidated average common equity	$ 60.9	$ 60.5
Return on average common equity(5):		
Institutional Securities	6%	N/M
Global Wealth Management Group	8%	6%
Asset Management	12%	4%
Consolidated	6%	N/M
Book value per common share(6)	$ 31.21	$ 30.74
Tangible common equity(7)	$ 53,687	$ 54,156
Return on average tangible common equity(8)	7.2%	N/M
Tangible book value per common share(9)	$ 27.38	$ 27.37
Effective income tax rate from continuing operations(10)	21.0%	26.7%
Worldwide employees at March 31, 2013 and 2012	55,289	59,200
Global liquidity reserve held by the bank and non-bank legal entities at March 31, 2013 and 2012 (dollars in billions)(11)	$ 186	$ 179
Average global liquidity reserve (dollars in billions)(11)		
Bank legal entities	$ 69	$ 63
Non-bank legal entities	118	115
Total global liquidity reserve	$ 187	$ 178
Long-term borrowings at March 31, 2013 and 2012	$ 165,142	$ 176,723
Maturities of long-term borrowings outstanding at March 31, 2013 and 2012 (next 12 months)	$ 22,138	$ 29,458
Capital ratios at March 31, 2013 and 2012:		
Total capital ratio(12)	14.5%	18.1%
Tier 1 common capital ratio(12)	11.5%	13.3%
Tier 1 capital ratio(12)	13.9%	16.9%
Tier 1 leverage ratio	7.0%	7.0%
Consolidated assets under management or supervision at March 31, 2013 and 2012 (dollars in billions)(13):		
Asset Management(14)	$ 341	$ 304
Global Wealth Management Group(1)(15)	618	517
Total	$ 959	$ 821

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Financial Information and Statistical Data (dollars in millions, except where noted and per share amounts) (Continued).

	Three Months Ended March 31,	
	2013	2012
Institutional Securities(1):		
Pre-tax profit margin(16)	20%	N/M
Global Wealth Management Group(1)(15):		
Global representatives at March 31, 2013 and 2012(17)	16,284	16,726
Annualized revenues per global representative (dollars in thousands)(18)	$ 851	$ 780
Assets by client segment at March 31, 2013 and 2012 (dollars in billions):		
$10 million or more	$ 604	$ 543
$1 million to $10 million	730	712
Subtotal $1 million or more	1,334	1,255
$100,000 to $1 million	416	373
Less than $100,000	44	39
Total client assets	$ 1,794	$ 1,667
Fee-based client assets as a percentage of total client assets(19)	35%	31%
Client assets per global representative(20)	$ 110	$ 100
Fee-based client asset flows (dollars in billions)(21)	$ 15.3	$ 10.2
Bank deposits at March 31, 2013 and 2012 (dollars in billions)(22)	$ 126	$ 112
Global retail locations at March 31, 2013 and 2012	691	725
Pre-tax profit margin(16)	17%	12%
Asset Management:		
Pre-tax profit margin(16)	29%	24%
Selected management financial measures, excluding DVA(23):		
Net revenues, excluding DVA(23)	$ 8,475	$ 8,902
Income from continuing operations applicable to Morgan Stanley, excluding DVA(23)	$ 1,182	$ 1,375
Income per diluted common share from continuing operations, excluding DVA(23)	$ 0.59	$ 0.71
Return on common equity from continuing operations, excluding DVA(5)	7.5%	9.2%
Return on tangible common equity from continuing operations, excluding DVA(8)	8.5%	10.3%

N/M Not Meaningful.

DVA Debt Valuation Adjustment represents the change in the fair value of certain of the Company s long-term and short-term borrowings resulting from the fluctuation in the Company s credit spreads and other credit factors.

(1) On January 1, 2013, the International Wealth Management business was transferred from the Global Wealth Management Group business segment to the Equity Division within the Institutional Securities business segment. Accordingly, all results and statistical data have been recast for all periods to reflect the International Wealth Management business as part of the Institutional Securities business segment.
(2) See Notes 2, 3 and 14 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10-K and Notes 3 and 14 to the condensed consolidated financial statements for information on redeemable and nonredeemable noncontrolling interests.
(3) See Notes 1 and 21 to the condensed consolidated financial statements for information on discontinued operations.
(4) For the calculation of basic and diluted earnings per share (EPS), see Note 15 to the condensed consolidated financial statements.
(5) The calculation of each business segment s return on average common equity uses income from continuing operations applicable to Morgan Stanley less preferred dividends as a percentage of each business segment s average common equity. The return on average common equity is a non-generally accepted accounting principle (non-GAAP) financial measure that the Company considers to be a useful measure to the Company and investors to assess operating performance. The computation of average common equity for each business segment is determined using the Company s Required Capital framework (Required Capital Framework), an internal capital adequacy measure (see Liquidity and Capital Resources Regulatory Requirements Required Capital herein). The effective tax rates used in the computation of business segment return on average common equity were determined on a separate legal entity basis. To determine the return on average common equity, excluding the impact of DVA, both the numerator and the denominator were adjusted to exclude the impact

of DVA. The impact of DVA for the quarters ended March 31, 2013 and 2012 was 1.2% and 9.9%, respectively.

(6) Book value per common share equals common shareholders equity of $61,196 million at March 31, 2013 and $60,816 million at March 31, 2012 divided by common shares outstanding of 1,961 million at March 31, 2013 and 1,978 million at March 31, 2012.

(7) Tangible common equity is a non-GAAP financial measure that the Company considers to be a useful measure that the Company and investors use to assess capital adequacy. For a discussion of tangible common equity, see Liquidity and Capital Resources The Balance Sheet herein.
(8) Return on average tangible common equity is a non-GAAP financial measure that the Company considers to be a useful measure that the Company and investors use to assess capital adequacy. The calculation of return on average tangible common equity uses income from continuing operations applicable to Morgan Stanley less preferred dividends as a percentage of average tangible common equity. To determine the return on average tangible common equity, excluding the impact of DVA, both the numerator and the denominator were adjusted to exclude the impact of DVA. The impact of DVA for the quarters ended March 31, 2013 and 2012 was 1.3% and 11.1%, respectively.
(9) Tangible book value per common share is a non-GAAP financial measure that the Company considers to be a useful measure that the Company and investors use to assess capital adequacy. Tangible book value per common share equals tangible common equity divided by period-end common shares outstanding.
(10) For a discussion of the effective income tax rate, see Overview of the Quarter Ended March 31, 2013 Financial Results and Significant Items Income Tax Items herein.
(11) For a discussion of Global Liquidity Reserve and average liquidity, see Liquidity and Capital Resources Liquidity Risk Management Framework Global Liquidity Reserve herein.
(12) The Company calculates its Tier 1 capital ratio and risk-weighted assets (RWAs) in accordance with the capital adequacy standards for financial holding companies adopted by the Federal Reserve Board. These standards are based upon a framework described in the International Convergence of Capital Measurement and Capital Standards, July 1988, as amended, also referred to as Basel I. On January 1, 2013, the U.S. banking regulators rules to implement the Basel Committee s market risk capital framework amendment, commonly referred to as Basel 2.5 , became effective, which increased the capital requirements for securitizations and correlation trading within the Company's trading book, as well as incorporated add-ons for stressed VaR and incremental risk requirements (market risk capital framework amendment). The Company s Tier 1 capital ratio and RWAs for the current quarter were calculated under this revised framework. The Company s Tier 1 capital ratio and RWAs for prior quarters have not been recalculated under this revised framework. For a discussion of Total capital ratio, Tier 1 capital ratio and Tier 1 common capital ratio, see Liquidity and Capital Resources Regulatory Requirements" herein.
(13) Revenues and expenses associated with these assets are included in the Company s Global Wealth Management Group and Asset Management business segments.
(14) Amounts exclude the Asset Management business segment s proportionate share of assets managed by entities in which it owns a minority stake.
(15) Prior-period amounts have been recast to exclude Quilter & Co. Ltd. (Quilter). See Notes 1 and 21 to the condensed consolidated financial statements for information on discontinued operations.
(16) Pre-tax profit margin is a non-GAAP financial measure that the Company considers to be a useful measure that the Company and investors use to assess operating performance. Percentages represent income from continuing operations before income taxes as a percentage of net revenues.
(17) For the quarters ended March 31, 2013 and 2012, global representatives for the Company are 16,703 and 17,193, which include approximately 419 and 467 representatives associated with the International Wealth Management business reported in the Institutional Securities business segment, respectively.
(18) Annualized revenues per global representative for the quarters ended March 31, 2013 and 2012 equal Global Wealth Management Group business segment s annualized revenues divided by the average global representative headcount for the quarters ended March 31, 2013 and 2012, respectively.
(19) Fee-based client assets represent the amount of assets in client accounts where the basis of payment for services is a fee calculated on those assets. Effective for the quarter ended March 31, 2013, client assets also include certain additional non-custodied assets as a result of the completion of the Morgan Stanley Wealth Management platform conversion.
(20) Client assets per global representative equal total period-end client assets divided by period-end global representative headcount.
(21) Beginning January 1, 2013, the Company enhanced its definition of fee-based asset flows. Fee-based asset flows have been recast for all periods to include dividends, interest and client fees, and to exclude cash management related activity.
(22) Approximately $69 billion and $57 billion of the bank deposit balances at March 31, 2013 and 2012, respectively, are held at Company-affiliated depositories with the remainder held at Citigroup, Inc. (Citi) affiliated depositories. These deposit balances are held at certain of the Company s Federal Deposit Insurance Corporation (the FDIC) insured depository institutions for the benefit of the Company s clients through their accounts. For additional information regarding the Company s deposits, see Liquidity and Capital Resources Funding Management Deposits herein.
(23) From time to time, the Company may disclose certain non-GAAP financial measures in the course of its earnings releases, earnings conference calls, financial presentations and otherwise. For these purposes, GAAP refers to generally accepted accounting principles in the United States. The Securities and Exchange Commission (SEC) defines a non-GAAP financial measure as a numerical measure of historical or future financial performance, financial positions, or cash flows that excludes or includes amounts or is subject to adjustments that effectively exclude, or include, amounts from the most directly comparable measure calculated and presented in accordance with GAAP. Non-GAAP financial measures disclosed by the Company are provided as additional information to investors in order to provide them with further transparency about, or an alternative method for assessing, our financial condition and operating results. These measures are not in accordance with, or a substitute for, GAAP, and may be different from or inconsistent with non-GAAP financial measures used by other companies. Whenever the Company refers to a non-GAAP financial measure, the Company will also

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generally present the most directly comparable financial measure calculated and presented in accordance with GAAP, along with a reconciliation of the differences between the non-GAAP financial measure and the GAAP financial measure.

	Three Months Ended March 31,	
	2013	2012
Reconciliation of Selected Management Financial Measures from a Non-GAAP to a GAAP Basis (dollars in millions, except per share amounts):		
Net revenues		
Net revenues Non-GAAP	$ 8,475	$ 8,902
Impact of DVA	(317)	(1,978)
Net revenues GAAP	$ 8,158	$ 6,924
Income (loss) from continuing operations applicable to Morgan Stanley		
Income applicable to Morgan Stanley Non-GAAP	$ 1,182	$ 1,375
Impact of DVA	(201)	(1,454)
Income (loss) applicable to Morgan Stanley GAAP	$ 981	$ (79)
Earnings (loss) per diluted common share		
Income per diluted common share from continuing operations Non-GAAP	$ 0.59	$ 0.71
Impact of DVA	(0.10)	(0.76)
Income (loss) per diluted common share from continuing operations GAAP	$ 0.49	$ (0.05)
Average diluted shares Non-GAAP (in millions)	1,940	1,903
Impact of DVA (in millions)		(26)
Average diluted shares GAAP (in millions)	1,940	1,877

Global Market and Economic Conditions.

During the first quarter of 2013, global market and economic conditions improved modestly from 2012 year-end. The U.S. economy continued to grow moderately despite payroll and income tax increases that were implemented in January, though there were indications of slowing in March and April. Europe remained in recession, but market strains associated with the European financial crisis continued to ease after temporary concerns raised by election results in Italy and developments in Cyprus. Despite these improvements, global market and economic conditions in the first quarter of 2013 continued to be challenged by concerns about the ongoing European sovereign debt crisis, the need to raise the U.S. federal debt ceiling and reduce government spending, and slowing economic growth in emerging markets.

In the U.S., major equity market indices ended the first quarter of 2013 higher compared with the beginning of the year, primarily due to improved investor confidence after concerns about the fiscal cliff (*i.e.*, the combination of expiring tax cuts and spending cuts on or after January 1, 2013) dissipated. Expectations for an extended period of accommodative monetary policy also supported market sentiment. The U.S. economy continued its moderate growth pace in the first quarter of 2013, although after a more robust start to the year, growth in economic activity slowed in March as higher payroll and income taxes began to weigh on consumer spending, the sequestration (*i.e.*, the $85 billion in automatic across-the-board government budget cuts) started on March 1, 2013, and softening global demand impacted exporters. A shrinking labor force helped push the unemployment rate down to 7.6% in March of 2013 from 7.8% at 2012 year-end. Residential real estate markets strengthened, and home prices rose amid falling inventories across much of the country during the first quarter of 2013, but investments in commercial real estate projects remained challenged. Consumer spending improved during the first quarter of 2013 despite lower after-tax household income, but business investment spending growth moderated. Energy price volatility boosted consumer price inflation early in the year, but underlying inflation excluding food and energy slowed to near historical lows. Oil prices declined over the course of the first quarter of 2013 driven by concerns about the global economy. The Federal Open Market Committee (FOMC) of the Board of Governors of the Federal Reserve System (the Federal Reserve) kept key interest rates at historically low levels. On March 31, 2013, the federal funds target rate remained at 0.0% to 0.25%, and the discount rate at 0.75%. In March of 2013, the FOMC decided to continue purchasing U.S. Treasury securities and agency mortgage-backed securities until the job market improves substantially and also continued to anticipate that key interest rates will remain exceptionally low until the unemployment rate falls to 6.5% or lower, as long as medium-term inflation expectations remain below 2.5%.

In Europe, major equity market indices ended the first quarter of 2013 higher compared with the beginning of the year, primarily due to investors optimism about Europe s progress in addressing its sovereign debt crisis despite the new concerns ignited by the financial distress in Cyprus at the end of the first quarter of 2013. In the euro-area, the unemployment rate increased to a record 12.1% in March 2013 from 11.7% at 2012 year-end. At March 31, 2013, the European Central Bank s (ECB) benchmark interest rate was 0.75% and the Bank of England s (BOE) benchmark interest rate was 0.5%, both of which were unchanged from December 31, 2012. To stimulate economic activity in Europe, in early May 2013, the ECB lowered the benchmark interest rate from 0.75% to 0.5% and kept open its special liquidity facilities until at least the middle of 2014.

Major equity market indices in Asia, except for the indices in China and India, ended the first quarter of 2013 higher compared with the beginning of the year. Japan s economy stabilized in the first quarter of 2013. To revive its economy and overcome deflation, the Japanese government approved a $116 billion economic stimulus package in January of 2013 and the Bank of Japan announced a new monetary easing plan in April of 2013 to double the monetary base over two years mainly through the aggressive purchase of long-term government bonds. Japan s benchmark interest rate remained within a range of zero to 0.1% in the first quarter of 2013. China s gross domestic product growth slowed during the first quarter of 2013 as export and domestic spending weakened, raising concerns that a recovery in China s economy is losing momentum.

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Overview of the Quarter Ended March 31, 2013 Financial Results.

Consolidated Results. The Company recorded net income applicable to Morgan Stanley of $962 million on net revenues of $8,158 million during the quarter ended March 31, 2013 (current quarter) compared with a net loss applicable to Morgan Stanley of $94 million on net revenues of $6,924 million during the quarter ended March 31, 2012 (prior year quarter).

Net revenues in the current quarter included negative revenues due to the impact of DVA of $317 million compared with negative revenues of $1,978 million in the prior year quarter. Non-interest expenses decreased 2% to $6,576 million in the current quarter compared with $6,722 million in the prior year quarter. Compensation expenses decreased 5% to $4,216 million in the current quarter compared with $4,430 million in the prior year quarter. Non-compensation expenses increased 3% to $2,360 million in the current quarter compared with $2,292 in the prior year quarter.

Earnings per diluted common share (diluted EPS) and diluted EPS from continuing operations were $0.48 and $0.49 in the current quarter, respectively, compared with $(0.06) and $(0.05), respectively, in the prior year quarter.

Excluding the impact of DVA, net revenues were $8,475 million and diluted EPS from continuing operations were $0.59 per share in the current quarter, compared with $8,902 million and $0.71 per share, respectively, in the prior year quarter.

The Company s effective tax rate from continuing operations was 21.0% and 26.7% for the quarters ended March 31, 2013 and 2012, respectively. The results for the quarter ended March 31, 2013 included a discrete net tax benefit of $142 million, or $(0.07) per diluted share, due to the retroactive effective date of the American Taxpayer Relief Act of 2012 (the Relief Act) and remeasurement of reserves and related interest based on new information regarding the status of certain tax authority examinations. Excluding these discrete net tax benefits, the annual effective tax rate in the quarter ended March 31, 2013 would have been 30.0%. The increase in the effective tax rate is primarily reflective of the geographic mix of earnings. For further discussion of the discrete net tax benefit, see Executive Summary Significant Items Income tax items herein.

Discontinued operations were a gain (loss) of $(30) million and $28 million in the quarters ended March 31, 2013 and 2012, respectively.

Institutional Securities. Income from continuing operations before taxes was $798 million in the current quarter compared with a loss from continuing operations before taxes of $329 million in the prior year quarter. Net revenues for the current quarter were $4,089 million compared with $3,135 million in the prior year quarter. The results in the current quarter included negative revenues due to the impact of DVA of $317 million compared with negative revenues of $1,978 million in the prior year quarter. Investment banking revenues for the current quarter increased 11% to $945 million from the prior year quarter, reflecting higher revenues from equity and fixed income underwriting transactions, partially offset by lower revenues from advisory transactions. The following sales and trading net revenues results exclude the impact of DVA. The presentation of net revenues excluding the impact of DVA is a non-GAAP financial measure that the Company considers useful for the Company and investors to allow further comparability of period-to-period operating performance. See Business Segments Institutional Securities Sales and Trading Net Revenues for more information. Equity sales and trading net revenues, excluding the impact of DVA, of $1,594 million decreased 19% from the prior year quarter, reflecting lower revenues in the derivatives business, as a result of lower market volumes, partially offset by higher revenues in the prime brokerage business. Excluding the impact of DVA, fixed income and commodities sales and trading net revenues were $1,515 million in the current quarter, a decrease of 42% from the prior year quarter, primarily reflecting lower results in interest rates and commodities. Other sales and trading net revenues were $73 million in the current quarter compared with net losses of $286 million in the prior year quarter, primarily due to net gains associated with loans and lending commitments and losses on economic hedges related

to the Company s long-term debt and negative carry. Other revenues of $137 million were recognized in the current quarter compared with other revenues of $51 million in the prior year quarter. The results included income arising from the Company s 40% stake in Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (MUMSS) (see Executive Summary Significant Items Japanese Securities Joint Venture herein), partially offset by an increase in the provision for loan losses. Non-interest expenses decreased 5% to $3,291 million in the current quarter, primarily due to lower compensation expenses, partially offset by higher non-compensation expenses. Compensation and benefits expenses in the current quarter were $1,892 million compared with $2,203 million in the prior year quarter, due to lower headcount. Non-compensation expenses were $1,399 million compared with $1,261 million in the prior year quarter.

Global Wealth Management Group. Income from continuing operations before taxes was $597 million in the current quarter compared with $403 million in the prior year quarter. Net revenues were $3,470 million in the current quarter compared with $3,291 million in the prior year quarter. Transactional revenues, consisting of Commissions and fees, Trading and Investment banking increased 2% to $1,131 million from the prior year quarter. Trading revenues decreased 11% to $298 million in the current quarter from the prior year quarter, primarily due to lower gains related to positions associated with certain employee deferred compensation plans and lower revenues from municipal securities, corporate equity securities, foreign exchange transactions, government securities and structured notes. Commissions and fees revenues decreased 2% to $559 million in the current quarter from the prior year quarter, primarily due to lower client activity. Investment banking revenues increased 34% to $274 million in the current quarter from the prior year quarter, primarily due to higher revenues from closed-end funds. Asset management, distribution and administration fees increased 8% to $1,858 million in the current quarter from the prior year quarter, primarily due to higher fee-based revenues. Net interest increased 3% to $413 million in the current quarter from the prior year quarter, primarily resulting from higher revenues from the bank deposit program, partially offset by lower interest on the available for sale portfolio. Total client asset balances were $1,794 billion at March 31, 2013 and client assets in fee-based accounts were $621 billion, or 35% of total client assets. Fee-based client asset flows for the current quarter were $15.3 billion compared with $10.2 billion in the prior year quarter. Prior period amounts have been recast to reflect the transfer of the International Wealth Management business from Global Wealth Management Group business segment to the Institutional Securities Group business segment and for the Company s enhanced definition of fee-based asset flows (see Business Segments herein). Non-compensation expenses decreased 8% to $808 million in the quarter ended March 31, 2013 from the comparable period of 2012, partially driven by the absence of platform integration costs.

Asset Management. Income from continuing operations before taxes was $187 million in the current quarter compared with $128 million in the prior year quarter. Net revenues were $645 million in the current quarter compared with $533 million in the prior year quarter. The increase in net revenues reflected higher results in the Traditional Asset Management business and higher net gains in the Company s Merchant Banking business. Non-interest expenses were $458 million in the current quarter compared with $405 million in the prior year quarter. Compensation and benefits expenses increased 19% to $259 million in the current quarter, primarily due to higher net revenues. Non-compensation expenses increased 6% to $199 million in the current quarter, primarily due to higher brokerage and clearing expenses.

Significant Items.

Severance costs. In the quarter ended March 31, 2013 and 2012, the Company incurred severance costs of approximately $132 million and $138 million, respectively, associated with reduction in force events which are included in Compensation and benefits expenses in the condensed consolidated statement of income.

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Corporate Lending. The Company recorded the following amounts primarily associated with loans and lending commitments within the Institutional Securities business segment (see Business Segments Institutional Securities herein):

	Three Months Ended March 31,	
	2013	2012
	(dollars in millions)	
Other sales and trading:		
Gains on loans and lending commitments and Net interest	$ 254	$ 785
Losses on hedges	(49)	(637)
Total Other sales and trading revenues	$ 205	$ 148
Other revenues:		
Provision for loan losses(1)	$ (28)	$ (8)
Gains (losses) on loans held for sale	8	(6)
Total Other revenues	$ (20)	$ (14)
Other expenses: Provision for unfunded commitments	(12)	6
Total	$ 173	$ 140

(1) The increase for the quarter ended March 31, 2013 was primarily driven by increased growth in the held for investment portfolio at March 31, 2013 as compared to March 31, 2012.

Income Tax Items. The Company s effective tax rate from continuing operations for the quarter ended March 31, 2013 included a discrete tax benefit of $81 million due to the retroactive effective date of the Relief Act. The Relief Act that was enacted on January 2, 2013, among other things, extended with retroactive effect to January 1, 2012 a provision of U.S. tax law that defers the imposition of tax on certain active financial services income of certain foreign subsidiaries earned outside of the U.S. until such income is repatriated to the U.S. as a dividend. Additionally, the Company s effective tax rate from continuing operations for the quarter ended March 31, 2013 included a discrete net tax benefit of $61 million associated with remeasurement of reserves and related interest based on new information regarding the status of certain tax authority examinations.

Japanese Securities Joint Venture. During the quarters ended March 31, 2013 and 2012, the Company recorded income of $125 million and $27 million, respectively, within Other revenues in the condensed consolidated statements of income, arising from the Company s 40% stake in MUMSS. Net income applicable to nonredeemable noncontrolling interests associated with MUFG s interest in Morgan Stanley MUFG Securities Co., Ltd. (MSMS) was $90 million and $81 million for the quarters ended March 31, 2013 and 2012, respectively (see Note 20 to the condensed consolidated financial statements).

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Business Segments.

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

As a result of treating certain intersegment transactions as transactions with external parties, the Company includes an Intersegment Eliminations category to reconcile the business segment results to the Company s consolidated results. Intersegment Eliminations also reflect the effect of fees paid by the Institutional Securities business segment to the Global Wealth Management Group business segment related to the bank deposit program. The Company did not recognize any Intersegment Elimination gains or losses in the quarters ended March 31, 2013 and March 31, 2012.

On January 1, 2013, the International Wealth Management business was transferred from the Global Wealth Management Group business segment to the Equity Division within the Institutional Securities business segment. Accordingly, all results and statistical data have been recast for all periods to reflect the International Wealth Management business as part of the Institutional Securities business segment.

***Net Revenues*.**

Trading. Trading revenues include revenues from customers purchases and sales of financial instruments in which the Company acts as a market maker and gains and losses on the Company s related positions. Trading revenues include the realized gains and losses from sales of cash instruments and derivative settlements, unrealized gains and losses from ongoing fair value changes of the Company s positions related to market-making activities, and gains and losses related to investments associated with certain employee deferred compensation plans. In many markets, the realized and unrealized gains and losses from the purchase and sale transactions will include any spreads between bids and offers. Certain fees received on loans carried at fair value and dividends from equity securities are also recorded in this line item since they relate to market-making positions. Commissions received for purchasing and selling listed equity securities and options are recorded separately in the Commissions and fees line item. Other cash and derivative instruments typically do not have fees associated with them, and fees for related services would be recorded in Commissions and fees.

The Company often invests directly, as a principal, in investments or other financial instruments to economically hedge its obligations under its deferred compensation plans. Changes in value of such investments made by the Company are recorded in Trading revenues and Investments revenues. Expenses associated with the related deferred compensation plans are recorded in Compensation and benefits. Compensation expense is calculated based on the notional value of the award granted, adjusted for upward and downward changes in fair value of the referenced investment and is recognized ratably over the prescribed vesting period for the award. Generally, changes in compensation expense resulting from changes in fair value of the referenced investment will be offset by changes in fair value of investments made by the Company. However, there may be a timing difference between the immediate revenue recognition of gains and losses on the Company s investments and the deferred recognition of the related compensation expense over the vesting period.

As a market maker, the Company stands ready to buy, sell or otherwise transact with customers under a variety of market conditions and provide firm or indicative prices in response to customer requests. The Company s liquidity obligations can be explicit and obligatory in some cases, and in others, customers expect the Company to be willing to transact with them. In order to most effectively fulfill its market-making function, the Company engages in activities, across all of its trading businesses, that include, but are not limited to: (i) taking positions in anticipation of, and in response to, customer demand to buy or sell and depending on the liquidity of the relevant market and the size of the position holding those positions for a period of time; (ii) managing and assuming basis risk (risk associated with imperfect hedging) between customized customer risks and the standardized products available in the market to hedge those risks; (iii) building, maintaining and rebalancing

inventory, through trades with other market participants, and engaging in accumulation activities to accommodate anticipated customer demand; (iv) trading in the market to remain current on pricing and trends; and (v) engaging in other activities to provide efficiency and liquidity for markets. Interest income and expense are also impacted by market-making activities as debt securities held by the Company earn interest and securities are loaned, borrowed, sold with agreement to repurchase and purchased with agreement to resell.

Investments. The Company s investments generally are held for long-term appreciation and generally are subject to significant sales restrictions. Estimates of the fair value of the investments may involve significant judgment and may fluctuate significantly over time in light of business, market, economic and financial conditions generally or in relation to specific transactions. In some cases, such investments are required or are a necessary part of offering other products. The revenues recorded are the result of realized gains and losses from sales and unrealized gains and losses from ongoing fair value changes of the Company s holdings as well as from investments associated with certain employee deferred compensation plans (as mentioned in the paragraph above). Typically, there are no fee revenues from these investments. The sales restrictions on the investments relate primarily to redemption and withdrawal restrictions on investments in real estate funds, hedge funds and private equity funds, which include investments made in connection with certain employee deferred compensation plans (see Note 4 to the condensed consolidated financial statements). Restrictions on interests in exchanges and clearinghouses generally include a requirement to hold those interests for the period of time that the Company is clearing trades on that exchange or clearinghouse. Additionally, there are certain investments related to assets held by consolidated real estate funds, which are primarily related to holders of noncontrolling interests.

Commissions and Fees. Commission and fee revenues primarily arise from agency transactions in listed and over-the-counter (OTC) equity securities, services related to sales and trading activities, and sales of mutual funds, futures, insurance products and options.

Asset Management, Distribution and Administration Fees. Asset management, distribution and administration fees include fees associated with the management and supervision of assets, account services and administration, performance-based fees relating to certain funds, separately managed accounts, shareholder servicing and the distribution of certain open-ended mutual funds.

Asset management, distribution and administration fees in the Global Wealth Management Group business segment also include revenues from individual investors electing a fee-based pricing arrangement and fees for investment management. Mutual fund distribution fees in the Global Wealth Management Group business segment are based on either the average daily fund net asset balances or average daily aggregate net fund sales and are affected by changes in the overall level and mix of assets under management or supervision.

Asset management fees in the Asset Management business segment arise from investment management services the Company provides to investment vehicles pursuant to various contractual arrangements. The Company receives fees primarily based upon mutual fund daily average net assets or based on monthly or quarterly invested equity for other vehicles. Performance-based fees in the Asset Management business segment are earned on certain funds as a percentage of appreciation earned by those funds and, in certain cases, are based upon the achievement of performance criteria. These fees are normally earned annually and are recognized on a monthly or quarterly basis.

Net Interest. Interest income and Interest expense are a function of the level and mix of total assets and liabilities, including trading assets and trading liabilities, securities available for sale, securities borrowed or purchased under agreements to resell, securities loaned or sold under agreements to repurchase, loans, deposits, commercial paper and other short-term borrowings, long-term borrowings, trading strategies, customer activity in the Company s prime brokerage business, and the prevailing level, term structure and volatility of interest rates. Certain Securities purchased under agreements to resell (reverse repurchase agreements) and Securities sold under agreements to repurchase (repurchase agreements) and Securities borrowed and Securities loaned transactions may be entered into with different customers using the same underlying securities, thereby generating a spread between the interest revenue on the reverse repurchase agreements or securities borrowed transactions and the interest expense on the repurchase agreements or securities loaned transactions.

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INSTITUTIONAL SECURITIES

INCOME STATEMENT INFORMATION

	Three Months Ended March 31,	
	2013	**2012(1)**
	(dollars in millions)	
Revenues:		
Investment banking	$ 945	$ 851
Trading	2,414	2,075
Investments	142	(49)
Commissions and fees	609	606
Asset management, distribution and administration fees	66	52
Other	137	51
Total non-interest revenues	4,313	3,586
Interest income	1,024	1,177
Interest expense	1,248	1,628
Net interest	(224)	(451)
Net revenues	4,089	3,135
Compensation and benefits	1,892	2,203
Non-compensation expenses	1,399	1,261
Total non-interest expenses	3,291	3,464
Income (loss) from continuing operations before income taxes	798	(329)
Provision for (benefit from) income taxes	60	(106)
Income (loss) from continuing operations	738	(223)
Discontinued operations:		
Gain (loss) from discontinued operations	(30)	25
Provision for (benefit from) income taxes	(11)	41
Net gains (losses) on discontinued operations	(19)	(16)
Net income (loss)	719	(239)
Net income applicable to redeemable noncontrolling interests	1	
Net income applicable to nonredeemable noncontrolling interests	96	79
Net income (loss) applicable to Morgan Stanley	$ 622	$ (318)
Amounts applicable to Morgan Stanley:		
Income (loss) from continuing operations	$ 641	$ (302)
Net gains (losses) from discontinued operations	(19)	(16)
Net income (loss) applicable to Morgan Stanley	$ 622	$ (318)

(1) Prior period amounts have been recast to reflect the transfer of the International Wealth Management business from the Global Wealth Management Group business segment to the Institutional Securities business segment.

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Investment Banking. Investment banking revenues were as follows:

	Three Months Ended March 31,	
	2013	2012
	(dollars in millions)	
Advisory revenues	$ 251	$ 313
Underwriting revenues:		
Equity underwriting revenues	283	172
Fixed income underwriting revenues	411	366
Total underwriting revenues	694	538
Total investment banking revenues	$ 945	$ 851

The following table presents the Company s volumes of announced and completed mergers and acquisitions, equity and equity-related offerings, and fixed income offerings:

	Three Months Ended March 31,	
	2013(1)	2012(1)
	(dollars in billions)	
Announced mergers and acquisitions(2)	$ 99	$ 100
Completed mergers and acquisitions(2)	193	76
Equity and equity-related offerings(3)	14	12
Fixed income offerings(4)	70	72

(1) Source: Thomson Reuters, data at April 16, 2013. Announced and completed mergers and acquisitions volumes are based on full credit to each of the advisors in a transaction. Equity and equity-related offerings and fixed income offerings are based on full credit for single book managers and equal credit for joint book managers. Transaction volumes may not be indicative of net revenues in a given period. In addition, transaction volumes for prior periods may vary from amounts previously reported due to the subsequent withdrawal or change in the value of a transaction.
(2) Amounts include transactions of $100 million or more. Announced mergers and acquisitions exclude terminated transactions.
(3) Amounts include Rule 144A and public common stock, convertible and rights offerings.
(4) Amounts include non-convertible preferred stock, mortgage-backed and asset-backed securities and taxable municipal debt. Amounts also include publicly registered and Rule 144A issues. Amounts exclude leveraged loans and self-led issuances.

Investment banking revenues for the quarter ended March 31, 2013 increased 11% from the comparable period in 2012, reflecting higher revenues from equity and fixed income underwriting transactions, partially offset by lower revenues from advisory transactions. Overall, underwriting revenues of $694 million increased 29% from the quarter ended March 31, 2012. Equity underwriting revenues increased 65% to $283 million in the quarter ended March 31, 2013, reflecting higher market volumes. Fixed income underwriting revenues were $411 million in the quarter ended March 31, 2013, an increase of 12% from the comparable period of 2012, reflecting a favorable debt underwriting environment. Advisory revenues from merger, acquisition and restructuring transactions were $251 million in the quarter ended March 31, 2013, a decrease of 20% from the comparable period of 2012, reflecting reduced transaction volume and delayed timing around transaction closings.

Sales and Trading Net Revenues. Sales and trading net revenues are composed of Trading revenues; Commissions and fees; Asset management, distribution and administration fees; and Net interest revenues (expenses). See Business Segments Net Revenues herein for further information about what is included in the above-referenced components of sales and trading revenues. In assessing the profitability of its sales and trading activities, the Company views these net revenues in the aggregate. In addition, decisions relating to trading are based on an overall review of aggregate revenues and costs associated with each transaction or series of transactions. This review includes, among other things, an assessment of the potential gain or loss associated with a transaction, including any associated commissions and fees, dividends, the interest income or expense

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associated with financing or hedging the Company s positions, and other related expenses. See Note 11 to the condensed consolidated financial statements for further information related to gains (losses) on derivative instruments.

Sales and trading net revenues were as follows:

	Three Months Ended March 31,	
	2013	2012(1)
	(dollars in millions)	
Trading	$ 2,414	$ 2,075
Commissions and fees	609	606
Asset management, distribution and administration fees	66	52
Net interest	(224)	(451)
Total sales and trading net revenues	$ 2,865	$ 2,282

(1) All prior period amounts have been recast to conform to the current year s presentation. For further information, see Business Segments herein and Notes 1 and 21 to the condensed consolidated financial statements.

Total sales and trading net revenues increased to $2,865 million in the quarter ended March 31, 2013 from $2,282 million in the quarter ended March 31, 2012, reflecting higher revenues in fixed income and commodities sales and trading net revenues, partially offset by lower revenues in equity sales and trading net revenues. The results in the quarter ended March 31, 2013 also included gains in other sales and trading net revenues compared with losses in other sales and trading net revenues in the prior year period.

Sales and trading net revenues by business were as follows:

	Three Months Ended March 31,	
	2013	2012(1)
	(dollars in millions)	
Equity	$ 1,515	$ 1,575
Fixed income and commodities	1,277	993
Other(2)	73	(286)
Total sales and trading net revenues	$ 2,865	$ 2,282

(1) All prior period amounts have been recast to conform to the current year s presentation. For further information, see Business Segments herein and Notes 1 and 21 to the condensed consolidated financial statements.

(2) Other sales and trading net revenues include net gains (losses) from certain loans and lending commitments and related hedges associated with the Company s lending activities, net gains (losses) on economic hedges related to the Company s long-term debt and net losses associated with costs related to negative carry.

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The following sales and trading net revenues results exclude the impact of DVA (see footnote 2 in the following table). The reconciliation of sales and trading, including equity sales and trading and fixed income and commodities sales and trading net revenues, from a non-GAAP to a GAAP basis is as follows:

	Three Months Ended March 31,	
	2013	2012(1)
	(dollars in millions)	
Total sales and trading net revenues non-GAAP(2)	$ 3,182	$ 4,260
Impact of DVA	(317)	(1,978)
Total sales and trading net revenues	$ 2,865	$ 2,282
Equity sales and trading net revenues non-GAAP(2)	$ 1,594	$ 1,956
Impact of DVA	(79)	(381)
Equity sales and trading net revenues	$ 1,515	$ 1,575
Fixed income and commodities sales and trading net revenues non-GAAP(2)	$ 1,515	$ 2,590
Impact of DVA	(238)	(1,597)
Fixed income and commodities sales and trading net revenues	$ 1,277	$ 993

(1) All prior period amounts have been recast to conform to the current year s presentation. For further information, see Business Segments herein and Notes 1 and 21 to the condensed consolidated financial statements.

(2) Sales and trading net revenues, including fixed income and commodities and equity sales and trading net revenues that exclude the impact of DVA, are non-GAAP financial measures that the Company considers useful for the Company and investors to allow further comparability of period-to-period operating performance.

Equity. Equity sales and trading net revenues decreased 4% to $1,515 million in the quarter ended March 31, 2013 from the comparable period in 2012. The results in equity sales and trading net revenues included negative revenue due to the impact of DVA of $79 million in the quarter ended March 31, 2013 compared with negative revenue of $381 million in the quarter ended March 31, 2012. Equity sales and trading net revenues, excluding the impact of DVA, in the quarter ended March 31, 2013 decreased 19% to $1,594 million over the comparable period in 2012, reflecting lower revenues in the derivatives business, as a result of lower market volumes, partially offset by higher revenues in the prime brokerage business.

In the quarter ended March 31, 2013, equity sales and trading net revenues also reflected gains of $17 million related to changes in the fair value of net derivative contracts attributable to the tightening of counterparties credit default swap (CDS) spreads and other factors compared with gains of $43 million in the quarter ended March 31, 2012. The Company also recorded losses of $9 million in the quarter ended March 31, 2013 related to changes in the fair value of net derivative contracts attributable to the tightening of the Company s CDS spreads and other factors compared with losses of $72 million in the quarter ended March 31, 2012 due to the tightening of such spreads and other factors. The gains and losses on CDS spreads and other factors include gains and losses on related hedging instruments.

Fixed Income and Commodities. Fixed income and commodities sales and trading net revenues increased 29% to $1,277 million in the quarter ended March 31, 2013 from $993 million in the quarter ended March 31, 2012. Results in the quarter ended March 31, 2013 included negative revenue of $238 million due to the impact of DVA, compared with negative revenue of $1,597 million in the quarter ended March 31, 2012 due to the impact of DVA. Fixed income product net revenues, excluding the impact of DVA, in the quarter ended March 31, 2013 decreased 32% over the comparable period in 2012, reflecting lower results in interest rates, partially offset by higher revenue levels in credit products. Commodity net revenues, excluding the impact of DVA, in the quarter ended March 31, 2013 decreased 77% over the comparable period in 2012, primarily due to lower levels of client activity, including in structured transactions.

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In the quarter ended March 31, 2013, fixed income and commodities sales and trading net revenues reflected net gains of $6 million related to changes in the fair value of net derivative contracts attributable to the tightening of counterparties CDS spreads and other factors compared with losses of $43 million in the quarter ended March 31, 2012, due to the widening of such spreads and other factors. The Company also recorded losses of $72 million in the quarter ended March 31, 2013 related to changes in the fair value of net derivative contracts attributable to the tightening of the Company s CDS spreads and other factors compared with gains of $96 million in the quarter ended March 31, 2012 due to the widening of such spreads and other factors. The gains and losses on CDS spreads and other factors include gains and losses on related hedging instruments.

Other. In addition to the equity and fixed income and commodities sales and trading net revenues discussed above, sales and trading net revenues included other trading revenues, consisting of certain activities associated with the Company s corporate lending activities, gains (losses) on economic hedges related to the Company s long-term debt and costs related to negative carry. The fair value measurement of corporate loans and lending commitments takes into account fee income that is considered an attribute of the contract. The valuation of these commitments could change in future periods depending on, among other things, the extent that they are renegotiated or repriced or if the associated acquisition transaction does not occur. Effective April 1, 2012, the Company began accounting for all new corporate loans and lending commitments as either held for investment or held for sale. This corporate lending portfolio has grown, and the Company expects this trend to continue. See Quantitative and Qualitative Disclosures about Market Risk Credit Risk in Part I, Item 3, herein.

Other sales and trading net revenues were $73 million in the quarter ended March 31, 2013 compared with net losses of $286 million in the quarter ended March 31, 2012. Results in the quarter ended March 31, 2013 included net gains of $205 million associated with corporate loans and lending commitments (realized and unrealized net gains and net interest income of $254 million and losses on related hedges of $49 million). Results in the prior year quarter were partially offset by net gains of $148 million associated with corporate loans and lending commitments (realized and unrealized net gains and net interest income of $785 million and losses on related hedges of $637 million). The results in both quarters also included losses on economic hedges related to the Company s long-term debt and negative carry.

Net Interest. Net interest expense decreased to $224 million in the quarter ended March 31, 2013 from net interest expense of $451 million in the quarter ended March 31, 2012, primarily due to lower interest costs associated with the Company s long-term borrowings.

Investments. Net investment gains of $142 million were recognized in the quarter ended March 31, 2013 compared with net investment losses of $49 million in the quarter ended March 31, 2012. The gains in the quarter ended March 31, 2013 primarily included mark-to-market gains on investments in real estate funds and net gains from investments associated with the Company s deferred compensation and co-investment plans. Results in the quarter ended March 31, 2012 primarily included mark-to-market losses on certain investments.

Other. Other revenues of $137 million were recognized in the quarter ended March 31, 2013 compared with other revenues of $51 million in the quarter ended March 31, 2012. The results in the quarters ended March 31, 2013 and 2012, primarily included income of $125 million and $27 million, respectively, arising from the Company s 40% stake in MUMSS (see Executive Summary Significant Items Japanese Securities Joint Venture herein). The gains in the quarter ended March 31, 2013 were partially offset by increases in the provision for loan losses.

Non-interest Expenses. Non-interest expenses decreased 5% in the quarter ended March 31, 2013. The decrease was due to lower compensation expenses, partially offset by higher non-compensation expenses. Compensation and benefits expenses decreased 14% in 2013, due to lower headcount. Results in the quarter ended March 31, 2013 included severance expenses of $113 million related to reductions in force in January 2013 compared with $108 million in the prior year quarter related to reductions in force in January 2012. Non-compensation expenses increased 11% in the quarter ended March 31, 2013 compared with the prior year period.

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Brokerage, clearing and exchange expenses increased 8% in the quarter ended March 31, 2013, primarily due to higher volumes of activity. Professional services expenses increased 14% in the quarter ended March 31, 2013, primarily due to higher consulting expenses. Other expenses increased 69% in the quarter ended March 31, 2013, primarily due to an increase in litigation costs, French transaction taxes and a higher reserve for the allowance for credit losses associated with unfunded commitments.

Discontinued Operations.

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.

For further information, see Notes 1 and 21 to the condensed consolidated financial statements.

Nonredeemable Noncontrolling Interests.

Nonredeemable noncontrolling interests primarily relate to MSMS (see Executive Summary Significant Items Japanese Securities Joint Venture herein).

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GLOBAL WEALTH MANAGEMENT GROUP

INCOME STATEMENT INFORMATION

	Three Months Ended March 31,	
	2013	2012(1)
	(dollars in millions)	
Revenues:		
Investment banking	$ 274	$ 205
Trading	298	335
Investments	3	2
Commissions and fees	559	572
Asset management, distribution and administration fees	1,858	1,719
Other	65	58
Total non-interest revenues	3,057	2,891
Interest income	488	458
Interest expense	75	58
Net interest	413	400
Net revenues	3,470	3,291
Compensation and benefits	2,065	2,009
Non-compensation expenses	808	879
Total non-interest expenses	2,873	2,888
Income from continuing operations before income taxes	597	403
Provision for income taxes	220	122
Income from continuing operations	377	281
Discontinued operations:		
Income (loss) from discontinued operations	(1)	2
Provision for income taxes		1
Net gain (loss) from discontinued operations	(1)	1
Net income	376	282
Net income applicable to redeemable noncontrolling interests	121	
Net income applicable to nonredeemable noncontrolling interests		84
Net income applicable to Morgan Stanley	$ 255	$ 198
Amounts applicable to Morgan Stanley:		
Income from continuing operations	$ 256	$ 198
Net gain (loss) from discontinued operations	(1)	
Net income applicable to Morgan Stanley	$ 255	$ 198

(1) Prior period amounts have been recast to reflect the transfer of the International Wealth Management business from Global Wealth Management Group business segment to the Institutional Securities Group business segment.

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Net Revenues. Global Wealth Management Group business segment s net revenues are composed of Transactional, Asset management, Net interest and Other revenues. Transactional revenues include Investment banking, Trading, and Commissions and fees. Asset management revenues include Asset management, distribution and administration fees, and fees related to the bank deposit program. Net interest revenues include net interest revenues related to the bank deposit program, interest on securities available for sale and all other net interest revenues. Other revenues include revenues from available for sale securities, customer account services fees, other miscellaneous revenues and revenues from Investments.

	Three Months Ended March 31,	
	2013	2012(1)
	(dollars in millions)	
Net revenues:		
Transactional	$ 1,131	$ 1,112
Asset management	1,858	1,719
Net interest	413	400
Other	68	60
Net revenues	$ 3,470	$ 3,291

(1) Prior period amounts have been recast to reflect the transfer of the International Wealth Management business from Global Wealth Management Group business segment to the Institutional Securities Group business segment.

Wealth Management JV. During third quarter of 2012, the Company completed the purchase of an additional 14% stake in the Wealth Management JV from Citi for $1.89 billion, increasing the Company s interest from 51% to 65%. Prior to September 17, 2012, Citi s results related to its 49% interest were reported in net income (loss) applicable to nonredeemable noncontrolling interests. Due to the terms of the revised agreement with Citi, subsequent to the purchase of the additional 14% stake, Citi s results related to the 35% interest are reported in net income (loss) applicable to redeemable noncontrolling interests. The Company has a commitment to purchase the additional 35% for $4.725 billion upon obtaining all regulatory approvals.

On September 25, 2012, the Company announced that its U.S. wealth management business was rebranded to Morgan Stanley Wealth Management.

See Note 3 to the condensed consolidated financial statements for further information.

Transactional.

Investment Banking. Investment banking revenues increased 34% to $274 million in the quarter ended March 31, 2013 from the comparable period of 2012, primarily due to higher revenues from closed-end funds.

Trading. Trading revenues decreased 11% to $298 million in the quarter ended March 31, 2013 from the comparable period of 2012, primarily due to lower gains related to positions associated with certain employee deferred compensation plans and lower revenues from municipal securities, corporate equity securities, foreign exchange transactions, government securities and structured notes.

Commissions and Fees. Commissions and fees revenues decreased 2% to $559 million in the quarter ended March 31, 2013 from the comparable period of 2012, primarily due to lower client activity.

Asset Management.

Asset Management, Distribution and Administration Fees. Asset management, distribution and administration fees increased 8% to $1,858 million in the quarter ended March 31, 2013 from the comparable period of 2012,

primarily due to higher fee-based revenues. The referral fees for deposits placed with Citi-affiliated depository institutions were $88 million and $82 million in the quarters ended March 31, 2013 and 2012, respectively.

Balances in the bank deposit program increased to $126.1 billion at March 31, 2013 from $112.0 billion at March 31, 2012. Deposits held by Company-affiliated FDIC-insured depository institutions were $69 billion at March 31, 2013 and $57 billion at March 31, 2012.

Client assets in fee-based accounts increased to $621 billion and represented 35% of total client assets at March 31, 2013 compared with $512 billion and 31% at March 31, 2012, respectively. Total client asset balances increased to $1,794 billion at March 31, 2013 from $1,667 billion at March 31, 2012, primarily due to the impact of market conditions and net new asset inflows. Client asset balances in households with assets greater than $1 million increased to $1,334 billion at March 31, 2013 from $1,255 billion at March 31, 2012. Effective for the quarter ended March 31, 2013, client assets also include certain additional non-custodied assets as a result of the completion of the Morgan Stanley Wealth Management platform conversion. Fee-based client asset flows for the quarter ended March 31, 2013 were $15.3 billion compared with $10.2 billion in the quarter ended March 31, 2012.

Beginning January 1, 2013, the Company enhanced its definition of fee-based asset flows. Fee-based asset flows have been recast for all periods to include dividends, interest and client fees, and to exclude cash management related activity.

Net Interest.

Net interest increased 3% to $413 million in the quarter ended March 31, 2013 from the comparable period of 2012, primarily resulting from higher revenues from the bank deposit program, partially offset by lower interest on the available for sale portfolio.

Other.

Other revenues were $65 million in the quarter ended March 31, 2013, an increase of 12% from the comparable period of 2012, primarily due to higher revenues from mortgages and secured financing activities.

Non-interest Expenses.

Non-interest expenses decreased 1% in the quarter ended March 31, 2013 from the comparable period of 2012. Compensation and benefits expenses increased 3% from the comparable period of 2012, primarily due to higher compensable revenues, partially offset by lower amortization of deferred awards and severance expense. Non-compensation expenses decreased 8% in the quarter ended March 31, 2013 from the comparable period of 2012, partially driven by the absence of platform integration costs. Other expenses decreased 16% in the quarter ended March 31, 2013, primarily due to a lower FDIC assessment of deposits and infrastructure expenses. Professional services expenses decreased 6% in the quarter ended March 31, 2013 from the comparable period of 2012, primarily due to lower technology consulting costs.

Discontinued Operations.

On April 2, 2012, the Company completed the sale of Quilter, its retail wealth management business in the U.K. The results of Quilter are reported as discontinued operations for all periods presented. See Notes 1 and 21 to the condensed consolidated financial statements.

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ASSET MANAGEMENT

INCOME STATEMENT INFORMATION

	Three Months Ended March 31,	
	2013	2012
	(dollars in millions)	
Revenues:		
Investment banking	$ 5	$ 7
Trading	(6)	(6)
Investments	193	132
Asset management, distribution and administration fees	455	411
Other	2	(3)
Total non-interest revenues	649	541
Interest income	2	3
Interest expense	6	11
Net interest	(4)	(8)
Net revenues	645	533
Compensation and benefits	259	218
Non-compensation expenses	199	187
Total non-interest expenses	458	405
Income from continuing operations before income taxes	187	128
Provision for income taxes	52	38
Income from continuing operations	135	90
Discontinued operations:		
Gain from discontinued operations	1	1
Provision for (benefit from) income taxes		
Net gain from discontinued operations	1	1
Net income	136	91
Net income applicable to nonredeemable noncontrolling interests	51	65
Net income applicable to Morgan Stanley	$ 85	$ 26
Amounts applicable to Morgan Stanley:		
Income from continuing operations	$ 84	$ 25
Net gain from discontinued operations	1	1
Net income applicable to Morgan Stanley	$ 85	$ 26

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Statistical Data.

The Asset Management business segment s period-end and average assets under management or supervision were as follows:

	At March 31,		Average for the Three Months Ended March 31,	
	2013	2012	2013	2012
	(dollars in billions)			
Assets under management or supervision by asset class:				
Traditional Asset Management:				
Equity	$ 127	$ 117	$ 125	$ 111
Fixed income	62	58	63	58
Liquidity	95	75	99	74
Alternatives(1)	28	26	28	25
Total Traditional Asset Management	312	276	315	268
Real Estate Investing	20	19	20	19
Merchant Banking:				
Private Equity	9	9	9	9
Total Merchant Banking	9	9	9	9
Total assets under management or supervision	$ 341	$ 304	$ 344	$ 296
Share of minority stake assets(2)	$ 6	$ 6	$ 5	$ 5

(1) The alternatives asset class includes a range of investment products such as funds of hedge funds, funds of private equity funds and funds of real estate funds.
(2) Amounts represent the Asset Management business segment s proportional share of assets managed by entities in which it owns a minority stake.

Activity in the Asset Management business segment s assets under management or supervision during the quarters ended March 31, 2013 and 2012 was as follows:

	Three Months Ended March 31,	
	2013	2012
	(dollars in billions)	
Balance at beginning of period	$ 338	$ 287
Net flows by asset class:		
Traditional Asset Management:		
Equity		(1)
Fixed income	2	(1)
Liquidity	(5)	1
Total Traditional Asset Management	(3)	(1)
Real Estate Investing		1
Total net flows	(3)	

Net market appreciation	6	17
Total net increase	3	17
Balance at end of period	$ 341	$ 304

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Trading. The Company recognized losses of $6 million in the quarters ended March 31, 2013 and 2012. Trading results in both periods primarily reflected losses related to certain consolidated real estate funds sponsored by the Company.

Investments. The Company recorded net investment gains of $193 million in the quarter ended March 31, 2013, compared with gains of $132 million in the quarter ended March 31, 2012. The increase in the quarter ended March 31, 2013 was primarily related to higher net gains in the Company s Merchant Banking business, including certain investments associated with the Company s employee deferred compensation and co-investment plans.

Asset Management, Distribution and Administration Fees. Asset management, distribution and administration fees increased 11% to $455 million in the quarter ended March 31, 2013. The increase primarily reflected higher management and administration revenues, primarily due to higher average assets under management and higher performance fees.

The Company s assets under management increased $37 billion from $304 billion at March 31, 2012 to $341 billion at March 31, 2013, reflecting positive flows and market appreciation. The Company recorded net outflows of $2.5 billion in the quarter ended March 31, 2013, primarily reflecting net customer outflows in liquidity funds, partially offset by net customer inflows in fixed income funds.

Other. Other revenues were $2 million in the quarter ended March 31, 2013 as compared with other losses of $3 million in the comparable period of 2012. The results in the quarter ended March 31, 2013 included lower losses associated with the Company s minority investments in Avenue Capital Group, a New York-based investment manager, and Lansdowne Partners, a London-based investment manager.

Non-interest Expenses. Non-interest expenses were $458 million in the quarter ended March 31, 2013 as compared with $405 million in the comparable period of 2012. Compensation and benefits expenses increased 19% in the quarter ended March 31, 2013, primarily due to higher net revenues. Non-compensation expenses increased 6% in the quarter ended March 31, 2013 compared with the quarter ended March 31, 2012 primarily due to higher brokerage and clearing expenses.

Nonredeemable Noncontrolling Interests.

Nonredeemable noncontrolling interests are primarily related to the consolidation of certain real estate funds sponsored by the Company. Investment gains associated with these consolidated funds were $67 million and $74 million in the quarters ended March 31, 2013 and 2012, respectively.

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Accounting Developments.

Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity.

In March 2013, the Financial Accounting Standards Board (FASB) issued an accounting update requiring the parent entity to release any related cumulative translation adjustment into net income when the parent ceases to have a controlling financial interest in a subsidiary that is a foreign entity. When the parent ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity, the related cumulative translation adjustment would be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. This guidance is effective for the Company prospectively beginning on January 1, 2014. The adoption of this accounting guidance is not expected to have a material impact on the Company s condensed consolidated financial statements.

Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date.

In February 2013, the FASB issued an accounting update that requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, as the sum of the amount the reporting entity agreed to pay and any additional amount the reporting entity expects to pay on behalf of its co-obligors. This update also requires additional disclosures about those obligations. This guidance is effective for the Company retrospectively beginning on January 1, 2014. The adoption of this accounting guidance is not expected to have a material impact on the Company s condensed consolidated financial statements.

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Other Matters.

Legal Matters.

Subsequent to the release of the Company s first quarter earnings on April 18, 2013, legal accruals were increased as an agreement to settle certain matters was reached, which increased Other expenses within the Institutional Securities business segment for the quarter ended March 31, 2013 by $32 million or a decrease of $0.01 in diluted EPS. Excluding the impact of DVA, diluted EPS from continuing operations decreased by $0.02.

Real Estate.

The Company acts as the general partner for various real estate funds and also invests in certain of these funds as a limited partner. The Company s real estate investments at March 31, 2013 and December 31, 2012 are described below. Such amounts exclude investments associated with certain employee deferred compensation and co-investment plans.

At March 31, 2013 and December 31, 2012, the condensed consolidated statements of financial condition included amounts representing real estate investment assets of condensed consolidated subsidiaries of approximately $2.3 billion and $2.2 billion, respectively, including noncontrolling interests of approximately $1.9 billion and $1.8 billion, respectively, for a net amount of $0.4 billion in both periods. This net presentation is a non-GAAP financial measure that the Company considers to be a useful measure for the Company and investors to use in assessing the Company s net exposure. In addition, the Company has contractual capital commitments, guarantees, lending facilities and counterparty arrangements with respect to real estate investments of $0.4 billion at March 31, 2013.

In addition to the Company s real estate investments, the Company engages in various real estate-related activities, including origination of loans secured by commercial and residential properties. The Company also securitizes and trades in a wide range of commercial and residential real estate and real estate-related whole loans, mortgages and other real estate. In connection with these activities, the Company has provided, or otherwise agreed to be responsible for, representations and warranties. Under certain circumstances, the Company may be required to repurchase such assets or make other payments related to such assets if such representations and warranties were breached. The Company continues to monitor its real estate-related activities in order to manage its exposures and potential liability from these markets and businesses. See Legal Proceedings Residential Mortgage and Credit Crisis Related Matters in Part II, Item 1, herein and Note 12 to the condensed consolidated financial statements for further information.

Long-Term Incentive Compensation Plans.

In January 2013, the Company granted approximately $1.2 billion of deferred stock-based awards and approximately $1.4 billion of deferred cash-based awards related to the 2012 performance year that contain a future service requirement. For deferred stock-based awards, absent estimated or actual forfeitures or cancellations or accelerations, this amount of unrecognized compensation cost will be recognized as approximately $679 million in 2013, approximately $315 million in 2014 and approximately $182 million thereafter. For deferred cash-based awards, absent actual forfeitures or cancellations or accelerations and any future return on referenced investments, this amount of unrecognized compensation cost will be recognized as approximately $969 million in 2013, approximately $268 million in 2014 and approximately $171 million thereafter. For additional information regarding Long-Term Incentive Compensation Plans, please see Note 20 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10-K.

Regulatory Outlook.

The Dodd-Frank Act was enacted on July 21, 2010. While certain portions of the Dodd-Frank Act were effective immediately, other portions will be effective following extended transition periods or through numerous

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rulemakings by multiple governmental agencies, and only a portion of those rulemakings have been completed. It remains difficult to assess fully the impact that the Dodd-Frank Act will have on the Company and on the financial services industry generally. In addition, various international developments, such as the adoption of risk-based capital, leverage and liquidity standards by the Basel Committee on Banking Supervision, known as Basel III, will continue to impact the Company in the coming years.

It is likely that 2013 and subsequent years will see further material changes in the way major financial institutions are regulated in both the U.S. and other markets in which the Company operates, although it remains difficult to predict the exact impact these changes will have on the Company s business, financial condition, results of operations and cash flows for a particular future period. For a further discussion regarding the regulatory outlook for the Company, please refer to Business Supervision and Regulation in Part I, Item 1 included in the Form 10-K.

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Critical Accounting Policies.

The Company s condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the U.S., which require the Company to make estimates and assumptions (see Note 1 to the condensed consolidated financial statements). The Company believes that of its significant accounting policies (see Note 2 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10-K and Note 2 to the condensed consolidated financial statements), the following policies involve a higher degree of judgment and complexity.

Fair Value.

Financial Instruments Measured at Fair Value. A significant number of the Company s financial instruments are carried at fair value. The Company makes estimates regarding valuation of assets and liabilities measured at fair value in preparing the condensed consolidated financial statements. These assets and liabilities include but are not limited to:

- Trading assets and Trading liabilities;
- Securities available for sale;
- Securities received as collateral and Obligation to return securities received as collateral;
- Certain Securities purchased under agreements to resell;
- Certain Deposits;
- Certain Commercial paper and other short-term borrowings, primarily structured notes;
- Certain Securities sold under agreements to repurchase;
- Certain Other secured financings; and
- Certain Long-term borrowings, primarily structured notes.

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

In determining fair value, the Company uses various valuation approaches. A hierarchy for inputs is used in measuring fair value that maximizes the use of observable prices and inputs and minimizes the use of unobservable prices and inputs by requiring that the relevant observable inputs be used when available. The hierarchy is broken down into three levels, wherein Level 1 uses observable prices in active markets, and Level 3 consists of valuation techniques that incorporate significant unobservable inputs and, therefore, require the greatest use of judgment. In periods of market disruption, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be recategorized from Level 1 to Level 2 or Level 2 to Level 3. In addition, a downturn in market conditions could lead to declines in the valuation of many instruments. For further information on the valuation process, fair value definition, Level 1, Level 2, Level 3 and related valuation techniques, and quantitative information about and sensitivity of significant unobservable inputs used in Level 3 fair value measurements, see Notes 2 and 4 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10-K and Note 4 to the

condensed consolidated financial statements.

Level 3 Assets and Liabilities. The Company s Level 3 assets before the impact of cash collateral and counterparty netting across the levels of the fair value hierarchy were $20.5 billion and $20.4 billion at March 31, 2013 and December 31, 2012, respectively, and represented approximately 6% at March 31, 2013 and December 31, 2012, of the assets measured at fair value (approximately 3% of total assets at March 31, 2013 and December 31, 2012). Level 3 liabilities before the impact of cash collateral and counterparty netting across the levels of the fair value hierarchy were $7.8 billion and $7.7 billion at March 31, 2013 and December 31, 2012,

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respectively, and represented approximately 4% of the Company s liabilities measured at fair value. During the quarters ended March 31, 2013 and 2012, the net losses of approximately $0.7 billion and $1.2 billion, respectively, in Net derivative and other contracts categorized as Level 3 assets were primarily driven by tightening of credit spreads on underlying reference entities of basket credit default swaps. See Note 4 to the condensed consolidated financial statements for further information about changes in Level 3 assets and liabilities.

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis. At March 31, 2013, certain of the Company s assets were measured at fair value on a non-recurring basis, primarily relating to loans, other investments, premises, equipment and software costs, and intangible assets. The Company incurs losses or gains for any adjustments of these assets to fair value. A downturn in market conditions could result in impairment charges in future periods.

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

See Note 4 to the condensed consolidated financial statements for further information on assets and liabilities that are measured at fair value on a non-recurring basis.

Fair Value Control Processes. The Company employs control processes to validate the fair value of its financial instruments, including those derived from pricing models. These control processes are designed to ensure that the values used for financial reporting are based on observable inputs wherever possible. In the event that observable inputs are not available, the control processes are designed to assure that the valuation approach utilized is appropriate and consistently applied and that the assumptions are reasonable.

See Note 2 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10-K for additional information regarding the Company s valuation policies, processes and procedures.

Goodwill and Intangible Assets.

Goodwill. The Company tests goodwill for impairment on an annual basis on July 1 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. Goodwill no longer retains its association with a particular acquisition once it has been assigned to a reporting unit. As such, all of the activities of a reporting unit, whether acquired or organically developed, are available to support the value of the goodwill. 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, price-to-earnings and assets under management multiples of certain comparable companies. The Company also utilizes a discounted cash flow methodology for certain reporting units. At December 31, 2012, each of the Company s reporting units with goodwill had a fair value that was substantially in excess of its carrying value.

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Intangible Assets. Amortizable intangible assets are amortized over their estimated useful lives and are reviewed for impairment on an interim basis when certain events or circumstances exist. For amortizable intangible assets, an impairment exists when the carrying amount of the intangible asset exceeds its fair value. An impairment loss will be recognized only if the carrying amount of the intangible asset is not recoverable and exceeds its fair value. The carrying amount of the intangible asset is not recoverable if it exceeds the sum of the expected undiscounted cash flows.

Indefinite-lived intangible assets are not amortized but are reviewed annually (or more frequently when certain events or circumstances exist) for impairment. For indefinite-lived intangible assets, an impairment exists when the carrying amount exceeds its fair value.

For both goodwill and intangible assets, to the extent an impairment loss is recognized, the loss establishes the new cost basis of the asset. Subsequent reversal of impairment losses is not permitted. For amortizable intangible assets, the new cost basis is amortized over the remaining useful life of that asset. Adverse market or economic events could result in impairment charges in future periods.

See Notes 4 and 9 to the condensed consolidated financial statements for additional information about goodwill and intangible assets.

Legal and Regulatory Contingencies.

In the normal course of business, the Company has been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with its activities as a global diversified financial services institution.

Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the entities that would otherwise be the primary defendants in such cases are bankrupt or in financial distress.

The Company is also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding the Company s business, including, among other matters, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

Accruals for litigation and regulatory proceedings are generally determined on a case-by-case basis. Where available information indicates that it is probable a liability had been incurred at the date of the condensed consolidated financial statements and the Company can reasonably estimate the amount of that loss, the Company accrues the estimated loss by a charge to income. In many proceedings, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. For certain legal proceedings, the Company can estimate possible losses, additional losses, ranges of loss or ranges of additional loss in excess of amounts accrued. For certain other legal proceedings, the Company cannot reasonably estimate such losses, particularly for proceedings that are in their early stages of development or where plaintiffs seek substantial or indeterminate damages. Numerous issues may need to be resolved, including through potentially lengthy discovery and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a loss or additional loss or range of loss or additional loss can be reasonably estimated for any proceeding.

Significant judgment is required in deciding when and if to make these accruals and the actual cost of a legal claim or regulatory fine/penalty may ultimately be materially different from the recorded accruals.

See Note 12 to the condensed consolidated financial statements for additional information on legal proceedings.

Income Taxes.

The Company is subject to the income and indirect tax laws of the U.S., its states and municipalities and those of the foreign jurisdictions in which the Company has significant business operations. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant governmental taxing authorities. The Company must make judgments and interpretations about the application of these inherently complex tax laws when determining the provision for income taxes and the expense for indirect taxes and must also make estimates about when certain items affect taxable income in the various tax jurisdictions. Disputes over interpretations of the tax laws may be settled with the taxing authority upon examination or audit. The Company periodically evaluates the likelihood of assessments in each taxing jurisdiction resulting from current and subsequent years examinations, and unrecognized tax benefits related to potential losses that may arise from tax audits are established in accordance with the guidance on accounting for unrecognized tax benefits. Once established, unrecognized tax benefits are adjusted when there is more information available or when an event occurs requiring a change.

The Company s provision for income taxes is composed of current and deferred taxes. Current income taxes approximate taxes to be paid or refunded for the current period. The Company s deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the applicable enacted tax rates and laws that will be in effect when such differences are expected to reverse. The Company s deferred tax balances also include deferred assets related to tax attributes carryforwards, such as net operating losses and tax credits that will be realized through reduction of future tax liabilities and, in some cases, are subject to expiration if not utilized within certain periods. The Company performs regular reviews to ascertain whether deferred tax assets are realizable. These reviews include management s estimates and assumptions regarding future taxable income and incorporate various tax planning strategies, including strategies that may be available to utilize net operating losses before they expire. Once the deferred tax asset balances have been determined, the Company may record a valuation allowance against the deferred tax asset balances to reflect the amount of these balances (net of valuation allowance) that the Company estimates it is more likely than not to realize at a future date. Both current and deferred income taxes could reflect adjustments related to the Company s unrecognized tax benefits.

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

See Note 2 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10-K for additional information on the Company s significant assumptions, judgments and interpretations associated with the accounting for income taxes and Note 18 to the condensed consolidated financial statements for additional information on the Company s tax examinations.

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Liquidity and Capital Resources.

The Company s senior management establishes the liquidity and capital policies. Through various risk and control committees, the Company s senior management reviews business performance relative to these policies, monitors the availability of alternative sources of financing, and oversees the liquidity and interest rate and currency sensitivity of the Company s asset and liability position. The Company s Treasury Department, Firm Risk Committee, Asset and Liability Management Committee and other control groups assist in evaluating, monitoring and controlling the impact that the Company s business activities have on its condensed consolidated statements of financial condition, liquidity and capital structure. Liquidity and capital matters are reported regularly to the Board s Risk Committee.

The Balance Sheet.

The Company monitors and evaluates the composition and size of its balance sheet on a regular basis. The Company s balance sheet management process includes quarterly planning, business specific limits, monitoring of business specific usage versus limits, key metrics and new business impact assessments.

The Company establishes balance sheet limits at the consolidated, business segment and business unit levels. The Company monitors balance sheet usage versus limits and variances resulting from business activity or market fluctuations are reviewed. On a regular basis, the Company reviews current performance versus limits and assesses the need to re-allocate limits based on business unit needs. The Company also monitors key metrics, including asset and liability size, composition of the balance sheet, limit utilization and capital usage.

The tables below summarize total assets for the Company s business segments at March 31, 2013 and December 31, 2012:

	At March 31, 2013			
	Institutional Securities	Global Wealth Management Group	Asset Management	Total
	(dollars in millions)			
Assets				
Cash and cash equivalents(1)	$ 34,059	$ 7,953	$ 890	$ 42,902
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements(2)	28,846	2,467		31,313
Trading assets	260,174	2,511	4,551	267,236
Securities available for sale		41,454		41,454
Securities received as collateral(2)	17,971			17,971
Federal funds sold and securities purchased under agreements to resell(2)	127,107	13,308		140,415
Securities borrowed(2)	135,313	414		135,727
Customer and other receivables(2)	39,603	21,906	762	62,271
Loans, net of allowance	12,788	17,827		30,615
Other assets(3)	19,466	10,717	1,296	31,479
Total assets(4)	$ 675,327	$ 118,557	$ 7,499	$ 801,383

	At December 31, 2012			
	Institutional Securities(5)	Global Wealth Management Group(5)	Asset Management	Total
	(dollars in millions)			
Assets				
Cash and cash equivalents(1)	$ 33,370	$ 12,714	$ 820	$ 46,904
Cash deposited with clearing organizations or segregated under federal and other regulations or requirements(2)	26,116	4,854		30,970
Trading assets	260,885	2,285	4,433	267,603
Securities available for sale		39,869		39,869
Securities received as collateral(2)	14,278			14,278
Federal funds sold and securities purchased under agreements to resell(2)	120,957	13,455		134,412
Securities borrowed(2)	121,302	399		121,701
Customer and other receivables(2)	39,362	24,161	765	64,288
Loans, net of allowance	12,078	16,968		29,046
Other assets(3)	19,701	10,860	1,328	31,889
Total assets(4)	$ 648,049	$ 125,565	$ 7,346	$ 780,960

(1) Cash and cash equivalents include Cash and due from banks and Interest bearing deposits with banks.
(2) Certain of these assets are included in secured financing assets (see Secured Financing herein).
(3) Other assets include Other investments; Premises, equipment and software costs; Goodwill; Intangible assets; and Other assets.
(4) Total assets include Global Liquidity Reserves of $186 billion and $182 billion at March 31, 2013 and December 31, 2012, respectively.
(5) On January 1, 2013, the International Wealth Management business was transferred from the Global Wealth Management Group 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.

A substantial portion of the Company s total assets consists of liquid marketable securities and short-term receivables arising principally from sales and trading activities in the Institutional Securities business segment. The liquid nature of these assets provides the Company with flexibility in managing the size of its balance sheet. The Company s total assets increased to $801,383 million at March 31, 2013 from $780,960 million at December 31, 2012. The increase in total assets was primarily due to an increase in Securities borrowed and Federal funds sold and securities purchased under agreements to resell.

The Company s assets and liabilities are primarily related to transactions attributable to sales and trading and securities financing activities. At March 31, 2013, securities financing assets and liabilities were $373 billion and $314 billion, respectively. At December 31, 2012, securities financing assets and liabilities were $348 billion and $300 billion, respectively. Securities financing transactions include cash deposited with clearing organizations or segregated under federal and other regulations or requirements, repurchase and resale agreements, securities borrowed and loaned transactions, securities received as collateral and obligation to return securities received and customer and other receivables and payables. Securities borrowed or purchased under agreements to resell and securities loaned or sold under agreements to repurchase are treated as collateralized financings (see Note 2 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10-K and Note 6 to the condensed consolidated financial statements). Securities sold under agreements to repurchase and Securities loaned were $160 billion at March 31, 2013 and averaged $173 billion during the quarter ended March 31, 2013. Securities purchased under agreements to resell and Securities borrowed were $276 billion at March 31, 2013 and averaged $293 billion during the quarter ended March 31, 2013.

Securities financing assets and liabilities also include matched book transactions with minimal market, credit and/or liquidity risk. Matched book transactions accommodate customers, as well as obtain securities for the settlement and financing of inventory positions. The customer receivable portion of the securities financing transactions includes customer margin loans, collateralized by customer-owned securities, and customer cash,

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which is segregated in accordance with regulatory requirements. The customer payable portion of the securities financing transactions primarily includes customer payables to the Company s prime brokerage customers. The Company s risk exposure on these transactions is mitigated by collateral maintenance policies that limit the Company s credit exposure to customers. Included within securities financing assets were $18 billion and $14 billion at March 31, 2013 and December 31, 2012, respectively, recorded in accordance with accounting guidance for the transfer of financial assets that represented offsetting assets and liabilities for fully collateralized non-cash loan transactions.

Liquidity Risk Management Framework.

The primary goal of the Company s liquidity risk management framework is to ensure that the Company has access to adequate funding across a wide range of market conditions. The framework is designed to enable the Company to fulfill its financial obligations and support the execution of the Company s business strategies.

The following principles guide the Company s liquidity risk management framework:

- Sufficient liquid assets should be maintained to cover maturing liabilities and other planned and contingent outflows;

- Maturity profile of assets and liabilities should be aligned, with limited reliance on short-term funding;

- Source, counterparty, currency, region, and term of funding should be diversified; and

- Limited access to funding should be anticipated through the Contingency Funding Plan (CFP).

The core components of the Company s liquidity risk management framework are the CFP, Liquidity Stress Tests and the Global Liquidity Reserve (as defined below), which support the Company s target liquidity profile.

Contingency Funding Plan.

The Company s CFP describes the data and information flows, limits, targets, operating environment indicators, escalation procedures, roles and responsibilities, and available mitigating actions in the event of a liquidity stress. The CFP also sets forth the principal elements of the Company s liquidity stress testing which identifies stress events of different severity and duration, assesses current funding sources and uses and establishes a plan for monitoring and managing a potential liquidity stress event.

Liquidity Stress Tests.

The Company uses liquidity stress tests to model liquidity outflows across multiple scenarios over a range of time horizons. These scenarios contain various combinations of idiosyncratic and systemic stress events.

The assumptions underpinning the Liquidity Stress Tests include, but are not limited to, the following:

- No government support;

- No access to equity and unsecured debt markets;

- Repayment of all unsecured debt maturing within the stress horizon;

Higher haircuts and significantly lower availability of secured funding;

Additional collateral that would be required by trading counterparties, certain exchanges and clearing organizations related to credit rating downgrades;

Additional collateral that would be required due to collateral substitutions, collateral disputes and uncalled collateral;

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- Discretionary unsecured debt buybacks;
- Drawdowns on unfunded commitments provided to third parties;
- Client cash withdrawals and reduction in customer short positions that fund long positions;
- Limited access to the foreign exchange swap markets;
- Return of securities borrowed on an uncollateralized basis; and
- Maturity roll-off of outstanding letters of credit with no further issuance.

The Liquidity Stress Tests are produced for the Parent and major operating subsidiaries, as well as at major currency levels, to capture specific cash requirements and cash availability across the Company. The Liquidity Stress Tests assume that subsidiaries will use their own liquidity first to fund their obligations before drawing liquidity from the Parent. The Parent will support its subsidiaries and will not have access to subsidiaries liquidity reserves that are subject to any regulatory, legal or tax constraints.

At March 31, 2013, the Company maintained sufficient liquidity to meet current and contingent funding obligations as modeled in its Liquidity Stress Tests.

Global Liquidity Reserve.

The Company maintains sufficient liquidity reserves (Global Liquidity Reserve) to cover daily funding needs and meet strategic liquidity targets sized by the CFP and Liquidity Stress Tests. The size of the Global Liquidity Reserve is actively managed by the Company. The following components are considered in sizing the Global Liquidity Reserve: unsecured debt maturity profile, balance sheet size and composition, funding needs in a stressed environment inclusive of contingent cash outflows and collateral requirements. Additionally, the Global Liquidity Reserve includes an additional reserve, which is primarily a discretionary surplus based on the Company s risk tolerance and is subject to change dependent on market and firm-specific events.

The Global Liquidity Reserve is held within the Parent and major operating subsidiaries. The Global Liquidity Reserve is composed of diversified cash and cash equivalents and highly liquid unencumbered securities. Eligible unencumbered securities include U.S. government securities, U.S. agency securities, U.S. agency mortgage-backed securities, non-U.S. government securities and other highly liquid investment grade securities.

Global Liquidity Reserve by Type of Investment.

The table below summarizes the Company s Global Liquidity Reserve by type of investment:

	At March 31, 2013 (dollars in billions)
Cash deposits with banks	$ 15
Cash deposits with central banks	23
Unencumbered highly liquid securities:	
U.S. government obligations	72
U.S. agency and agency mortgage-backed securities	41
Non-U.S. sovereign obligations(1)	17
Investments in money market funds	1

Other investment grade securities		17
Global Liquidity Reserve	$	186

(1) Non-U.S. sovereign obligations are composed of unencumbered German, French, Dutch, U.K., Brazilian and Japanese government obligations.

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The ability to monetize assets during a liquidity crisis is critical. The Company believes that the assets held in the Global Liquidity Reserve can be monetized within five business days in a stressed environment given the highly liquid and diversified nature of the reserves. The currency profile of the Global Liquidity Reserve is consistent with the CFP and Liquidity Stress Tests. In addition to the Global Liquidity Reserve, the Company has other cash and cash equivalents and other unencumbered assets that are available for monetization that are not included in the balances in the table above.

Global Liquidity Reserve Held by Bank and Non-Bank Legal Entities.

The table below summarizes the Global Liquidity Reserve held by bank and non-bank legal entities:

	At March 31, 2013	At December 31, 2012	Average Balance(1) For the Three Months Ended March 31, 2013	Average Balance(1) For the Three Months Ended December 31, 2012
	(dollars in billions)			
Bank legal entities:				
Domestic	$ 63	$ 66	$ 64	$ 60
Foreign	5	5	5	5
Total Bank legal entities	68	71	69	65
Non-Bank legal entities:				
Domestic(2)	85	81	86	81
Foreign	33	30	32	31
Total Non-Bank legal entities	118	111	118	112
Total	$ 186	$ 182	$ 187	$ 177

(1) The Company calculates the average Global Liquidity Reserve based upon daily amounts.
(2) The Parent held $66 billion at March 31, 2013, which averaged $67 billion for the quarter ended March 31, 2013.

The Company is exposed to intra-day settlement risk in connection with liquidity provided to its major broker-dealer subsidiaries for intra-day clearing and settlement of its securities and financing activity.

Funding Management.

The Company manages its funding in a manner that reduces the risk of disruption to the Company s operations. The Company pursues a strategy of diversification of secured and unsecured funding sources (by product, by investor and by region) and attempts to ensure that the tenor of the Company s liabilities equals or exceeds the expected holding period of the assets being financed.

The Company funds its balance sheet on a global basis through diverse sources. These sources may include the Company s equity capital, long-term debt, repurchase agreements, securities lending, deposits, commercial paper, letters of credit and lines of credit. The Company has active financing programs for both standard and structured products targeting global investors and currencies.

Secured Financing. A substantial portion of the Company s total assets consists of liquid marketable securities and arises principally from its Institutional Securities business segment s sales and trading activities. The liquid nature of these assets provides the Company with flexibility in funding these assets with secured financing. The Company s goal is to achieve an optimal mix of durable secured and unsecured financing. Secured financing investors principally focus on the quality of the eligible collateral posted. Accordingly, the Company actively manages its secured financing book based on the quality of the assets being funded.

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The Company utilizes shorter-term secured financing only for highly liquid assets and has established longer tenor limits for less liquid asset classes, for which funding may be at risk in the event of a market disruption. The Company defines highly liquid assets as those which are consistent with the standards of the Global Liquidity Reserve, and less liquid assets as those which do not meet these standards. At March 31, 2013, the weighted average maturity of the Company s secured financing against less liquid assets was greater than 120 days. To further minimize the refinancing risk of secured financing for less liquid assets, the Company has established concentration limits to diversify its investor base and reduce the amount of monthly maturities for secured financing of less liquid assets. Furthermore, the Company obtains spare capacity, or term secured funding liabilities in excess of less liquid inventory, as an additional risk mitigant to replace maturing trades in the event that secured financing markets or our ability to access them become limited. Finally, in addition to the above risk management framework, the Company holds a portion of its Global Liquidity Reserve against the potential disruption to its secured financing capabilities.

Unsecured Financing. The Company views long-term debt and deposits as stable sources of funding. Unencumbered securities and non-security assets are financed with a combination of long- and short-term debt and deposits. The Company s unsecured financings include structured borrowings, whose payments and redemption values are based on the performance of certain underlying assets, including equity, credit, foreign exchange, interest rates and commodities. When appropriate, the Company may use derivative products to conduct asset and liability management and to make adjustments to the Company s interest rate risk profile (see Note 12 to the consolidated financial statements for the year ended December 31, 2012 included in the Form 10-K).

Short-Term Borrowings. The Company s unsecured short-term borrowings consist of commercial paper, bank loans, bank notes and structured notes with maturities of 12 months or less at issuance.

The table below summarizes the Company s short-term unsecured borrowings:

	At March 31, 2013	At December 31, 2012
	(dollars in millions)	
Commercial paper	$ 254	$ 306
Other short-term borrowings	2,221	1,832
Total	$ 2,475	$ 2,138

Deposits. The Company s bank subsidiaries funding sources include time deposits, money market deposit accounts, demand deposit accounts, repurchase agreements, federal funds purchased, commercial paper and Federal Home Loan Bank advances. The vast majority of deposits in Morgan Stanley Bank, N.A. and Morgan Stanley Private Bank, National Association (the Subsidiary Banks) are sourced from the Company s retail brokerage accounts and are considered to have stable, low-cost funding characteristics.

Deposits were as follows:

	At March 31, 2013(1)	At December 31, 2012(1)
	(dollars in millions)	
Savings and demand deposits(2)	$ 76,895	$ 80,058
Time deposits(3)	3,728	3,208
Total	$ 80,623	$ 83,266

(1) Total deposits subject to FDIC insurance at March 31, 2013 and December 31, 2012 were $60 billion and $62 billion, respectively.
(2) Amounts include non-interest bearing deposits of $1,037 million at December 31, 2012.
(3) Certain time deposit accounts are carried at fair value under the fair value option (see Note 4 to the condensed consolidated financial statements).

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Senior Indebtedness. At March 31, 2013, the aggregate outstanding carrying amount of the Company s senior indebtedness was approximately $155 billion (including guaranteed obligations of the indebtedness of subsidiaries) compared with $158 billion at December 31, 2012. The decrease in the amount of senior indebtedness was primarily due to repayments of notes, net of new issuances of long-term borrowings.

Long-Term Borrowings. The Company believes that accessing debt investors through multiple distribution channels helps provide consistent access to the unsecured markets. In addition, the issuance of long-term debt allows the Company to reduce reliance on short-term credit sensitive instruments (*e.g*., commercial paper and other unsecured short-term borrowings). Long-term borrowings are generally managed to achieve staggered maturities, thereby mitigating refinancing risk, and to maximize investor diversification through sales to global institutional and retail clients across regions, currencies and product types. Availability and cost of financing to the Company can vary depending on market conditions, the volume of certain trading and lending activities, the Company s credit ratings and the overall availability of credit.

The Company may from time to time engage in various transactions in the credit markets (including, for example, debt retirements) that it believes are in the best interests of the Company and its investors.

Long-term borrowings at March 31, 2013 consisted of the following:

	Parent	Subsidiaries	Total
		(dollars in millions)	
Due in 2013	$ 14,812	$ 1,292	$ 16,104
Due in 2014	20,941	803	21,744
Due in 2015	19,978	4,341	24,319
Due in 2016	20,387	1,990	22,377
Due in 2017	25,623	2,074	27,697
Thereafter	50,511	2,390	52,901
Total	$ 152,252	$ 12,890	$ 165,142

Long-Term Borrowing Activity for the Three Months Ended March 31, 2013. During the quarter ended March 31, 2013, the Company issued and reissued notes with a principal amount of approximately $10 billion, including the Company s issuance of $4.5 billion in senior unsecured debt on February 25, 2013. In connection with the note issuances, the Company generally enters into certain transactions to obtain floating interest rates. The weighted average maturity of the Company s long-term borrowings, based upon stated maturity dates, was approximately 5.3 years at March 31, 2013. During the quarter ended March 31, 2013, approximately $12 billion in aggregate long-term borrowings matured or were retired. On April 25, 2013, the Company issued $3.7 billion in senior unsecured debt.

Credit Ratings.

The Company relies on external sources to finance a significant portion of its day-to-day operations. The cost and availability of financing generally is impacted by the Company s credit ratings. In addition, the Company s credit ratings can have an impact on certain trading revenues, particularly in those businesses where longer term counterparty performance is a key consideration, such as OTC derivative transactions, including credit derivatives and interest rate swaps. Rating agencies will look at company specific factors, other industry factors such as regulatory or legislative changes, the macro-economic environment and perceived levels of government support among other things.

The rating agencies have stated that they currently incorporate various degrees of credit rating uplift from external sources of potential support, as well as perceived government support of systemically important banks, including the credit ratings of the Company. Rating agencies continue to monitor the progress of U.S. financial

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reform legislation to assess whether the possibility of extraordinary government support for the financial system in any future financial crises is negatively impacted. Legislative and rulemaking outcomes may lead to reduced uplift assumptions for U.S. banks and thereby place downward pressure on credit ratings. At the same time, proposed U.S. financial reform legislation and attendant rulemaking also have positive implications for credit ratings such as higher standards for capital and liquidity levels. The net result on credit ratings and the timing of any change in rating agency assumptions on support is currently uncertain.

At April 30, 2013, the Parent s and Morgan Stanley Bank, N.A. s senior unsecured ratings were as set forth below**:**

	Parent			Morgan Stanley Bank, N.A.		
	Short-Term Debt	**Long-Term Debt**	**Rating Outlook**	**Short-Term Debt**	**Long-Term Debt**	**Rating Outlook**
DBRS, Inc.	R-1 (middle)	A (high)	Negative			
Fitch Ratings, Inc.	F1	A	Stable	F1	A	Stable
Moody s Investor Services, Inc.	P-2	Baa1	Negative	P-2	A3	Stable
Rating and Investment Information, Inc.	a-1	A	Negative			
Standard & Poor s Financial Services LLC	A-2	A-	Negative	A-1	A	Negative

In connection with certain OTC trading agreements and certain other agreements where the Company is a liquidity provider to certain financing vehicles associated with the Institutional Securities business segment, the Company may be required to provide additional collateral or immediately settle any outstanding liability balances with certain counterparties or pledge additional collateral to certain exchanges and clearing organizations in the event of a future credit rating downgrade irrespective of whether the company is in a net asset or liability position.

As noted in the table above, the long-term credit ratings on the Company by Moody s Investor Services, Inc. (Moody s) and Standard & Poor s Financial Services LLC (S&P) are currently at different levels (commonly referred to as split ratings). The table below shows the future potential collateral amounts that could be called by counterparties or exchanges and clearing organizations in the event of the following credit rating scenarios for Moody s and S&P at March 31, 2013:

Company Rating Scenario (Moody's/S&P)	**OTC Agreements**	**Other Agreements**	**Exchanges and Clearing Organizations**
		(dollars in millions)	
Baa1/BBB+	$ 586	$	$
Baa2/BBB	$ 2,823	$	$
Baa3/BBB-	$ 3,505	$ 320	$ 130

While certain aspects of a credit ratings downgrade are quantifiable pursuant to contractual provisions, the impact it will have on the Company s business and results of operation in future periods is inherently uncertain and will depend on a number of interrelated factors, including, among others, the magnitude of the downgrade, individual client behavior and future mitigating actions the Company may take. The liquidity impact of additional collateral requirements is included in the Company s Liquidity Stress Tests.

Capital Management.

The Company s senior management views capital as an important source of financial strength. The Company actively manages its consolidated capital position based upon, among other things, business opportunities, risks, capital availability and rates of return together with internal capital policies, regulatory requirements and rating

agency guidelines and, therefore, in the future may expand or contract its capital base to address the changing needs of its businesses. The Company attempts to maintain total capital, on a consolidated basis, at least equal to the sum of its operating subsidiaries equity.

At March 31, 2013, the Company had approximately $1.6 billion remaining under its current share repurchase program out of the $6 billion authorized by the Board of Directors in December 2006. The share repurchase program is for capital management purposes and considers, among other things, business segment capital needs as well as equity-based compensation and benefit plan requirements. Share repurchases by the Company are subject to regulatory approval. During the quarter ended March 31, 2013, the Company did not repurchase common stock as part of its capital management share repurchase program (see also Unregistered Sales of Equity Securities and Use of Proceeds in Part II, Item 2).

The Board of Directors determines the declaration and payment of dividends on a quarterly basis. In April 2013, the Company announced that its Board of Directors declared a quarterly dividend per common share of $0.05. In March 2013, the Company also announced that the Board of Directors declared a quarterly dividend of $250.00 per share of Series A Floating Rate Non-Cumulative Preferred Stock (represented by depositary shares, each representing 1/1,000th interest in a share of preferred stock and each having a dividend of $ 0.25000) and a quarterly dividend of $25.00 per share of Series C Non-Cumulative Non-Voting Perpetual Preferred Stock.

The following table sets forth the Company s tangible common equity at March 31, 2013 and December 31, 2012 and average balances during the quarter ended March 31, 2013:

	Balance at		Average Balance(1) For the Three Months Ended March 31, 2013
	March 31, 2013	December 31, 2012	
		(dollars in millions)	
Common equity	$ 61,196	$ 60,601	$ 60,924
Preferred equity	1,508	1,508	1,508
Morgan Stanley shareholders equity	62,704	62,109	62,432
Junior subordinated debentures issued to capital trusts	4,828	4,827	4,827
Less: Goodwill and net intangible assets(2)	(7,509)	(7,587)	(7,548)
Tangible Morgan Stanley shareholders equity	$ 60,023	$ 59,349	$ 59,711
Common equity	$ 61,196	$ 60,601	$ 60,924
Less: Goodwill and net intangible assets(2)	(7,509)	(7,587)	(7,548)
Tangible common equity(3)	$ 53,687	$ 53,014	$ 53,376

(1) The Company calculates its average balances based upon month-end balances.

(2) The goodwill and net intangible assets deduction exclude mortgage servicing rights (net of disallowable mortgage servicing rights) of $7 million and $6 million at March 31, 2013 and December 31, 2012, respectively, and include only the Company s share of the Wealth Management JV s goodwill and intangible assets.

(3) Tangible common equity, a non-GAAP financial measure, equals common equity less goodwill and net intangible assets as defined above. The Company views tangible common equity as a useful measure to investors because it is a commonly utilized metric and reflects the common equity deployed in the Company s businesses.

Capital Covenants.

In October 2006 and April 2007, the Company executed replacement capital covenants in connection with offerings by Morgan Stanley Capital Trust VII and Morgan Stanley Capital Trust VIII (the Capital Securities), which become effective after the scheduled redemption date in 2046. Under the terms of the replacement capital covenants, the Company has agreed, for the benefit of certain specified holders of debt, to limitations on its ability to redeem or repurchase any of the Capital Securities for specified periods of time. For a complete description of the Capital Securities and the terms of the replacement capital covenants, see the Company s Current Reports on Form 8-K dated October 12, 2006 and April 26, 2007.

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Regulatory Requirements.

Capital.

The Company is a financial holding company under the Bank Holding Company Act of 1956, as amended, and is subject to the regulation and oversight of the Federal Reserve. The Federal Reserve establishes capital requirements for the Company, including well-capitalized standards, and evaluates the Company s compliance with such capital requirements. The Office of the Comptroller of the Currency (OCC) establishes similar capital requirements and standards for the Subsidiary Banks.

The Company calculates its capital ratios and RWAs in accordance with the capital adequacy standards for financial holding companies adopted by the Federal Reserve. These standards are based upon a framework described in the International Convergence of Capital Measurement and Capital Standards, July 1988, as amended, also referred to as Basel I. On January 1, 2013, the U.S. banking regulators rules to implement the Basel Committee s market risk capital framework amendment, commonly referred to as Basel 2.5 , became effective, which increased the capital requirements for securitizations and correlation trading within the Company's trading book, as well as incorporated add-ons for stressed VaR and incremental risk requirements (market risk capital framework amendment). The Company s capital ratios and RWAs for the current quarter were calculated under this revised framework. The Company's capital ratios and RWAs for prior quarters have not been recalculated under this revised framework. RWAs reflect both on and off-balance sheet risk of the Company. The risk capital calculations will evolve over time as the Company enhances its risk management methodology and incorporates improvements in modeling techniques while maintaining compliance with the regulatory requirements and interpretations.

Market RWAs reflect capital charges attributable to the risk of loss resulting from adverse changes in market prices and other factors. For a further discussion of the Company s market risks and models such as Value-at-Risk (VaR) model, see Quantitative and Qualitative Disclosures about Market Risk in Part II, Item 7A, of the Form 10-K and in Part I, Item 3 herein.

Credit RWAs reflect capital charges attributable to the risk of loss arising from a borrower or counterparty failing to meet its financial obligations. For a further discussion of the Company s credit risks, see Quantitative and Qualitative Disclosures about Market Risk in Part II, Item 7A, of the Form 10-K and in Part I, Item 3 herein.

Total allowable capital is composed of Tier 1 capital, which includes Tier 1 common capital, and Tier 2 capital. In accordance with the Federal Reserve s definition, Tier 1 common capital is defined as Tier 1 capital less non-common elements in Tier 1 capital. Non-common elements include perpetual preferred stock and related surplus, minority interests in subsidiaries, trust preferred securities and mandatory convertible preferred securities. Tier 1 capital consists predominantly of common shareholders equity as well as qualifying preferred stock and qualifying restricted core capital elements (qualifying trust preferred securities and noncontrolling interests) less goodwill, non-servicing intangible assets (excluding allowable mortgage servicing rights), net deferred tax assets (recoverable in excess of one year), an after-tax debt valuation adjustment and certain other deductions, including equity investments. The debt valuation adjustment in the below table represents the cumulative change in fair value of certain long-term and short-term borrowings that was attributable to the Company s own instrument-specific credit spreads and is included in retained earnings. For a further discussion of fair value, see Note 4 to the condensed consolidated financial statements.

At March 31, 2013, the Company was in compliance with Basel I, inclusive of the market risk capital framework amendment, with ratios of Tier 1 capital to RWAs of 13.9% and total capital to RWAs of 14.5% (6% and 10% being well-capitalized for regulatory purposes, respectively). The ratio of Tier 1 common capital to RWAs was 11.5% (5% being the minimum under the Federal Reserve s Comprehensive Capital Analysis and Review (CCAR) framework). Financial holding companies are subject to a Tier 1 leverage ratio as defined by the Federal Reserve. The Company calculated its Tier 1 leverage ratio as Tier 1 capital divided by adjusted average total assets (which reflects adjustments for disallowed goodwill, certain intangible assets, deferred tax assets and financial and non-financial equity investments). The adjusted average total assets are derived using weekly

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balances for the year. At March 31, 2013, the Company was also in compliance with the Federal Reserve s Tier 1 leverage requirement with a Tier 1 leverage ratio of 7.0% (5% being well-capitalized for regulatory purposes).

The following table reconciles the Company s total shareholders equity to Tier 1 common, Tier 1, Tier 2 and Total allowable capital as defined by the regulations issued by the Federal Reserve and presents the Company s consolidated capital ratios at March 31, 2013 and December 31, 2012:

	At March 31, 2013	At December 31, 2012
	(dollars in millions)	
Allowable capital		
Common shareholders equity	$ 61,196	$ 60,601
Less: Goodwill	(6,633)	(6,650)
Less: Non-servicing intangible assets	(3,687)	(3,777)
Less: Net deferred tax assets	(3,838)	(4,785)
After-tax debt valuation adjustment	1,024	823
Other deductions	(1,550)	(1,418)
Tier 1 common capital	46,512	44,794
Qualifying preferred stock	1,508	1,508
Qualifying restricted core capital elements	8,109	8,058
Tier 1 capital	56,129	54,360
Qualifying subordinated debt and restricted core capital elements	2,742	2,783
Other qualifying amounts	232	197
Other deductions	(721)	(714)
Tier 2 capital	2,253	2,266
Total allowable capital	$ 58,382	$ 56,626
Risk-weighted assets(1)		
Market risk	$ 151,231	$ 54,042
Credit risk	252,006	252,704
Total	$ 403,237	$ 306,746
Capital ratios		
Total capital ratio(1)	14.5%	18.5%
Tier 1 common capital ratio(1)	11.5%	14.6%
Tier 1 capital ratio(1)	13.9%	17.7%
Tier 1 leverage ratio	7.0%	7.1%

(1) Effective January 1, 2013, in accordance with the U.S. banking regulators rules the Company implemented the Basel Committee s market risk capital framework amendment, commonly referred to as Basel 2.5 , which increased the capital requirement for securitizations and correlation trading within the

Company's trading book as well as incorporated add-ons for stressed VaR and incremental risk requirements. Under the market risk capital framework amendment, total risk-weighted assets would have been approximately $424 billion at December 31, 2012. At December 31, 2012, the capital ratios would have been approximately as follows: Total capital ratio 13.4%, Tier 1 common capital ratio 10.6% and Tier 1 capital ratio 12.8%.

In November 2011 the Federal Reserve issued the final rule regarding capital plans, which requires large bank holding companies such as the Company to submit capital plans on an annual basis in order for the Federal Reserve to assess the companies systems and processes that incorporate forward-looking projections of revenues and losses to monitor and maintain their internal capital adequacy. The rule also requires that such companies receive no objection from the Federal Reserve before making a capital action.

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In addition, the Dodd-Frank Act imposes stress test requirements on large bank holding companies, including the Company. In October 2012, the Federal Reserve issued its stress test final rule as required by the Dodd-Frank Act that requires the Company to conduct semi-annual company-run stress tests. The rule also subjects the Company to an annual supervisory stress test conducted by the Federal Reserve.

The Company submitted its 2013 capital plan to the Federal Reserve in January 2013. In March 2013, the Federal Reserve published a summary of the supervisory stress test results of each company subject to the final rule, including the Company. The Company received no objection to its 2013 capital plan, including the acquisition of the remaining 35% interest in the Wealth Management JV, the completion of which is subject to applicable regulatory approvals, and ongoing payment of current common and preferred dividends.

The Dodd-Frank Act also requires national banks and federal savings associations with total consolidated assets of more than $10 billion to conduct an annual stress test. Beginning in 2013, the regulation requires national banks with more than $50 billion in average total consolidated assets, including Morgan Stanley Bank, N.A. (MSBNA), to conduct its first stress test. MSBNA submitted its stress test results to the OCC and the Federal Reserve in January 2013.

In December 2007, the U.S. banking regulators published final regulations incorporating the Basel II Accord, which requires internationally active U.S. banking organizations, as well as certain of their U.S. bank subsidiaries, to implement Basel II standards over the next several years. In July 2010, the Company began reporting its capital adequacy standards on a parallel basis to its regulators under Basel I and Basel II as part of a phased implementation of Basel II.

In December 2010, the Basel Committee reached an agreement on Basel III. In June 2012, the U.S. banking regulators proposed rules to implement many aspects of Basel III (the U.S. Basel III proposals). The U.S. Basel III proposals contain new capital standards that raise the quality of capital, strengthen counterparty credit risk capital requirements, introduce a leverage ratio as a supplemental measure to the risk-based ratio and replace the use of externally developed credit ratings with alternatives such as internally developed credit ratings. The proposals include a new capital conservation buffer, which imposes a common equity Tier 1 capital requirement above the new minimum that can be depleted under stress, and could result in restrictions on capital distributions and discretionary bonuses under certain circumstances. The proposals also provide for a potential countercyclical buffer which regulators can activate during periods of excessive credit growth in their jurisdiction.

Although the U.S. Basel III proposals do not address the Basel Committee s new additional loss absorbency capital requirement for Global Systemically Important Banks (G-SIBs), such as the Company, the U.S. banking regulators indicated that guidance on the implementation of the Basel Committee s G-SIB capital surcharge in the United States would be forthcoming. In November 2012, the Financial Stability Board provisionally assigned the Company a capital surcharge of 1.5 percent of Tier 1 common capital to RWA on a scale of 1.0 percent to 2.5 percent. The Financial Stability Board stated that it intends to update the G-SIB list annually based on new data. The U.S. Basel III proposals also propose amendments to the advanced approaches risk-based capital rule that change certain aspects of the treatment of counterparty credit risk under the Basel II framework and replace the use of externally developed credit ratings with proposed alternatives such as internally developed credit ratings. The U.S. Basel III proposals contemplate that the new capital requirements would be phased in over several years. In November 2012, the U.S. banking regulators announced that the U.S. Basel III proposals would not become effective on January 1, 2013. The announcement did not specify new implementation or phase-in dates for the U.S. Basel III proposals.

In June 2011, the U.S. banking regulators published final regulations implementing a provision of the Dodd-Frank Act requiring that certain institutions supervised by the Federal Reserve, including the Company, be subject to minimum capital requirements that are not less than the generally applicable risk-based capital requirements. Currently, this minimum capital floor is based on Basel I. The U.S. Basel III proposals would replace the current Basel I-based capital floor with a standardized approach that, among other things, modifies the existing risk weights for certain types of asset classes.

Pursuant to provisions of the Dodd-Frank Act, over time, trust preferred securities will no longer qualify as Tier 1 capital but will qualify only as Tier 2 capital subject to meeting Tier 2 capital eligibility criteria. This change in regulatory capital treatment may be phased in incrementally during a transition period once Basel III proposals become effective. This provision of the Dodd-Frank Act accelerates the phasing out of trust preferred securities provided in Basel III.

The Company estimates its pro forma Tier 1 common capital ratio under Basel III to be approximately 9.7% as of March 31, 2013. This estimate is based on a preliminary assessment of the Basel III proposals published to date and other factors, including the Company s expectations and interpretations of the proposed requirements and approvals of relevant advanced approach regulatory models. The estimate may significantly change based on these factors and the final rules to be issued by the Federal Reserve. If the Company does not receive the model approvals, this could have a significant impact on its Basel III capital ratio estimates. In addition, the estimate may not be comparable with that of other financial services firms given the final rules have not been issued and the estimate may be calculated differently. The Company s estimates for the Tier 1 common capital ratio under Basel III will be refined over time as a result of further rulemaking or other clarifications by the Federal Reserve, and as the Company s understanding and assumptions and interpretations of the rules evolve. The pro forma Tier 1 common capital ratio under Basel III is a non-GAAP financial measure that the Company considers to be a useful measure for evaluating compliance with expected regulatory capital requirements. The pro forma Tier 1 common capital ratio estimate is based on shareholders equity, Tier 1 common capital and RWAs at March 31, 2013. This preliminary estimate is subject to risks and uncertainties that may cause actual results to differ materially and should not be taken as a projection of what the Company s capital ratios, RWAs, earnings or other results will actually be at future dates. For a discussion of risks and uncertainties that may affect the future results of the Company, please see Risk Factors in Part I, Item 1A of the Form 10-K.

Required Capital.

The Company s required capital (Required Capital) estimation is based on the Required Capital Framework, an internal capital adequacy measure. This framework is a risk-based use-of-capital measure, which is compared with the Company s regulatory capital to help ensure the Company maintains an amount of risk-based going concern capital after absorbing potential losses from extreme stress events where applicable, at a point in time. The Company defines the difference between its regulatory capital and aggregate Required Capital as Parent capital. Average Tier 1 common capital, aggregate Required Capital and Parent capital for the quarter ended March 31, 2013 were approximately $45.7 billion, $39.9 billion and $5.8 billion, respectively. The Company generally holds Parent capital for prospective regulatory requirements, organic growth, acquisitions and other capital needs.

Tier 1 common capital and common equity attribution to the business segments is based on capital usage calculated by the Required Capital Framework. In principle, each business segment is capitalized as if it were an independent operating entity with limited diversification benefit between the business segments. Required Capital is assessed at each business segment and further attributed to product lines. This process is intended to align capital with the risks in each business segment in order to allow senior management to evaluate returns on a risk-adjusted basis. The Required Capital Framework will evolve over time in response to changes in the business and regulatory environment and to incorporate enhancements in modeling techniques. The Company will continue to evaluate the framework with respect to the impact of future regulatory requirements, as appropriate.

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The following table presents the business segments and Parent s average Tier 1 common capital and average common equity for the quarter ended March 31, 2013 and the quarter ended December 31, 2012:

	March 31, 2013(1)		December 31, 2012	
	Average Tier 1 Common Capital	Average Common Equity	Average Tier 1 Common Capital	Average Common Equity
	(dollars in billions)			
Institutional Securities(1)	$ 34.2	$ 39.9	$ 22.4	$ 28.5
Global Wealth Management Group	4.1	13.4	3.8	13.2
Asset Management	1.6	2.8	1.3	2.4
Parent capital(1)	5.8	4.8	16.9	16.3
Total	$ 45.7	$ 60.9	$ 44.4	$ 60.4

(1) Effective January 2013, the Company updated its Required Capital Framework methodology to coincide with the regulatory changes becoming effective in 2013. As a result of this update to the methodology, the majority of which was driven by the implementation of the market risk capital framework amendment, average Parent capital decreased by approximately $11 billion with a corresponding increase allocated to the business segments (principally Institutional Securities) at March 31, 2013.

Liquidity.

The Basel Committee has developed two standards intended for use in liquidity risk supervision, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

The LCR was developed to ensure banks have sufficient high-quality liquid assets to cover net cash outflows arising from significant stress over 30 calendar days. This standard s objective is to promote the short-term resilience of the liquidity risk profile of banks and bank holding companies. The Company is compliant with this liquidity standard.

The NSFR has a time horizon of one year and builds on traditional net liquid asset and cash capital methodologies used widely by internationally active banking organizations to provide a sustainable maturity structure of assets and liabilities. The NSFR is defined as the amount of available stable funding to the amount of required stable funding. This standard s objective is to promote resilience over a longer time horizon. After an observation period that began in 2011, the LCR, including any revisions, will be introduced on January 1, 2015. The NSFR, including any revisions, will move to a minimum standard by January 1, 2018.

The Company will continue to monitor the development of these standards, including any further calibration by the Basel Committee and their potential impact on the Company s current liquidity and funding requirements.

Off-Balance Sheet Arrangements with Unconsolidated Entities.

The Company enters into various arrangements with unconsolidated entities, including variable interest entities (VIE), primarily in connection with its Institutional Securities and Asset Management business segments. See Off-Balance Sheet Arrangements with Unconsolidated Entities included in Part II, Item 7, of the Form 10-K and Note 7 to the condensed consolidated financial statements for further information.

See Note 12 to the condensed consolidated financial statements for further information on guarantees.

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 March 31, 2013 are summarized below by period of expiration. Since

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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 March 31, 2013
	(dollars in millions)				
Letters of credit and other financial guarantees obtained to satisfy collateral requirements	$ 1,460	$ 9	$	$ 1	$ 1,470
Investment activities	778	100	36	273	1,187
Primary lending commitments investment grade(1)	7,353	10,801	34,106	926	53,186
Primary lending commitments non-investment grade(1)	818	4,711	10,337	1,919	17,785
Secondary lending commitments(2)	78	41	27	40	186
Commitments for secured lending transactions	340				340
Forward starting reverse repurchase agreements and securities borrowing agreements(3)(4)	63,397				63,397
Commercial and residential mortgage-related commitments	1,125	18	179	193	1,515
Underwriting commitments	40				40
Other commitments	1,763	340	115	100	2,318
Total	$ 77,152	$ 16,020	$ 44,800	$ 3,452	$ 141,424

(1) This amount includes $36.9 billion of investment grade and $9.5 billion of non-investment grade unfunded commitments accounted for as held for investment and $1.1 billion of investment grade and $2.8 billion of non-investment grade unfunded commitments accounted for as held for sale at March 31, 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 to the condensed consolidated financial statements).

(3) The Company enters into forward starting reverse repurchase and securities borrowing agreements (agreements that have a trade date at or prior to March 31, 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 March 31, 2013, $55.3 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 $2.3 billion.

The above table does not include the Company s commitment to purchase an additional 35% of the Wealth Management JV for $4.725 billion upon obtaining all regulatory approvals (see Note 3 to the condensed consolidated financial statements).

Effects of Inflation and Changes in Foreign Exchange Rates.

To the extent that a worsening inflation outlook results in rising interest rates or has negative impacts on the valuation of financial instruments that exceed the impact on the value of the Company's liabilities, it may adversely affect the Company s financial position and profitability. Rising inflation may also result in increases in the Company s non-interest expenses that may not be readily recoverable in higher prices of services offered.

A significant portion of the Company s business is conducted in currencies other than the U.S. dollar, and changes in foreign exchange rates relative to the U.S. dollar can, therefore, affect the value of non-U.S. dollar net assets, revenues and expenses. Potential exposures as a result of these fluctuations in currencies are closely monitored, and, where cost-justified, strategies are adopted that are designed to reduce the impact of these fluctuations on the Company s financial performance. These strategies may include the financing of non-U.S. dollar assets with direct or swap-based borrowings in the same currency and the use of currency forward contracts or the spot market in various hedging transactions related to net assets, revenues, expenses or cash flows.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Market Risk.

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio. Generally, the Company incurs market risk as a result of trading, investing and client facilitation activities, principally within the Institutional Securities business segment where the substantial majority of the Company s Value-at-Risk (VaR) for market risk exposures is generated. In addition, the Company incurs trading-related market risk within the Global Wealth Management Group business segment. The Asset Management business segment incurs principally Non-trading market risk primarily from capital investments in real estate funds and investments in private equity vehicles. For a further discussion of the Company s Market Risk, see Quantitative and Qualitative Disclosures about Market Risk Risk Management in Part II, Item 7A of the Form 10-K.

VaR.

The Company uses the statistical technique known as VaR as one of the tools used to measure, monitor and review the market risk exposures of its trading portfolios. The Market Risk Department calculates and distributes daily VaR-based risk measures to various levels of management.

VaR Methodology, Assumptions and Limitations.

The Company estimates VaR using a model based on volatility adjusted historical simulation for general market risk factors and Monte Carlo simulation for name-specific risk in corporate shares, bonds, loans and related derivatives. The model constructs a distribution of hypothetical daily changes in the value of trading portfolios based on the following: historical observation of daily changes in key market indices or other market risk factors; and information on the sensitivity of the portfolio values to these market risk factor changes. The Company s VaR model uses four years of historical data with a volatility adjustment to reflect current market conditions. For risk management purposes, the Company s Management VaR is computed at a 95% level of confidence over a one-day time horizon, which is a useful indicator of possible trading losses resulting from adverse daily market moves. The Company s 95%/one-day VaR corresponds to the unrealized loss in portfolio value that, based on historically observed market risk factor movements, would have been exceeded with a frequency of 5%, or five times in every 100 trading days, if the portfolio were held constant for one day.

The Company s VaR model generally takes into account linear and non-linear exposures to equity and commodity price risk, interest rate risk, credit spread risk and foreign exchange rates. The model also takes into account linear exposures to implied volatility risks for all asset classes and non-linear exposures to implied volatility risks for equity, commodity and foreign exchange referenced products. The VaR model also captures certain implied correlation risks associated with portfolio credit derivatives as well as certain basis risks (*e.g.,* corporate debt and related credit derivatives).

The Company uses VaR as one of a range of risk management tools. Among their benefits, VaR models permit estimation of a portfolio s aggregate market risk exposure, incorporating a range of varied market risks and portfolio assets. One key element of the VaR model is that it reflects risk reduction due to portfolio diversification or hedging activities. However, VaR has various strengths and limitations, which include, but are not limited to: use of historical changes in market risk factors, which may not be accurate predictors of future market conditions, and may not fully incorporate the risk of extreme market events that are outsized relative to observed historical market behavior or reflect the historical distribution of results beyond the 95% confidence interval; and reporting of losses in a single day, which does not reflect the risk of positions that cannot be liquidated or hedged in one day. A small proportion of market risk generated by trading positions is not included in VaR. The modeling of the risk characteristics of some positions relies on approximations that, under certain circumstances, could produce significantly different results from those produced using more precise measures.

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VaR is most appropriate as a risk measure for trading positions in liquid financial markets and will understate the risk associated with severe events, such as periods of extreme illiquidity. The Company is aware of these and other limitations and, therefore, uses VaR as only one component in its risk management oversight process. This process also incorporates stress testing and scenario analyses and extensive risk monitoring, analysis, and control at the trading desk, division and Company levels.

The Company s VaR model evolves over time in response to changes in the composition of trading portfolios and to improvements in modeling techniques and systems capabilities. The Company is committed to continuous review and enhancement of VaR methodologies and assumptions in order to capture evolving risks associated with changes in market structure and dynamics. As part of regular process improvement, additional systematic and name-specific risk factors may be added to improve the VaR model s ability to more accurately estimate risks to specific asset classes or industry sectors.

Since the reported VaR statistics are estimates based on historical data, VaR should not be viewed as predictive of the Company s future revenues or financial performance or of its ability to monitor and manage risk. There can be no assurance that the Company s actual losses on a particular day will not exceed the VaR amounts indicated below or that such losses will not occur more than five times in 100 trading days for a 95%/one-day VaR. VaR does not predict the magnitude of losses which, should they occur, may be significantly greater than the VaR amount.

VaR statistics are not readily comparable across firms because of differences in the firms portfolios, modeling assumptions and methodologies. These differences can result in materially different VaR estimates across firms for similar portfolios. The impact varies depending on the factor history assumptions, the frequency with which the factor history is updated, and the confidence level. As a result, VaR statistics are more useful when interpreted as indicators of trends in a firm s risk profile rather than as an absolute measure of risk to be compared across firms.

The Company utilizes the same VaR model for both risk management purposes as well as regulatory capital calculations. The Company s VaR model has been approved by the Company s regulators for use in regulatory capital calculations.

The portfolio of positions used for the Company s Management VaR differs from that used for its Regulatory VaR, as it contains certain positions which are excluded from Regulatory VaR, as determined by regulatory capital requirements. Examples include counterparty credit valuation adjustments, and loans that are carried at fair value and associated hedges. Additionally, the Company s Management VaR excludes certain risks contained in its Regulatory VaR, such as hedges to counterparty exposures related to the Company s own credit spread.

The table below presents VaR as used for risk management purposes for the Company s Trading portfolio, on a quarter-end, quarterly average and quarterly high and low basis (see Table 1 below). The Credit Portfolio is disclosed as a separate category from the Primary Risk Categories, and includes loans that are carried at fair value and associated hedges, as well as counterparty credit valuation adjustments and related hedges.

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Trading Risks.

The table below presents the Company s 95%/one-day Management VaR:

Table 1: 95% Management VaR	95%/One-Day VaR for the Quarter Ended March 31, 2013				95%/One-Day VaR for the Quarter Ended December 31, 2012			
Market Risk Category	**Period End**	**Average**	**High**	**Low**	**Period End**	**Average**	**High**	**Low**
				(dollars in millions)				
Interest rate and credit spread	$ 48	$ 61	$ 76	$ 47	$ 56	$ 60	$ 72	$ 52
Equity price	17	18	27	15	21	21	35	18
Foreign exchange rate	15	11	16	7	10	11	16	8
Commodity price	23	20	26	16	20	22	26	18
Less: Diversification benefit(1)(2)	(47)	(44)	N/A	N/A	(40)	(45)	N/A	N/A
Primary Risk Categories	$ 56	$ 66	$ 78	$ 52	$ 67	$ 69	$ 80	$ 63
Credit Portfolio	14	16	18	14	19	20	25	18
Less: Diversification benefit(1)(2)	(8)	(10)	N/A	N/A	(11)	(11)	N/A	N/A
Total Management VaR	$ 62	$ 72	$ 85	$ 59	$ 75	$ 78	$ 90	$ 71

(1) Diversification benefit equals the difference between the total VaR and the sum of the component VaRs. This benefit arises because the simulated one-day losses for each of the components occur on different days; similar diversification benefits also are taken into account within each component.
(2) N/A Not Applicable. The minimum and maximum VaR values for the total VaR and each of the component VaRs might have occurred on different days during the year, and therefore the diversification benefit is not an applicable measure.

The Company s average Management VaR for the Primary Risk Categories for the quarter ended March 31, 2013 was $66 million compared with $69 million for the quarter ended December 31, 2012. This decrease was primarily driven by reduced risk in equities and commodities products.

The average Credit Portfolio VaR for the quarter ended March 31, 2013 was $16 million compared with $20 million for the quarter ended December 31, 2012. This reduction was driven by the transition of loans held at fair value to loans held for investment (net of allowance) as well as reduced counterparty credit risk as credit spreads tightened across the market.

The average Total Management VaR for the quarter ended March 31, 2013 was $72 million compared with $78 million for the quarter ended December 31, 2012. This decrease was driven by the aforementioned movements.

Distribution of VaR Statistics and Net Revenues for the quarter ended March 31, 2013.

One method of evaluating the reasonableness of the Company s VaR model as a measure of the Company s potential volatility of net revenues is to compare the VaR with actual trading revenues. Assuming no intra-day trading, for a 95%/one-day VaR, the expected number of times that trading losses should exceed VaR during the year is 13, and, in general, if trading losses were to exceed VaR more than 21 times in a year, the adequacy of the VaR model could be questioned. The Company evaluates the reasonableness of its VaR model by comparing the potential declines in portfolio values generated by the model with actual trading results for the Company, as well as individual business units. For days where losses exceed the VaR statistic, the Company examines the drivers of trading losses to evaluate the VaR model s accuracy relative to realized trading results.

The distribution of VaR Statistics and Net Revenues will be presented in the histograms below for both the Primary Risk Categories and the Total Trading populations.

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Primary Risk Categories.

As shown in Table 1, the Company s average 95%/one-day Primary Risk Categories VaR for the quarter ended March 31, 2013 was $66 million. The histogram below presents the distribution of the Company s daily 95%/one-day Primary Risk Categories VaR for the quarter ended March 31, 2013, which was in a range between $55 million and $75 million for approximately 86% of the trading days during the quarter.

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The histogram below shows the distribution of daily net trading revenues for the Company s businesses that comprise the Primary Risk Categories for the quarter ended March 31, 2013. This excludes non-trading revenues of these businesses and revenues associated with the Company s own credit risk. During the quarter ended March 31, 2013, the Company s businesses that comprise the Primary Risk Categories experienced net trading losses on 8 days, of which no day was in excess of the 95%/one-day Primary Risk Categories VaR.

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Total Trading including the Primary Risk Categories and the Credit Portfolio.

As shown in Table 1, the Company s average 95%/one-day Total Management VaR, which includes the Primary Risk Categories and the Credit Portfolio, for the quarter ended March 31, 2013 was $72 million. The histogram below presents the distribution of the Company s daily 95%/one-day Total Management VaR for the quarter ended March 31, 2013, which was in a range between $60 million and $80 million for approximately 81% of trading days during the quarter.

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The histogram below shows the distribution of daily net trading revenues for the Company s Trading businesses for the quarter ended March 31, 2013. This excludes non-trading revenues of these businesses and revenues associated with the Company s own credit risk. During the quarter ended March 31, 2013, the Company experienced net trading losses on 8 days, of which no day was in excess of the 95%/one-day Management VaR.

Non-Trading Risks.

The Company believes that sensitivity analysis is an appropriate representation of the Company s non-trading risks. Reflected below is this analysis, which covers substantially all of the non-trading risk in the Company s portfolio.

Counterparty Exposure Related to the Company s Own Spread.

The credit spread risk relating to the Company s own mark-to-market derivative counterparty exposure is managed separately from VaR. The credit spread risk sensitivity of this exposure corresponds to an increase in value of approximately $5 million and $6 million for each 1 basis point widening in the Company s credit spread level for March 31, 2013 and December 31, 2012, respectively.

Funding Liabilities.

The credit spread risk sensitivity of the Company s mark-to-market funding liabilities corresponded to an increase in value of approximately $12 million and $13 million for each 1 basis point widening in the Company s credit spread level for March 31, 2013 and December 31, 2012, respectively.

Interest Rate Risk Sensitivity on Income from Continuing Operations.

The Company measures the interest rate risk of certain assets and liabilities by calculating the hypothetical sensitivity of net interest income to potential changes in the level of interest rates over the next twelve months. This sensitivity analysis includes positions that are mark-to-market, as well as positions that are accounted for on an accrual basis. For interest rate derivatives that are perfect economic hedges to non-mark-to-market assets or

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liabilities, the disclosed sensitivities include only the impact of the coupon accrual mismatch. This treatment mitigates the effects caused by the measurement basis differences between the economic hedge and the corresponding hedged instrument.

Given the currently low interest rate environment, the Company uses the following two interest rate scenarios to quantify the Company s sensitivity: instantaneous parallel shocks of 100 and 200 basis point increases to all points on all yield curves simultaneously.

The hypothetical model does not assume any growth, change in business focus, asset pricing philosophy or asset/liability funding mix and does not capture how the Company would respond to significant changes in market conditions. Furthermore, the model does not reflect the Company s expectations regarding the movement of interest rates in the near term, nor the actual effect on income from continuing operations before income taxes if such changes were to occur.

	March 31, 2013		December 31, 2012	
	+100 Basis Points	+200 Basis Points	+100 Basis Points	+200 Basis Points
		(dollars in millions)		
Impact on income from continuing operations before income taxes	$ 581	$ 874	$ 749	$ 1,140
Impact on income from continuing operations before income taxes excluding Citi s share of the Wealth Management JV(1)(2)	406	601	477	718

(1) Amounts for March 31, 2013 exclude Citi s portion of income from continuing operations before taxes associated with its redeemable noncontrolling interest in the Wealth Management Joint Venture.

(2) Amounts for December 31, 2012 exclude Citi s portion of income from continuing operations before taxes associated with its nonredeemable noncontrolling interest in the Wealth Management Joint Venture.

Investments.

The Company makes investments in both public and private companies. These investments are predominantly equity positions with long investment horizons, the majority of which are for business facilitation purposes. The market risk related to these investments is measured by estimating the potential reduction in net income associated with a 10% decline in investment values.

Investments	10% Sensitivity March 31, 2013	December 31, 2012
	(dollars in millions)	
Investments related to Asset Management activities:		
Hedge fund investments	$ 115	$ 120
Private equity and infrastructure funds	130	125
Real estate funds	138	138
Other investments:		
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	144	143
Other Company investments	261	292

Credit Risk.

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations. For a further discussion of the Company s credit risks, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Credit Risk in Part II, Item 7A of the Form 10-K. See Notes 8 and 12 to the condensed consolidated financial statements for additional information about the Company s financing receivables and lending commitments, respectively.

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Lending Activities.

The Company provides loans to a variety of customers, from large corporate and institutional clients to high net worth individuals. In addition, the Company purchases loans in the secondary market. The table below summarizes the Company s loans classified as Loans and Trading assets in the condensed consolidated statements of financial condition at March 31, 2013. See Notes 4 and 8 to the condensed consolidated financial statements for further information.

	Institutional Securities Corporate Lending(1)	Institutional Securities Other(2)	Global Wealth Management Group(3)	Total
		(dollars in millions)		
Commercial and industrial	$ 7,058	$ 1,066	$ 2,763	$ 10,887
Consumer loans		231	7,968	8,199
Residential real estate loans			6,925	6,925
Wholesale real estate loans		319	7	326
Loans held for investment, net of allowance	7,058	1,616	17,663	26,337
Loans held for sale	4,114		164	4,278
Loans held at fair value	7,056	9,403		16,459
Total loans	$ 18,228	$ 11,019	$ 17,827	$ 47,074

(1) In addition to loans, at March 31, 2013, $46.4 billion of unfunded lending commitments were accounted for as held for investment, $3.9 billion of unfunded lending commitments were accounted for as held for sale and $20.7 billion of unfunded lending commitments were accounted for at fair value.
(2) In addition to loans, at March 31, 2013, $0.3 billion of unfunded lending commitments were accounted for as held for investment and $0.8 billion of unfunded lending commitments were accounted for at fair value.
(3) In addition to loans, at March 31, 2013, $3.0 billion of unfunded lending commitments were accounted for as held for investment and $0.2 billion of unfunded lending commitments were accounted for as held for sale.

Institutional Securities Corporate Lending Activities. In connection with certain of its Institutional Securities business segment activities, the Company provides loans or lending commitments to select corporate clients. These loans and lending commitments have varying terms; may be senior or subordinated; may be secured or unsecured; are generally contingent upon representations, warranties and contractual conditions applicable to the borrower; and may be syndicated, traded or hedged by the Company.

The Company s corporate lending credit exposure is primarily from loan and lending commitments used for general corporate purposes, working capital and liquidity purposes and typically consist of revolving lines of credit, letter of credit facilities and certain term loans. In addition, the Company provides event-driven loans and lending commitments associated with a particular event or transaction, such as to support client merger, acquisition or recapitalization activities. The Company s event-driven loans and lending commitments typically consist of revolving lines of credit, term loans and bridge loans.

Corporate lending commitments may not be indicative of the Company s actual funding requirements, as the commitment may expire unused or the borrower may not fully utilize the commitment or the Company s portion of the commitment may be reduced through the syndication or sales process. Such syndications or sales may involve third-party institutional investors where the Company may have a custodial relationship, such as prime brokerage clients.

The Company may hedge and/or sell its exposures in connection with loans and lending commitments. Additionally, the Company may mitigate credit risk by requiring borrowers to pledge collateral and include financial covenants in lending commitments. In the condensed consolidated statements of financial condition, these loans are carried at either fair value with changes in fair value recorded in earnings or held for investment, which is recorded at amortized cost, or held for sale, which is recorded at lower of cost or fair value.

Effective April 1, 2012, the Company began accounting for all new originated corporate loans and lending commitments as either held for investment or held for sale.

The table below presents the Company s credit exposure from its corporate lending positions and lending commitments, which is measured in accordance with the Company s internal risk management standards at March 31, 2013. The total corporate lending exposure column includes funded and unfunded loans and lending commitments. Lending commitments represent legally binding obligations to provide funding to clients at March 31, 2013 for all lending transactions. Since commitments associated with these business activities may expire unused or may not be utilized to full capacity, they do not necessarily reflect the actual future cash funding requirements.

Corporate Lending Commitments and Funded Loans at March 31, 2013

	Years to Maturity				Total Corporate Lending
Credit Rating(1)	**Less than 1**	**1-3**	**3-5**	**Over 5**	**Exposure(2)**
			(dollars in millions)		
AAA	$ 598	$ 107	$ 111	$	$ 816
AA	2,950	799	5,812	68	9,629
A	2,643	4,701	11,268	596	19,208
BBB	2,650	9,420	19,080	1,577	32,727
Investment grade	8,841	15,027	36,271	2,241	62,380
Non-investment grade	1,704	7,215	14,311	2,546	25,776
Total	$ 10,545	$ 22,242	$ 50,582	$ 4,787	$ 88,156

(1) Obligor credit ratings are determined by the Credit Risk Management Department.
(2) Total corporate lending exposure represents the Company s potential loss assuming the market price of funded loans and lending commitments was zero.

At March 31, 2013, the aggregate amount of investment grade funded loans was $9.2 billion and the aggregate amount of non-investment grade funded loans was $8.0 billion. In connection with these corporate lending activities (which include corporate funded and unfunded loans and lending commitments), the Company had hedges (which include single name, sector and index hedges) with a notional amount of $13.7 billion related to the total corporate lending exposure of $88.2 billion at March 31, 2013.

Event-Driven Loans and Lending Commitments at March 31, 2013.

Included in the total corporate lending exposure amounts in the table above at March 31, 2013 were event-driven exposures of $7.3 billion composed of funded loans of $2.4 billion and lending commitments of $4.9 billion. Included in the event-driven exposure at March 31, 2013 were $6.0 billion of loans and lending commitments to non-investment grade borrowers. The maturity profile of the event-driven loans and lending commitments at March 31, 2013 was as follows: 26% will mature in less than 1 year, 11% will mature within 1 to 3 years, 42% will mature within 3 to 5 years and 22% will mature in over 5 years.

At March 31, 2013, $586 million of the Company s event-driven loans were on a non-accrual basis; all other event-driven loans were current. These loans primarily are those the Company originated prior to the financial crisis in 2008 and was unable to sell or syndicate. For loans carried at fair value that are on non-accrual status, interest income is recognized on a cash basis.

Institutional Securities Other Lending Activities. In addition to the primary corporate lending activity described above, the Institutional Securities business segment engages in other lending activity. These loans

include corporate loans purchased in the secondary market, commercial and residential mortgage loans, asset-backed loans and financing extended to equities and commodities customers. At March 31, 2013, approximately 99% of Institutional Securities Other lending activities held for investment were current; less than 2% were on non-accrual status because the loans were past due for a period of 90 days or more or payment of principal or interest was in doubt.

Global Wealth Management Group Lending Activities. The principal Global Wealth Management Group activities that result in credit risk to the Company include purpose and non-purpose securities-based lending, structured credit facilities and residential mortgage lending. At March 31, 2013, approximately 99% of the Global Wealth Management Group business segment s loans held for investment portfolio were current. For a further discussion of the Company s credit risks associated with Global Wealth Management Group business segment, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Credit Risk Global Wealth Management Group in Part II, Item 7A of the Form 10-K.

Credit Exposure Derivatives.

For credit exposure information on the Company s OTC derivative products, see Note 11 to the condensed consolidated financial statements.

Credit Derivatives. A credit derivative is a contract between a seller (guarantor) and buyer (beneficiary) of protection against the risk of a credit event occurring on a set of debt obligations issued by a specified reference entity. The beneficiary pays a periodic premium over the life of the contract and is protected for the period. If a credit event occurs, the guarantor is required to make payment to the beneficiary based on the terms of the credit derivative contract. Credit events, as defined in the contract, may be one or more of the following defined events: bankruptcy, dissolution or insolvency of the referenced entity, failure to pay, obligation acceleration, repudiation, payment moratorium and restructurings.

The Company trades in a variety of credit derivatives and may either purchase or write protection on a single name or portfolio of referenced entities. In transactions referencing a portfolio of referenced names or securities, protection may be limited to a tranche of exposure or a single name within the portfolio. The Company is an active market maker in the credit derivatives markets. As a market maker, the Company works to earn a bid-offer spread on client flow business and manages any residual credit or correlation risk on a portfolio basis. Further, the Company uses credit derivatives to manage its exposure to residential and commercial mortgage loans and corporate lending exposures during the periods presented. The effectiveness of the Company s CDS protection as a hedge of the Company s exposures may vary depending upon a number of factors, including the contractual terms of the CDS.

The Company actively monitors its counterparty credit risk related to credit derivatives. A majority of the Company s counterparties are banks, broker-dealers, insurance and other financial institutions. Contracts with these counterparties do not include ratings-based termination events but do include provisions related to counterparty rating downgrades, which may result in additional collateral being required by the Company. As with all derivative contracts, the Company considers counterparty credit risk in the valuation of its positions and recognizes credit valuation adjustments as appropriate within Trading in the condensed consolidated statements of income.

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The following table summarizes the key characteristics of the Company s credit derivative portfolio by counterparty at March 31, 2013. The fair values shown are before the application of any counterparty or cash collateral netting. For additional credit exposure information on the Company s credit derivative portfolio, see Note 11 to the condensed consolidated financial statements.

	At March 31, 2013				
	Fair Values(1)			Notionals	
	Receivable	Payable	Net	Beneficiary	Guarantor
	(dollars in millions)				
Banks and securities firms	$ 54,749	$ 52,048	$ 2,701	$ 1,558,601	$ 1,517,185
Insurance and other financial institutions	7,380	6,885	495	265,437	304,405
Non-financial entities	136	124	12	6,754	5,051
Total	$ 62,265	$ 59,057	$ 3,208	$ 1,830,792	$ 1,826,641

(1) The Company s CDS are classified in both Level 2 and Level 3 of the fair value hierarchy. Approximately 7% of receivable fair values and 5% of payable fair values represent Level 3 amounts (see Note 4 to the condensed consolidated financial statements).

Country Risk Exposure.

Country risk exposure is the risk that events within a country, such as currency crisis, regulatory changes and other political events, will adversely affect the ability of the sovereign government and/or obligors within the country to honor their obligations to the Company. Country risk exposure is measured in accordance with the Company s internal risk management standards and includes obligations from sovereign governments, corporations, clearinghouses and financial institutions. The Company actively manages country risk exposure through a comprehensive risk management framework that combines credit and market fundamentals and allows the Company to effectively identify, monitor and limit country risk. Country risk exposure before and after hedges is monitored and managed.

The Company s obligor credit evaluation process may also identify indirect exposures whereby an obligor has vulnerability or exposure to another country or jurisdiction. Examples of indirect exposures include mutual funds that invest in a single country, offshore companies whose assets reside in another country to that of the offshore jurisdiction and finance company subsidiaries of corporations. Indirect exposures identified through the credit evaluation process may result in a reclassification of country risk.

The Company conducts periodic stress testing that seeks to measure the impact on the Company s credit and market exposures of shocks stemming from negative economic or political scenarios. When deemed appropriate by the Company s risk managers, the stress test scenarios include country exit from the Eurozone and possible contagion effects. Second order risks such as the impact for core European banks of their peripheral exposures may also be considered. The Company also conducts legal and documentation analysis of its exposures to obligors in peripheral jurisdictions, which are defined as exposures in Greece, Ireland, Italy, Portugal and Spain (the European Peripherals), to identify the risk that such exposures could be redenominated into new currencies or subject to capital controls in the case of country exit from the Eurozone. This analysis, and results of the stress tests, may result in the amendment of limits or exposure mitigation. For a further discussion of the Company s country risk exposure, see Quantitative and Qualitative Disclosures about Market Risk Risk Management Credit Risk Country Risk Exposure in Part II, Item 7A of the Form 10-K.

The Company s sovereign exposures consist of financial instruments entered into with sovereign and local governments. Its non-sovereign exposures comprise exposures to primarily corporations and financial institutions. The following table shows the Company s significant non-U.S. country risk exposure except for select European countries (see the table in Country Risk Exposure Select European Countries herein) at March 31, 2013. Index credit derivatives are included in the Company s country risk exposure tables. Each reference entity within an index is allocated to that reference entity s country of risk. Index exposures are allocated to the underlying reference entities in proportion to the notional weighting of each reference entity in the index, adjusted for any fair value receivable/payable for that reference entity. Where credit risk crosses

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

Country	Net Inventory(1)	Net Counterparty Exposure(2)(3)	Funded Lending	Unfunded Commitments	Exposure Before Hedges	Hedges(4)	Net Exposure(5)
			(dollars in millions)				
United Kingdom:							
Sovereigns	$ 777	$ 30	$	$	$ 807	$ (209)	$ 598
Non-sovereigns	1,464	12,814	2,507	4,948	21,733	(3,067)	18,666
Subtotal	$ 2,241	$ 12,844	$ 2,507	$ 4,948	$ 22,540	$ (3,276)	$ 19,264
Germany:							
Sovereigns	$ 2,258	$ 530	$	$	$ 2,788	$ (1,194)	$ 1,594
Non-sovereigns	658	3,376	588	3,721	8,343	(2,264)	6,079
Subtotal	$ 2,916	$ 3,906	$ 588	$ 3,721	$ 11,131	$ (3,458)	$ 7,673
Brazil:							
Sovereigns	$ 4,079	$	$	$	$ 4,079	$	$ 4,079
Non-sovereigns	79	231	1,407	212	1,929	(179)	1,750
Subtotal	$ 4,158	$ 231	$ 1,407	$ 212	$ 6,008	$ (179)	$ 5,829
Canada:							
Sovereigns	$ 900	$ 26	$	$	$ 926	$	$ 926
Non-sovereigns	696	1,058	186	1,504	3,444	(250)	3,194
Subtotal	$ 1,596	$ 1,084	$ 186	$ 1,504	$ 4,370	$ (250)	$ 4,120
Australia:							
Sovereigns	$ 1,590	$ 24	$	$	$ 1,614	$ (21)	$ 1,593
Non-sovereigns	849	475	493	1,007	2,824	(373)	2,451
Subtotal	$ 2,439	$ 499	$ 493	$ 1,007	$ 4,438	$ (394)	$ 4,044

(1) Net inventory represents exposure to both long and short single-name and index positions (*i.e.*, bonds and equities at fair value and CDS based on notional amount assuming zero recovery adjusted for any fair value receivable or payable). As a market maker, the Company transacts in these CDS positions to facilitate client trading. At March 31, 2013, net exposures related to purchased and sold single-name and index credit derivatives for these countries were $(123) million. For a further description of the triggers for purchased credit protection and whether those triggers may limit the effectiveness of the Company s hedges, see Credit Exposure Derivatives herein.

(2) Net counterparty exposure (*i.e.*, repurchase transactions, securities lending and OTC derivatives) taking into consideration legally enforceable master netting agreements and collateral.

(3) At March 31, 2013, the benefit of collateral received against counterparty credit exposure was $15.5 billion in the U.K., with 99% of collateral consisting of cash, U.S. and U.K. government obligations, and $16.7 billion in Germany with 98% of collateral consisting of cash and government obligations of Belgium, France and the Netherlands. The benefit of collateral received against counterparty credit exposure in the three other countries totaled approximately $2.9 billion, with collateral primarily consisting of cash and U.S. government obligations. These amounts do not include collateral received on secured financing transactions.

(4) Represents CDS hedges (purchased and sold) on net counterparty exposure and funded lending executed by trading desks responsible for hedging counterparty and lending credit risk exposures for the Company. Based on the CDS notional amount assuming zero recovery adjusted for any fair value

receivable or payable.

(5) In addition, at March 31, 2013, the Company had exposure to these countries for overnight deposits with banks of approximately $6.3 billion.

Country Risk Exposure Select European Countries. In connection with certain of its Institutional Securities business segment activities, the Company has exposure to many foreign countries. During the quarter ended March 31, 2013, certain European countries, which include the European Peripherals and France, continued to

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experience challenges to their creditworthiness due to weakness in their economic and fiscal situations. The following table shows the Company s exposure to the European Peripherals and France at March 31, 2013. Country exposure is measured in accordance with the Company s internal risk management standards and includes obligations from sovereign and non-sovereigns, which includes governments, corporations, clearinghouses and financial institutions.

Country	Net Inventory(1)	Net Counterparty Exposure(2)(3)	Funded Lending	Unfunded Commitments	CDS Adjustment(4)	Exposure Before Hedges	Hedges(5)	Net Exposure
				(dollars in millions)				
Greece:								
Sovereigns	$ 46	$ 42	$	$	$	$ 88	$	$ 88
Non-sovereigns	40	6				46	(25)	21
Subtotal	$ 86	$ 48	$	$	$	$ 134	$ (25)	$ 109
Ireland:								
Sovereigns	$ 100	$	$	$	$ 5	$ 105	$ 5	$ 110
Non-sovereigns	248	52			18	318	(8)	310
Subtotal	$ 348	$ 52	$	$	$ 23	$ 423	$ (3)	$ 420
Italy:								
Sovereigns	$ (151)	$ 322	$	$	$ 445	$ 616	$ (208)	$ 408
Non-sovereigns	667	652	370	802	107	2,598	(350)	2,248
Subtotal	$ 516	$ 974	$ 370	$ 802	$ 552	$ 3,214	$ (558)	$ 2,656
Spain:								
Sovereigns	$ (424)	$ 1	$	$	$ 467	$ 44	$ 11	$ 55
Non-sovereigns	330	512	102	916	192	2,052	(454)	1,598
Subtotal	$ (94)	$ 513	$ 102	$ 916	$ 659	$ 2,096	$ (443)	$ 1,653
Portugal:								
Sovereigns	$ (109)	$ (2)	$	$	$ 31	$ (80)	$ (63)	$ (143)
Non-sovereigns	89	7	95	96	50	337	(22)	315
Subtotal	$ (20)	$ 5	$ 95	$ 96	$ 81	$ 257	$ (85)	$ 172
Sovereigns	$ (538)	$ 363	$	$	$ 948	$ 773	$ (255)	$ 518
Non-sovereigns	1,374	1,229	567	1,814	367	5,351	(859)	4,492
Total European Peripherals(6)	$ 836	$ 1,592	$ 567	$ 1,814	$ 1,315	$ 6,124	$ (1,114)	$ 5,010
France(6):								
Sovereigns	$ (1,292)	$ 15	$	$	$ 32	$ (1,245)	$ (246)	$ (1,491)
Non-sovereigns	(55)	2,296	255	1,877	228	4,601	(814)	3,787
Total France(6)	$ (1,347)	$ 2,311	$ 255	$ 1,877	$ 260	$ 3,356	$ (1,060)	$ 2,296

(1) Net inventory represents exposure to both long and short single-name and index positions (*i.e.*, bonds and equities at fair value and CDS based on notional amount assuming zero recovery adjusted for any fair value receivable or payable). As a market maker, the Company transacts in these CDS positions to facilitate client trading. At March 31, 2013, net exposures related to purchased and sold single-name and index credit derivatives for the European Peripherals and France were $(232) million and $(802) million, respectively. For a further description of the triggers for purchased credit protection and whether those triggers may limit the effectiveness of the Company s hedges, see Credit Exposure Derivatives herein.

(2) Net counterparty exposure (*i.e*., repurchase transactions, securities lending and OTC derivatives) takes into consideration legally enforceable master netting agreements and collateral.

(3) At March 31, 2013, the benefit of collateral received against counterparty credit exposure was $4.3 billion in the European Peripherals, with 98% of such collateral consisting of cash and German government obligations and $7.8 billion in France with nearly all collateral consisting of cash and U.S. government obligations. These amounts do not include collateral received on secured financing transactions.

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(4) CDS adjustment represents credit protection purchased from European Peripherals banks on European Peripherals sovereign and financial institution risk or French banks on French sovereign and financial institution risk. Based on the CDS notional amount assuming zero recovery adjusted for any fair value receivable or payable.
(5) Represents CDS hedges (purchased and sold) on net counterparty exposure and funded lending executed by trading desks responsible for hedging counterparty and lending credit risk exposures for the Company. Based on the CDS notional amount assuming zero recovery adjusted for any fair value receivable or payable.
(6) In addition, at March 31, 2013, the Company had European Peripherals and French exposure for overnight deposits with banks of approximately $115 million and $21 million, respectively.

Industry Exposure Corporate Lending and OTC Derivative Products. The Company also monitors its credit exposure to individual industries for credit exposure arising from corporate loans and lending commitments as discussed above and current exposure arising from the Company s OTC derivative contracts.

The following tables show the Company s credit exposure from its primary corporate loans and lending commitments and OTC derivative products by industry at March 31, 2013:

Industry	**Corporate Lending Exposure (dollars in millions)**
Energy	$ 11,798
Utilities	9,705
Funds, exchanges and other financial services(1)	7,643
Telecommunications services	4,948
Chemicals, metals, mining and other materials	4,751
Pharmaceuticals	4,619
Media-related entities	4,261
Capital goods	4,115
Technology software and services	3,869
Food, beverage and tobacco	3,728
Other	28,719
Total	$ 88,156

Industry	**OTC Derivative Products(2) (dollars in millions)**
Utilities	$ 3,943
Banks	3,740
Special purpose vehicles	3,165
Funds, exchanges and other financial services(1)	2,008
Regional governments	1,481
Healthcare	1,333
Transportation	944
Academic institutions	896
Energy	758
Sovereign governments	706
Other	4,698
Total	$ 23,672

(1) Includes mutual funds, pension funds, private equity and real estate funds, exchanges and clearinghouses and diversified financial services.
(2) For further information on derivative instruments and hedging activities, see Note 11 to the condensed consolidated financial statements.

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Item 4. Controls and Procedures.

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

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

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FINANCIAL DATA SUPPLEMENT (Unaudited)

Average Balances and Interest Rates and Net Interest Income

	Three Months Ended March 31, 2013		
	Average Weekly Balance	Interest	Annualized Average Rate
		(dollars in millions)	
Assets			
Interest earning assets:			
Trading assets(1):			
U.S.	$ 127,859	$ 527	1.7%
Non-U.S.	96,551	77	0.3
Securities available for sale:			
U.S.	41,411	96	0.9
Loans:			
U.S.	28,628	234	3.3
Non-U.S.	572	10	7.1
Interest bearing deposits with banks:			
U.S.	22,647	15	0.3
Non-U.S.	7,529	11	0.6
Federal funds sold and securities purchased under agreements to resell and Securities borrowed:			
U.S.	199,363	(52)	(0.1)
Non-U.S.	93,713	144	0.6
Other:			
U.S.	64,075	99	0.6
Non-U.S.	16,441	237	5.8
Total	$ 698,789	$ 1,398	0.8%
Non-interest earning assets	125,572		
Total assets	$ 824,361		
Liabilities and Equity			
Interest bearing liabilities:			
Deposits:			
U.S.	$ 79,698	$ 41	0.2%
Non-U.S.	2,151		
Commercial paper and other short-term borrowings:			
U.S.	725	1	0.6
Non-U.S.	767	8	4.2
Long-term debt:			
U.S.	160,530	942	2.4
Non-U.S.	9,842	18	0.7
Trading liabilities(1):			
U.S.	35,280		
Non-U.S.	66,627		
Securities sold under agreements to repurchase and Securities loaned:			
U.S.	108,438	158	0.6
Non-U.S.	64,396	292	1.8
Other:			
U.S.	91,845	(402)	(1.8)

Non-U.S.	31,612	155	2.0
Total	$ 651,911	$ 1,213	0.8
Non-interest bearing liabilities and equity	172,450		
Total liabilities and equity	$ 824,361		
Net interest income and net interest rate spread		$ 185	%

(1) Interest expense on Trading liabilities is reported as a reduction of Interest income on Trading assets.

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FINANCIAL DATA SUPPLEMENT (Unaudited) (Continued)

Average Balances and Interest Rates and Net Interest Income

	Three Months Ended March 31, 2012		
	Average Weekly Balance	Interest (dollars in millions)	Annualized Average Rate
Assets			
Interest earning assets:			
Trading assets(1):			
U.S.	$ 130,147	$ 631	2.0%
Non-U.S.	88,710	160	0.7
Securities available for sale:			
U.S.	31,508	86	1.1
Loans:			
U.S.	15,931	112	2.9
Non-U.S.	189	6	12.9
Interest bearing deposits with banks:			
U.S.	28,789	5	0.1
Non-U.S.	12,474	22	0.7
Federal funds sold and securities purchased under agreements to resell and Securities borrowed:			
U.S.	180,579	(37)	(0.1)
Non-U.S.	102,382	150	0.6
Other:			
U.S.	50,398	232	1.9
Non-U.S.	14,127	175	5.0
Total	$ 655,234	$ 1,542	1.0%
Non-interest earning assets	130,446		
Total assets	$ 785,680		
Liabilities and Equity			
Interest bearing liabilities:			
Deposits:			
U.S.	$ 65,638	$ 45	0.3%
Non-U.S.	84		
Commercial paper and other short-term borrowings:			
U.S.	629	2	1.3
Non-U.S.	2,377	11	1.9
Long-term debt:			
U.S.	173,389	1,240	2.9
Non-U.S.	6,809	14	0.8
Trading liabilities(1):			
U.S.	28,779		
Non-U.S.	54,457		
Securities sold under agreements to repurchase and Securities loaned:			
U.S.	94,878	171	0.7
Non-U.S.	63,601	292	1.9

Other:			
U.S.	80,264	(384)	(1.9)
Non-U.S.	34,655	210	2.5
Total	$ 605,560	$ 1,601	1.1
Non-interest bearing liabilities and equity	180,120		
Total liabilities and equity	$ 785,680		
Net interest income and net interest rate spread		$ (59)	(0.1)%

(1) Interest expense on Trading liabilities is reported as a reduction of Interest income on Trading assets.

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FINANCIAL DATA SUPPLEMENT (Unaudited) (Continued)

Rate/Volume Analysis

The following tables set forth an analysis of the effect on net interest income of volume and rate changes:

	Three Months Ended March 31, 2013 versus Three Months Ended March 31, 2012		
	Increase (decrease) due to change in:		
	Volume	Rate	Net Change
		(dollars in millions)	
Interest earning assets			
Trading assets:			
U.S.	$ (11)	$ (93)	$ (104)
Non-U.S.	14	(97)	(83)
Securities available for sale:			
U.S.	27	(17)	10
Loans:			
U.S.	89	33	122
Non-U.S.	12	(8)	4
Interest bearing deposits with banks:			
U.S.	(1)	11	10
Non-U.S.	(9)	(2)	(11)
Federal funds sold and securities purchased under agreements to resell and Securities borrowed:			
U.S.	(4)	(11)	(15)
Non-U.S.	(13)	7	(6)
Other:			
U.S.	64	(197)	(133)
Non-U.S.	29	33	62
Change in interest income	$ 197	$ (341)	$ (144)
Interest bearing liabilities			
Deposits:			
U.S.	$ 10	$ (14)	$ (4)
Commercial paper and other short-term borrowings:			
U.S.		(1)	(1)
Non-U.S.	(7)	4	(3)
Long-term debt:			
U.S.	(92)	(206)	(298)
Non-U.S.	6	(2)	4
Securities sold under agreements to repurchase and Securities loaned:			
U.S.	24	(37)	(13)
Non-U.S.	4	(4)	
Other:			
U.S.	(56)	38	(18)
Non-U.S.	(18)	(37)	(55)
Change in interest expense	$ (129)	$ (259)	$ (388)
Change in net interest income	$ 326	$ (82)	$ 244

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Part II Other Information.

Item 1. Legal Proceedings.

In addition to the matters described in the Company s Annual Report on Form 10-K for the year ended December 31, 2012 (the Form 10-K), and those described below, in the normal course of business, the Company has been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with its activities as a global diversified financial services institution. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the entities that would otherwise be the primary defendants in such cases are bankrupt or in financial distress.

The Company is also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding the Company s business, including, among other matters, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

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

In many proceedings, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. The Company cannot predict with certainty if, how or when such proceedings will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be, particularly for proceedings that are in their early stages of development or where plaintiffs seek substantial or indeterminate damages. Numerous issues may need to be resolved, including through potentially lengthy discovery and determination of important factual matters, determination of issues related to class certification and the calculation of damages, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a loss or additional loss or range of loss or additional loss can be reasonably estimated for any proceeding. Subject to the foregoing, the Company believes, based on current knowledge and after consultation with counsel, that the outcome of such proceedings will not have a material adverse effect on the consolidated financial condition of the Company, although the outcome of such proceedings could be material to the Company s operating results and cash flows for a particular period depending on, among other things, the level of the Company s revenues or income for such period.

Over the last several years, the level of litigation and investigatory activity focused on residential mortgage and credit crisis related matters has increased materially in the financial services industry. As a result, the Company expects that it may become the subject of increased claims for damages and other relief regarding residential mortgages and related securities in the future and, while the Company has identified below certain proceedings that the Company believes to be material, individually or collectively, there can be no assurance that additional material losses will not be incurred from residential mortgage claims that have not yet been notified to the Company or are not yet determined to be material.

The following developments have occurred with respect to certain matters previously reported in the Form 10-K or concern new actions that have been filed since December 31, 2012:

Residential Mortgage and Credit Crisis Related Matters.

Class Actions.

On March 28, 2013, the court presiding in both *In re Morgan Stanley ERISA Litigation* and *Coulter v. Morgan Stanley & Co. Incorporated et al.* granted defendants motions to dismiss. In each case the court allowed plaintiffs the opportunity to file an amended complaint with respect to certain claims.

On March 8, 2013, the Company filed an answer to the fourth amended complaint in *In re Morgan Stanley Mortgage Pass-Through Certificates Litigation.*

On November 16, 2012, the court presiding in *In re IndyMac Mortgage-Backed Securities Litigation* denied without prejudice plaintiffs motion for reconsideration seeking to expand the offerings at issue in the litigation. On March 26, 2013, the court entered an order staying the litigation for 60 days in order for the parties to engage in settlement discussions.

On April 17, 2013, Bank of America announced an agreement to settle several matters, including the *Luther, et al. v. Countrywide Financial Corporation, et al.* litigation. The settlement agreement is subject to court approval.

Other Litigation.

On April 24, 2013, the parties reached an agreement to settle the *Abu Dhabi Commercial Bank, et al. v. Morgan Stanley & Co. Inc., et al.* litigation. On April 26, 2013, the court dismissed the action with prejudice. The settlement does not cover certain claims that were previously dismissed.

On April 24, 2013, the parties reached an agreement to settle the *King County, Washington, et al. v. IKB Deutsche Industriebank AG, et al.* litigation. On April 26, 2013, the court dismissed the action with prejudice.

On March 15, 2013, the court in *Allstate Insurance Company, et al. v. Morgan Stanley, et al*. denied in substantial part the defendants motion to dismiss the amended complaint.

On January 10, 2013, the Company filed an answer to the amended complaint in *Federal Housing Finance Agency, as Conservator for the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation v. Morgan Stanley, et al.*

On February 25, 2013, the Company filed a motion for summary judgment and special exceptions with respect to the claims raised in the amended complaint in *Federal Deposit Insurance Corporation, as Receiver for Franklin Bank S.S.B v. Morgan Stanley & Company LLC F/K/A Morgan Stanley & Co. Inc.*, which motion was denied in substantial part on April 26, 2013.

On March 20, 2013, plaintiff in *Sealink Funding Limited v. Morgan Stanley, et al*. filed a second amended complaint.

On March 15, 2013, the court in *The Prudential Insurance Company of America, et al. v. Morgan Stanley, et al.* denied the defendants motion to dismiss the amended complaint.

On February 12, 2013, the plaintiff in *Federal Deposit Insurance Corporation as Receiver for Colonial Bank v. Citigroup Mortgage Loan Trust Inc. et al.* filed an amended complaint. On March 29, 2013, defendants filed a motion to dismiss the amended complaint in *Federal Deposit Insurance Corporation as Receiver for Colonial Bank v. Countrywide Securities Corporation et al.*

On March 18, 2013, the Company filed a motion to dismiss the complaint in *Morgan Stanley Mortgage Loan Trust 2006-13ARX v. Morgan Stanley Mortgage Capital Holdings LLC, as successor in interest to Morgan Stanley Mortgage Capital Inc.*

On April 24, 2013, the court in *Phoenix Light SF Limited et al. v. J.P. Morgan Securities LLC et al.* granted defendants motion to dismiss the complaint with leave to replead.

On February 8, 2013, the Company filed a motion to dismiss the complaint in *Stichting Pensioenfonds ABP v. Morgan Stanley, et al.*

On March 15, 2013, defendants filed a motion to dismiss the complaint in *Royal Park Investments SA/NV v. Merrill Lynch et al.*

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On March 11, 2013, the Company filed a motion to dismiss the complaint in *Morgan Stanley Mortgage Loan Trust 2006-10SL, et al. v. Morgan Stanley Mortgage Capital Holdings LLC, as successor in interest to Morgan Stanley Mortgage Capital Inc.*

On January 31, 2013, plaintiffs in *HSH Nordbank AG et al. v. Morgan Stanley et al.* filed a complaint against the Company, certain affiliates, and other defendants in the Supreme Court of the State of New York, New York County (the Supreme Court of NY). The complaint alleges that defendants made material misrepresentations and omissions in the sale to plaintiffs of certain mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly sponsored, underwritten and/or sold by the Company to plaintiff was approximately $524 million. The complaint alleges causes of action against the Company for common law fraud, fraudulent concealment, aiding and abetting fraud, negligent misrepresentation, and rescission and seeks, among other things, compensatory and punitive damages. On April 12, 2013, defendants filed a motion to dismiss the complaint.

On February 14, 2013, plaintiff in *Bank Hapoalim B.M. v. Morgan Stanley et al.* filed a complaint in the Supreme Court of NY. The complaint alleges that defendants made material misrepresentations and omissions in the sale to plaintiff of certain mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly sponsored, underwritten and/or sold by the Company to plaintiff was approximately $141 million. The complaint alleges causes of action against the Company for common law fraud, fraudulent concealment, aiding and abetting fraud, and negligent misrepresentation, and seeks, among other things, compensatory and punitive damages. On April 26, 2013, defendants filed a motion to dismiss the complaint.

On December 20, 2012, Landesbank Baden-Württemberg and two affiliates filed a summons with notice against the Company and certain affiliates in the Supreme Court of NY, styled *Landesbank Baden-Württemberg et al. v. Morgan Stanley et al.* The notice alleges that defendants made material misrepresentations and omissions in the sale to plaintiff of certain mortgage pass-through certificates backed by securitization trusts containing residential mortgage loans. The total amount of certificates allegedly sponsored, underwritten and/or sold by the Company to plaintiff was approximately $50 million. The notice identifies causes of action against the Company for, among other things, common law fraud, fraudulent inducement, fraudulent concealment, aiding and abetting fraud, and negligent misrepresentation as well as contract claims. The notice identifies the relief sought to include, among other things, monetary damages, punitive damages, and rescission.

On March 7, 2013, the Federal Housing Finance Agency filed a summons with notice on behalf of the trustee of the Saxon Asset Securities Trust, Series 2007-1, against the Company and an affiliate. The matter is styled *Federal Housing Finance Agency, as Conservator for the Federal Home Loan Mortgage Corporation, on behalf of the Trustee of the Saxon Asset Securities Trust, Series 2007-1 v. Saxon Funding Management LLC and Morgan Stanley* and is pending in the Supreme Court of NY. The notice asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $593 million, breached various representations and warranties. The notice seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, unspecified damages, indemnity, and interest.

On April 26, 2013, Seagull Point, LLC filed a summons with notice against the Company and other defendants. The matter is styled *Seagull Point, LLC, individually and on behalf of Morgan Stanley ABS Capital I Inc. Trust 2007 HE-5 v. WMC Mortgage Corp., et al.* and is pending in the Supreme Court of NY. The notice asserts claims for breach of contract and alleges, among other things, that the loans in the trust, which had an original principal balance of approximately $1.19 billion, breached various representations and warranties. The notice seeks, among other relief, specific performance of the loan breach remedy procedures in the transaction documents, declaratory judgment relief, and compensatory damages, including damages of not less than $476 million plus expenses, interest and fees.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The table below sets forth the information with respect to purchases made by or on behalf of the Company of its common stock during the quarterly period ended March 31, 2013.

Issuer Purchases of Equity Securities

(dollars in millions, except per share amounts)

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs(C)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Month #1				
(January 1, 2013 January 31, 2013)				
Share Repurchase Program(A)				$ 1,560
Employee Transactions(B)	1,783,230	$ 19.85		
Month #2				
(February 1, 2013 February 28, 2013)				
Share Repurchase Program(A)				$ 1,560
Employee Transactions(B)	11,458,512	$ 23.35		
Month #3				
(March 1, 2013 March 31, 2013)				
Share Repurchase Program(A)				$ 1,560
Employee Transactions(B)	149,103	$ 22.87		
Total				
Share Repurchase Program(A)				$ 1,560
Employee Transactions(B)	13,390,845	$ 22.88		

(A) On December 19, 2006, the Company announced that its Board of Directors authorized the repurchase of up to $6 billion of the Company s outstanding stock under a share repurchase program (the Share Repurchase Program). The Share Repurchase Program is a program for capital management purposes that considers, among other things, business segment capital needs, as well as equity-based compensation and benefit plan requirements. The Share Repurchase Program has no set expiration or termination date. Share repurchases by the Company are subject to regulatory approval.

(B) Includes: (1) shares delivered or attested in satisfaction of the exercise price and/or tax withholding obligations by holders of employee and director stock options (granted under employee and director stock compensation plans) who exercised options; (2) shares withheld, delivered or attested (under the terms of grants under employee and director stock compensation plans) to offset tax withholding obligations that occur upon vesting and release of restricted shares; (3) shares withheld, delivered and attested (under the terms of grants under employee and director stock compensation plans) to offset tax withholding obligations that occur upon the delivery of outstanding shares underlying restricted stock units, and (4) shares withheld, delivered and attested (under the terms of grants under employee and director stock compensation plans) to offset the cash payment for fractional shares. The Company s employee and director stock compensation plans provide that the value of the shares withheld, delivered or attested shall be valued using the fair market value of the Company s common stock on the date the relevant transaction occurs, using a valuation methodology established by the Company.

(C) Share purchases under publicly announced programs are made pursuant to open-market purchases, Rule 10b5-1 plans or privately negotiated transactions (including with employee benefit plans) as market conditions warrant and at prices the Company deems appropriate.

Item 6. Exhibits.

An exhibit index has been filed as part of this Report on Page E-1.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MORGAN STANLEY

(Registrant)

By: /s/ RUTH PORAT
Ruth Porat

Executive Vice President and

Chief Financial Officer

By: /s/ PAUL C. WIRTH
Paul C. Wirth

Deputy Chief Financial Officer

Date: May 7, 2013

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EXHIBIT INDEX

MORGAN STANLEY

Quarter Ended March 31, 2013

Exhibit No.	Description
10.1	Change of Employment Status and Release Agreement between Morgan Stanley and Paul J. Taubman, dated January 3, 2013.
10.2	Morgan Stanley UK Limited Alternative Retirement Plan, dated as of October 8, 2009.
10.3	Form of Award Certificate for Discretionary Retention Awards under the Morgan Stanley Compensation Incentive Plan.
10.4	Form of Award Certificate for Discretionary Retention Awards of Stock Units.
10.5	Form of Award Certificate for Discretionary Retention Awards of Stock Options.
10.6	Form of Award Certificate for Long-Term Incentive Program Awards.
12	Statement Re: Computation of Ratio of Earnings to Fixed Charges and Computation of Earnings to Fixed Charges and Preferred Stock Dividends.
15	Letter of awareness from Deloitte & Touche LLP, dated May 7, 2013, concerning unaudited interim financial information.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.
32.2	Section 1350 Certification of Chief Financial Officer.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Statements of Financial Condition March 31, 2013 and December 31, 2012, (ii) the Condensed Consolidated Statements of Income Three Months Ended March 31, 2013 and 2012, (iii) the Condensed Consolidated Statements of Comprehensive Income Three Months Ended March 31, 2013 and 2012, (iv) the Condensed Consolidated Statements of Cash Flows Three Months Ended March 31, 2013 and 2012, (v) the Condensed Consolidated Statements of Changes in Total Equity Three Months Ended March 31, 2013 and 2012, and (vi) Notes to Condensed Consolidated Financial Statements (unaudited).