Good morning. This is Kathleen McCabe, Head of Investor Relations. During today's presentation, we will refer to our earnings release, financial supplement, and strategic update, copies of which are available at www.morganstanley.com. Today's presentation may include forward-looking statements that are subject to risks and uncertainties that may cause actual results to differ materially. Please refer to our notices regarding forward-looking statements and non-GAAP measures that appear in the earnings release and the strategic update. This presentation may not be duplicated or reproduced without our consent.

I'll now turn the call over to Chairman and Chief Executive Officer, James Gorman.

James Gorman

Thank you, Kathleen. Good morning, everyone. Given the amount of information we're going to cover on this call, we're happy to extend the Q&A a few minutes as needed to insure you get your questions in. In a minute, I'll take you through the 2016/2017 outlook and plan, but before I do so let me touch briefly on the fourth quarter.

Clearly the difficult environment that began midsummer continued through the fourth quarter. Notwithstanding that, equity sales and trading and Investment Banking were strong, and Wealth Management and Investment Management were solid. We acted on those things within our control by initiating a major restructuring affect, conducting a large reduction in force in December, reducing our compensation-to-revenue ratio, launching a large scale firm-wide expense initiative, more on that later, significantly reducing RWAs impact to $136 billion, well below our target of $180 billion, and closing the sale of our oil merchanting business.

Finally, we put in place the leadership team to drive the team forward over the next several years. On that, I look forward to having Colm join me as our President. He brings highly complimentary skills and will help take this firm to the next level. The previous appointments of Ted Pick as Global Head of Sales and Trading, Dan Simkowitz as Head of Investment Management and Jon Pruzan as CFO are hard evidence of our deep and talented bench.

Finally, Sam Kellie-Smith, will run fixed income and commodities working for Ted. In light of these changes, it was expected that Greg Fleming would pursue opportunities away from Morgan Stanley. We thank Greg for all he is done, and wish him well for the future. Our bench in Wealth Management is particularly strong. Andy Saperstein and Shelley O'Connor have over 40 years experience in that business.

Shelley previously ran the field organization, a position Andy also previously held as well as running products. Colm will help oversee Wealth Management and of course it is a business have a very long history in. Building a first-class leadership team is among my most important responsibilities. I'm delighted we made these decisions, and look forward to a period of stability with this team. Now our entire focus is on driving results.

Please, if you will, turn to the slides that you can find on the Investor Relations website. After I go through these Jon will take you through the quarter in more detail then we'll both take your questions. Let's start with Slide number 3. As you can see, as a result of many changes, our business mix is much more balanced with complimentary franchises in Institutional Securities, Wealth Management, and Investment Management.

In our Institutional Securities business, we have maintained our leadership positions in Investment Banking and equity sales and trading, as illustrated on Slide 4. In equity sales and trading, we're first among global peers as of the third quarter year-to-date. We've built on the momentum of recent years under the leadership of Colm and Ted, with full year revenues ex-DVA of $8.1 billion, up 18% year-over-year. In banking, we continue to see strength and finished second in global announced M&A and number one in IPOs.

Slide 5 recaps what we laid out last year and our results. In Wealth Management, we achieved a full-year profit margin of 22%, with pre-tax earnings of $3.3 billion, a record for this business. We expect to see further growth in Wealth Management. We grew our U.S. banks' net interest income by 46% year-over-year in a flat rate environment. However in fixed income and commodities, we failed to improve on our financial results.

While we've been reshaping fixed for several years, the volatile and shrinking revenue pool coupled with the steady increase in capital requirements led us to take further significant action at year end. Through our recently announced FIC restructuring, we will better align the capital and resources committed to the business with the opportunity we see. Through the year, our funding costs benefited from the realization of our funding tailwind, as the debt we issued was at much tighter spreads than the post-crisis debt that matured. We will continue to see benefit from the associated going forward.

We maintained our focus on expense management and achieved a full-year ISG compensation ratio ex-DVA of 37%, below our stated goal of 39% or less. And finally, we increased our common dividend by 50% and increased our buyback from $1 billion to $2.5 billion. We intend to further increase capital return to shareholders in the years ahead, subject of course to regulatory approval. As you can on page 6, our ROE for 2015 excluding DVA and the discrete tax benefits were 7% on a capital base of $67 billion. We remain committed to our 10% ROE target. Obviously that gap is a function of both earnings and equity.

On Slide 7 we layout the key elements of our plan for achieving returns of 10% or greater. These include capital sufficiency, expense efficiency, Wealth Management revenue growth and capital returns to shareholders. These of course are in addition to the continued improvements across Institutional Securities and Investment Management. Since 2012, we have made significant progress in derisking our balance sheet on flat assets. This is shown on Slide 8. We continued to accrete common equity, despite continued increase in capital returns to shareholders. We believe our robust equity base coupled with a derisk balance sheet and a transformed business mix, provides a strong foundation to support our current plan.

As shown on Slide 9, our pro forma common equity Tier 1 ratio of 14.1% and pro forma supplemental leverage ratio of 5.8% are well in excess of their prospective requirements. Building a very strong capital base has been a critical part of our strategy, as evidenced by our ratios. By comparison in the first quarter of 2014, our pro forma common equity Tier 1 ratio under the advanced approach was 11.6% and our pro forma supplemental leverage ratio was just 4.2%. We await clarification on the impact in timing of the G-SIB buffer and CCAR. When that clarity is provided, we believe we will be near the end of supervisory changes and therefore our capital is appropriately sized to support our business going forward.

Turning to fixed income and commodities on Slide 10. Notwithstanding considerable efforts to reduce the capital required to support FIC, further regulatory changes in recent years and a prolonged difficult environment led us to believe that much more radical actions were necessary. We have reset the long-term RWA target for FIC at $110 billion, and a setting an SLR exposure target of $250 billion. As a result, we are confident that going forward this business will require $5 billion to $8 billion less capital. Over time where possible, excess capital will be returned to shareholders.

On Slide 11, we give more details on the FIC restructuring. Given the cyclical, and in some cases structural challenges facing fixed income, driven by the work Colm and Ted did at the end of last year, we took the decision to downside headcount by 25%, along with our ongoing balance sheet and capital focus. We took this action alongside the recent installation of a new management team with the objective of credibly sizing of the business going forward.

Our emphasis will be where we have traditional strengths. We have competitive advantages in micro products, specifically in corporate credit connecting to our Investment Banking franchise, as well as the mortgage product and in macro product such as structured rates, and certain electronified FX product, which we will appropriately resource. Even closer integration with equities and banking within Institutional Securities, and in partnership with Wealth Management against our core client base, will allow us to enhance asset velocity and ultimately optimize wallet.

Now let's turn to expense discipline, beginning on Slide 12. As a management team, our number priority is to control what we can control given market realities. In ISG, we previously set our compensation target of 39%, and finished the year at approximately 37%, partly a function of having fewer employees to support the business. We intend to stay at or below 37% in ISG and have also said 2017 targets for Wealth Management and Investment Management.

Turning to Slide 13. In addition to our focus on compensation discipline, we have launched a major company-wide initiative called Project Streamline, an effort lead by our CFO Jon Pruzan, and COO Jim Rosenthal, which is designed to identify and implement significant infrastructure expense reductions by the end of 2017. Some of these initiatives are shown here.

Now is the time to tackle head-on our infrastructure costs and maximize low-cost deployment of talent. We have too many legal entities, too much duplication of operations and processes, and too many employees based in high-cost centers doing work that can sensibly be done in lower cost centers. You will hear a lot more about Project Streamline in the coming quarters.

The combination of these efforts will enable us to meaningfully improve our efficiency ratio as shown on Slide 14. Our target expense ratio ex-DVA in 2015 was 79% and we ended the year 77%. Expense management is critically important. As such we have set a net target ratio of 74% in 2017, which translates into $1 billion in expense reductions over the next two years.

In setting this efficiency ratio, we have assumed flat revenues for 2016 and 2017. To be clear, we do not expect the revenue environment to apply, especially given ongoing growth initiatives like Lending and Wealth Management; however, we believe this assumption is appropriately conservative.

Now let's turn to Wealth Management on Slide 15. We continue to see strong high quality loan demand on our Wealth Management client base. We have significantly reduced client penetration and increase client penetration in security space lending and residential lending over the last three years, but we remain substantially underpenetrated relative to our peers.

For example, only 1.9% of our clients have a mortgage loan through Morgan Stanley. Increased penetration of all loans will drive $20 billion of lending growth through 2017. A highly scalable business like Wealth Management enables us to add sources of revenue with lower compensation payouts such as net interest growth.

Slide 16 aggregates the medium-term opportunities in Wealth Management. To provide granularity, we lay out three areas where we see obvious potential of margin improvement assuming stable markets. From today's level of 22%, we see margin potential of 23% to 25% in 2017 through one loan and deposit growth, two expense discipline, and three normal course of business growth.

In addition, it's worth reminding investors that when we completed the Smith Barney transaction, we put in place a retention program that amortized over nine years. That amortization will be completed in January 2019 and will add an additional 150 basis points of margin.

Now let's turn to Slide 17. As I have said earlier, we believe we are sufficiently capitalized. Subject to regulatory approval, we intend to increase our payout to shareholders in the coming years just as we have done in the last four years. Let me now turn to Slide 18, the final slide. This sets forth ROE targets for 2017.

Over the past several years, our returns have been depressed by very high litigation expenses in penalties. The need to build a strong capital base resulting in material capital growth every year. The cost of integration of the largest acquisition in wealth management history. The challenging fixed income markets against which we've carried outsized capital levels. The restructuring of our merchant bank and of course the enormous cost in capital brought about by the post-crisis regulatory environment.

We see the next several years very differently. We've identified one $1 billion of tangible expense savings. We believe the bank strategy will be a significant driver of earnings growth in wealth management and for the firm. We expect equities and IBD to remain strong and grow revenues assuming global economic growth.

And we believe Investment Management is now positioned for growth. Most importantly we believe our capital is strong and our ongoing balance sheet reductions will free up more capital for distribution or where that is not possible, reinvestment into our high return businesses.

As a result, we're setting a 2017 ROE target of 9% to 11%. This assumes no material new capital requirements, no outside new litigation expenses or penalties and a global economy, that evidences growth not turmoil. Either way, in a flat revenue environment, we will reduce run-rate expenses by $1 billion on an annual basis beginning in 2017.

Let me now turn to Jon, who'll briefly touch on the fourth quarter. Then together we would take all of your questions.

Jon Pruzan

Thanks, James. Good morning. I will keep my comments brief, so we have ample time for Q&A. The fourth quarter of 2015 proved to be a continuation of the third quarter in many ways with mid-quarter volatility and macro concerns driving clients to the side lines after relatively constructive markets early in the quarter.

In a volatile environment, we benefited from the strength of our equities, investment banking and wealth management businesses. Against this backdrop, revenues were $7.7 billion in the fourth quarter, or $7.9 billion excluding DVA, up 7% versus 3Q 2015.

Non-interest expenses for the quarter were $6.3 billion. Our effective tax rate was 34.5% for the quarter, driven by our geographic mix of earnings throughout the year. For the full year 2015, our tax rate excluding the discrete tax benefits from the first quarter was 32.5%.

Now to the businesses. In a challenging environment for some of our institutional security business, overall revenues ex-DVA were $3.5 billion, up 2% quarter-on-quarter. Non-interest expense was down 11% versus the third quarter. Compensation expenses were $1.2 billion down 7% quarter-over-quarter. Excluding DVA, the ISG compensation ratio was down for the quarter, which brought our full year ratio to 37%. Non-compensation expenses were $1.6 billion for the quarter, down 13% driven by lower litigation costs.

In investment banking, continued strength in our M&A business and better performance in equity underwriting helped to offset weakness in debt underwriting. For the quarter, we generated $1.2 billion in revenues up 3% sequentially. Advisory revenues for the quarter were strong at $516 million, but down 7% from the post 2008 high we achieved last quarter.

Turning to underwriting, equity underwriting revenues were $352 million up 41% versus the third quarter, primarily reflecting increases in IPOs. We continued to see pressure from volatility in fixed income underwriting volumes and revenues were $346 million, down 7% versus the third quarter, driven by decreases in loan fees partially offset by investment grade bond fees.

The fourth quarter was a continuation of the strength we have seen all year in equity sales and trading as clients remained active and we delivered across products and regions in a volatile market. Ex-DVA, revenues for the quarter were $1.8 billion up 3% sequentially. For the quarter, cash equity revenues were higher versus comparable quarters, as we gained share across regions.

Our prime brokerage business continued to demonstrate leadership, with revenues up quarter-over-quarter as we stayed closely engaged with our clients. Derivative revenues were down quarter-over-quarter against challenging market conditions but up year-over-year.

Fixed income and commodity sales and trading continue to under-perform in a difficult environment, characterized by spread widening in various products and lower levels of client activity. For the quarter revenues were $550 million, excluding DVA, down 6% versus the third quarter. Revenues in securitized products and credit continued to be negatively impacted by the environment.

Rates revenues in the quarter were up sequentially, while FX was down driven by lower market volatility and lower client engagement. Commodity results were down quarter-over-quarter, primarily driven by our oil merchanting business. We closed the sale of this business on November 1. Given the sale of our two large physical oil businesses, we would expect to see less seasonality in our first quarter FIC results going forward.

Lastly, average trading VaR for the quarter was $46 million, down from $53 million last quarter, driven by a reduction in interest rates and credits spread as well as commodities.

In our wealth management business, we continue to see steadiness, for the quarter and for the full-year 2015, we saw average revenues per day of approximately $60 million with no day below $50 million.

Revenues for the quarter were $3.8 billion, excluding the impact of differed compensation plan investments in both periods revenues were approximately flat sequentially. In the quarter, we continued to benefit from our deposit deployment strategy with net interest income increasing 4% from fourth – third quarter and full-year net interest income of $3 billion up 26%.

Funded lending balances in wealth management grew approximately $3 billion or 6% during the quarter and $12 billion or 31% year-over-year.

Growth in NII helped offset some of the quarter's headwinds including the 5% decline in asset management revenues, which was a function of the third quarter's lower S&P level. We continued to see muted overall activity in transactional revenues, excluding the impact of DCP.

On the expense side, compensation was up 6% quarter-over-quarter due largely to the offsetting impact of the expense associated with DCP investment James mentioned earlier. Non-compensation expenses were up 6% driven by typical 4Q seasonality. Our PBT margin for the quarter was 21% ex-severance down slightly versus 3Q 2015 though up year on year. For the full-year, PBT margin was 22% in wealth management.

Deposits in our bank deposit program were $149 billion at year-end up $10 billion versus the third quarter reflecting normal seasonality in deposits as well as client's moving to cash in a volatile market.

And in Investment Management revenues were $621 million up significantly quarter-over-quarter driven by traditional asset management, which was up 5% as well as stronger performance in merchant banking and real estate investing, where revenues were $211 million versus a loss in the third quarter.

Performance in Investment Management will be impacted by the market levels and back drop. So far this quarter market industries around globe are down with many off to their worse start in history. If they remain down through the rest of the quarter we will see an impact in Investment Management performance, particular in our private investing businesses.

Now turning to the balance sheet, total assets were $788 billion at December 31 down from $834 billion at the end of the third quarter. Average balance sheet was $814 billion down from $827 billion in 3Q as clients moved to the sidelines and activity slowed, particular in the second half of the quarter.

Our global liquidity reserve at the end of the quarter was $203 billion, compared with a $191 billion at the end of the third quarter driven by typical seasonality in deposits. Pro forma fully phased in Basel III advanced RWAs are expected to be approximately $397 billion, down from $434 billion in the third quarter driven by reductions in market RWAs in a slower client environment.

During the fourth quarter, we repurchased $625 million of common stock or approximately 19 million shares, and our Board declared a $0.15 dividend per share. For the full-year, we repurchased $2.1 billion of common stock or 59 million shares.

Turning to outlook, in the first two weeks, we have seen a significant rise in volatility across market and asset classes and an intense focus on the China economy, market and currency as well as declining oil prices. We have had a reasonable start in sales and trading, as clients have been engaged as they try and navigate this period of volatility and keep their risk positions close to home.

M&A has remained active. We are cautious however, as prolonged volatility is not conducive to M&A activity. The underwriting calendar has been challenged. The capital market's pipeline is healthy, but market volatility could delay new issues coming to market. And on the retail side, clients remain cautious. It's way too early to predict how the rest of the quarter unfolds and we are tightly managing our risk positions along with our clients.

With that, we will open the line to questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Your first question comes from the line of Brennan Hawken with UBS. Please go ahead.

Brennan Hawken

Good morning, thanks for taking the questions.

James Gorman

[Indiscernible]

Brennan Hawken

Just a quick one on the reduction, it's actually not a quick one. On [indiscernible] RWA and FIC that you laid out in the deck. So what should we think about as far as timing, obviously you laid out the year-end 2017? But is there a way to think about the curve over the next two years, as we progress. And how should we think about the revenue that would be tied to that capital and how it might be recycled throughout the organization if not returned to shareholders.

James Gorman

Good opener, Brennan. Let me start by saying first, we've laid out RWA targets, so there – for I think the last three years and going back I still remember a number like $392 billion or there about in around the third quarter of 2011 in FIC. So we are light years from that. And last year, we thought we had achieved $180 billion and as you can see, we ended materially lower than that.

On the exact timing of year-end and the trajectory year-end 2017, I can't really help you. We're going to do it opportunistically. We'll do with sort of minimum damage. We don't want to get rid of assets on a distressed basis. We have some natural roll off. So we feel very comfortable with these targets. And it's fair to say we haven't disappointed in the last few years. That hasn't been an issue in FIC.

As it relates to the capital with just arithmetically, if you run these numbers through the models, it does actually free up that much capital. It just means the business doesn't need that capital. Our view is that we were overcapitalized that our balance sheet was too big in the business given the revenue and business opportunity. We now – and we were over expensed frankly by taking out 25% of the head count and with that the expenses on compensation, the project streamline that would now work on some of the infrastructure pieces by now reducing the RWAs and the SLR Exposure.

We will reduce the amount of capital tied up in that business. How that is redeployed is a really good question. Obviously, overtime we expect, we'll deliver that back to shareholder. That's the current plan. We don't control all of the pieces of that plan. We are a regulated institution. We have been through CCAR or SCAR I think five times. And every time we've asked for a buyback or dividend. Our request has been met. It's fair to say that we'll continue to ask for buybacks and dividends.

And where we can't use that capital if it's sort of track capital for some period of time which some of it maybe. There are clearly other businesses that can use the capital sensibly. We have very high return businesses in both Investment Management and Wealth Management. Clearly, we can use the capital to support our growth in those businesses. As indeed we have had very high returns in our equity franchise.

So I don't know, is that helpful? But it's hard to lay out a more specific timeline for the balance sheet now that be already runoff than what we've given here with the instate and with the year-end 2017.

Brennan Hawken

That's fair, that's fair. Thanks, James. I guess is there any way that we could think about revenue or you could maybe help us to frame how to think about revenue, because obviously if you are going to take that much capital out, right. You are going to have a very different business. You talked about focusing on some of the strengths a few business lines maybe you could help us think about which businesses you are going to be deemphasizing and how much revenue you think realistically could come out as a result of that. And then finally, how that translates into margin for the business overall.

James Gorman

Well, I don't think I can give you the margin translation at this point. And let me address some of the other issues and then I'm sure, Jon may want to add to it and you'll be hearing a lot more from Ted on the leadership team, probably in the first quarter, one of the investment conferences.

I think the basic position we are in was we had more balance sheet and more capital in the business than we were generating revenues on. So we don't think there's going to be great revenue diminution from this point given where we finished 2015, which frankly as we said we are very candid that was disappointing. What we're doing is reducing the path of fixed income, where frankly we didn't see the revenue opportunity over the last 12 and 24 months.

We've always said as we said on the call we've always had a good micro business, a good credit business that remains good. We've been very good in the more sophisticated structure rates. We're reducing obviously our exposure and liquid rates. We've never been a major FX trader and we've focused on the major currencies there, not the not the non-G10 currencies. And then, regionally we sort of picked our shots through distressed and high yield in various other places around the globe where we think we need to be overemphasized relative to under. The net of it will be more of a U.S.-focused business, a slimmer business when it comes to some of the macro products.

I don't know John if you want to add at this point anymore details on that.

Jon Pruzan

Yes, the one thing I would add is just to give you a better sense of some of the things we are getting out of as James mentioned, most of that is not in the U.S. Things like sovereign CDS, some of the non-core European currencies, Asia distressed trading, some of the bespoke [ph] correlation products as well as all of the work we've done on our commodities business in terms of the oil merchanting businesses as well as the announcement regarding our European power and gas last year.

So a smaller footprint, less capital, less expenses and better margin.

Brennan Hawken

Okay, great.

James Gorman

And on a personal note, Brennan have to apologize I've called you Brendan, I think, three earnings calls in a row, so my apologies.

Brennan Hawken

No worries, James, that's all right I've been called worse. And then finally another one here real quick. When we think about your ROE goal, right ultimately which you referenced early on in the deck many times as 10% and then, we think about 2017 showing the 9% to 11%, can you maybe square how that's a little bit different, just is it that the transition may not be complete by 2017. How is it we should think about that?

James Gorman

You know, our goal remains to achieve returns above our cost of capital. Clearly whether our cost of capital is actually 10% right now, but let's take that for granted for the moment. Our goal is to achieve returns above that. Clearly we can't be that precise, I mean, this is a highly variable set of revenues that we have in these businesses as we are seeing in the markets today versus Friday, for example. So that's why we're expressing it as a range but you'll note the mid point of that range is indeed 10%. We aren't backing off of the goals, in fact for the first time we've put a timeline against it and as we laid out what the key drivers of that.

Obviously, it's with the appropriate caveat which you would expect if we have a major outsized litigation expense or penalties that are unforeseen if the markets completely collapse here if we have no revenue growth, if the Fed responded very differently to our capital plans than what we intended it gets harder. On the other side if we have stronger revenue growth, we meet our expense targets, we do our capital plan, we're confident about, certainly about the range and our target is the mid point of that range.

Brennan Hawken

That's fair enough. Thanks a lot for taking my questions.

James Gorman

Sure.

Operator

[Operator Instructions] Your next question comes from the line of Glenn Schorr with Evercore ISI. Please go ahead.

Glenn Schorr

Hi, thanks very much. I guess the follow-up on FICC. Just curious what you think the net of all of the moves might be in terms of how you think about your G-SIB buffer and then how it might factor in just in general to your ability to return that excess capital. I heard your comments about redeploying if you aren't allowed but it seems like your RWA reduction and then the costs that go along with it is kind of what builds the buffer but just curious to get some detail on that.

James Gorman

In thinking about capital, I mean, problem number one is having enough capital. At 4.2 supplemental leverage ratio which was just I think the beginning of 2014. I'm looking John is nodding 2014, clearly we weren't there. So problem number one has been solved we've clearly got enough capital on any metric that you measure.

Problem number two is then if you continue to accrete capital what is the sensible buyback dividend and total payout ratio that you've put against that. And then opportunity number three is as you reshape the business mix and move to a less capital intensive parts of the business, you by definition are throwing off more capital than you've had the day before you did that, what are you able to do with that capital?

As to refer to Brennan's question this isn't going to happen tomorrow, Glenn, it's going to happen over as we said a couple of years so it's not like we're going to have a pool of capital to give back tomorrow. But we're setting ourselves up for increasing returns over the next several years at the same time let's make investments across the rest of the business.

So I don't know if that helps you, but where it relates to G-SIB buffer, we know what our buffer is. What we don't know is how the Federal Reserve through the CCAR process is adjusting its models once they put the CCAR buffer in my understanding is there will be adjustments to the models which will tamper that buffer to create a net number which is lower than the buffer for all of the banks. That's my current understanding. Obviously we have to see that play out.

My understanding is the Federal Reserve had models which were by definition harder than they probably would have had in normal circumstance but that was driven by not having the G-SIB buffer put in place. Now that it's in place the models will be refined and the net impact is what we will be looking at. So the combined net impact of the G-SIB buffer with these capital reductions from the balance sheet with the amount of capital we are a accreting, we still accrete capital last year gives us a reasonably high degree of confidence that we're going to be seeing increasing capital returns in the years ahead.

Glenn Schorr

From your lips, all right, just a follow-up on a quickie one on the corporate loan commitments, if you could give any color about the total or the funded loan book, how much of its energy reserves against that? How are you feeling about that book in general.

James Gorman

In general, on the corporate loan book, I think, the focus areas have really been around energy and probably event, particularly in the single-B market. We have seen, on the energy complex we have seen credit migration in that portfolio and as a result, Glenn we've increased our allowances. We seen an increase in some negative marks that we take through our – income statement, as well as increasing our hedges. And we would expect that pressure on that portfolio to persist for awhile.

In terms of the total size of the portfolio, it's about $16 billion of both funded and unfunded, this is energy now. That's down from $17 billion in the third quarter. Of that $16 billion, I would say 60% is investment grade, or excuse me it's to investment grade counter parties and only about 30% of that $16 billion is funded. Another focus area within the energy portfolio has really been around E&P. In terms of our statistics that portfolio is about $4.4 billion broken down, $1.7 of that is funded to non-investment grade borrowers and about $2.7 billion is still unfunded. That unfunded piece is about two-thirds to investment grade borrowers.

In terms of the reserves and the allowances remember of the $16 billion total energy book approximately 60% of that is held for investment, while 40% is fair value or held for sale. That other portion is mark-to-market and primarily flows through our other revenue line in the ISG in terms of the income statement and has been marked to the current environment. We will continue to monitor that portfolio very closely. We regularly stress test it. We're watching for signs of contagion and we're hedging accordingly and adjusting our hedges accordingly. So I think that's the color on the energy exposures.

On the event again it's been we've seen disruption in that marketplace since August. It's primarily been focused in the single B part of the market. We have had a handful of loans that got caught in that dislocation and downdraft but again, it is only a handful of loans, a few of which we distributed in the fourth quarter and a few of which we still hold. The losses related to both the syndicated loans as well as the ones that we still hold are also reflected in our fourth quarter results.

The double-B and investment grade markets held in pretty well, although the pricing has widened. We see investors wanting to put capital to work in that market but they are being more selective. They are looking at higher quality names and extracting larger new issue concessions, but in terms of outlook we continue to under write new commitments predominantly in the double-B space and the investment grade space and that reflects the current environment. So again, those two areas of energy and event we've been highly focused on and containing and managing that position as best we can.

Outside of that we haven't really seen much contagion. Wealth management book still stays and looks pretty good. It remains stable, strong credit quality no real changes in those metrics, commercial real estate portfolio also haven't seen real signs of weakness.

Glenn Schorr

Okay. Thanks for that, a lot of detail. Good.

Operator

Your next question comes from the line of Guy Moszkowski with Autonomous Research. Please go ahead.

Guy Moszkowski

Good morning. Just to follow-up and stay on the topic of corporate credit. And more broadly then the sort of energy E&P type stuff that you talked about where you gave good color. In your experience what are the leading indicators of credit deterioration that you drilled down on broadly away from energy and the commodities [indiscernible], how are they looking right now and is there any reason that you can think of as to why this would be different this time?

James Gorman

It's a good question in terms of relative and historical performance. I think we've obviously been in a very benign credit environment for awhile. We are starting to see some pressure in the energy complex as I said across the other metrics, particularly for us given the health of our customer base. In the retail side we haven't seen much stress in those areas. We are increasing the allowance for loan losses, this quarter it's up to about $70 million, clearly a portion which is energy. So we are seeing a churn in the credit cycle. But again from our book in the way that we look at it, it's really been focused in, on the on the energy complex right now.

Guy Moszkowski

Okay, that's helpful. And then just a follow-up question on wealth management. Looking at your Slide 16, the net interest income growth in a range of 75 basis points to 175 basis points of margin contribution, if – I think you'll remember that you've baked in the forward curve to those assumptions. So where would we be in terms of that range if short-term interest rates stay where they are currently as opposed to actually incorporating the forward curve?

James Gorman

I think the right way to think about that, those numbers, I would say, do not require any incremental rise in rates from where we are today. If the forward curve is realized, we will get some incremental benefit, but those margin targets don't require incremental rate movements. They do require growth in loans that we laid out on the prior page and we've had very good momentum in that lending book but it doesn't require the forward curve to hit those margin targets.

Guy Moszkowski

Okay, that's really helpful. Thank you so much.

Operator

Your next question comes from the line of Christian Bolu with Credit Suisse. Please go ahead

Christian Bolu

Good morning.

James Gorman

Good morning.

Christian Bolu

So my first question is on the $1 billion cost saves. I'm just trying to gauge what's incremental versus just rule off one-time as in 2015. So I guess the first question is how much litigation and severance costs did you incur in 2015?

And then two, of that $1 billion in cost saves how much of that is roll off of the 2015 litigation and severance cost versus incremental business rationalization?

Jon Pruzan

Again of that, $1 billion as James mentioned, that assumes no individual one time significant charges. There's obviously an element of litigation that's part of our business. We were happy to see the litigation expense go down in the fourth quarter, but in terms of breaking out those individual numbers, we have historically not done that but again it's – it does require no major single individual event.

Christian Bolu

Okay, just so I'm clear, because I think you put out the numbers in your Qs of just about $500 million of litigation costs through the third quarter and about $150 million in severance, so that's close to $700 million in cost…

James Gorman

I'm sorry, I didn't understand the question. I apologize so again the $550 million number you're referencing was in the third quarter year-to-date as I said our litigation came down materially in the fourth quarter and the severance of the $150 million was across the firm in the fourth quarter, presumably we won't have the same level of severance so part of that severance would be embedded in that billion dollars.

Christian Bolu

Okay, so what about the litigation are you assuming it's roughly the same going forward or you assume it comes down from that at least $555 million we had as of the third quarter.

James Gorman

Yes, I think we believe that the most significant items related to the credit crisis are largely behind us. This quarter it was good to see litigation come down and so I think there is an embedded assumption along those lines but again it's a lumpy and unpredictable line item.

Christian Bolu

Okay. And then my follow-up just on the lending – on balances I'm just trying to reconcile the current target versus the prior target so you had – you expected $180 billion in total U.S. Bank assets by the end of 2016. Does that still stand and then how do we think of 2017?

Jon Pruzan

In terms of the – what I would say is the slide in the deck is only in the wealth management segment so it's not a total lends on the bank. We'll be coming back to you with more detail throughout the year but in terms of the 2016 number that loan growth that you see out of wealth management would be consistent with those targets.

Christian Bolu

Okay, great. Thank you very much.

Operator

Your next question comes from the line of Steven Chubak with Nomura. Please go ahead.

Steven Chubak

Hi, good morning.

James Gorman

Good morning.

Steven Chubak

So, I appreciate the detailed guidance certainly as part of the broader strategic review. It's always quite helpful to us but some of the early feedback that I just wanted to relay suggests that there's investors are struggling and quite candidly we're struggling to reconcile the [indiscernible] to 9% to 11% ROE versus some of the different guidance components.

And if we think about a backdrop where there's 4% annual revenue growth, a 74% efficiency ratio, 32% tax rate, and flat preferreds and non-controlling interest, it gets to you about $6 billion of net income to common and if I even take just the low end of that 9% to 11% ROE range, the implied common equity is about $66 billion which suggests payouts in excess of 100% over the next two years. So I just wanted to get an understanding as to of what elements or components of that analysis might be flawed or needs to be tweaked and how should we – and what capital return assumptions are embedded in that 9% to 11% ROE target range that you highlighted for 2017?

Jon Pruzan

Let me try to take a swing at this one. So as we laid out on the page, first of all the compensation, the billion dollars plus of compensation and non-comp savings are assuming a flat revenue environment so if we get out two years and we're flat to today our ratio will be 74%. As James mentioned we do expect revenue growth throughout this period and therefore the efficiency ratio should be lower than the 74% because we do have operating leverage in the business.

First and foremost, and so I think that is probably the biggest disconnect in your math. You can see in the revenue bucket or the modest revenue growth bucket we do have improvements in different business segments. And then in terms of the capital base, ideally, we believe we have sufficient capital, we had been accreting capital over the course of the last several years. We would expect to probably accrete a little bit more capital over the coming period. But we would like to try to slow – clearly slowdown the accretion of capital since we have – we believe we have the appropriate amount of capital for our current plan.

Steven Chubak

Okay, thanks. And Jonathan, I think you spend a lot of time talking about capital and obviously it's going to be contingent on the feedback you get from regulators and presumably they would be inclined or incentivized to reward actions to reduce your systemic risk footprint or exposure system with more risk intensive activities, based on your discussions have you been given any indication that they would be perceptive to higher payouts for those that are willing to shrink more aggressively in those areas.

James Gorman

I don't want to get ahead of predicting how regulators are going to think about this. We did what we think is right for our business. Our job is to generate returns to our business; however, arithmetically if you have met all of the capital targets by definition, if you change the structure of your business and throw off additional capital that you know by definition don't need that all will be available for returns. Do I think that there is going to be one-time major dividend in the next 12, 18 months. No, I don't think that's possible but do I believe that we're going to be in a position where we increase our returns, absolutely.

And you've seen banks that have generated payouts above 100% for this reason, for that they are accreting more capital than they need for their business. That's before you get to banks that have actually restructured their business in the phase of the new business reality. So again I don't want to get ahead of them – that would not be a smart thing to do but I do think our strategy is pretty clear and it's certainly consistent with where the regulatory push has been.

Steven Chubak

Right, that's very helpful. I appreciate you taking my questions.

James Gorman

Sure.

Operator

Your next question comes from the line of Mike Mayo with CLSA. Please go ahead.

Mike Mayo

Hi, your 9% to 11% ROE target, you have a timeframe on that for the first time ever, I appreciate it. But what is that on a tangible ROE basis?

James Gorman

Mike, we've got about little over $9.5 billion of goodwill and intangibles, so on our capital base, somewhere around 125 basis points, above those numbers just math.

Mike Mayo

All right, so the target on a tangible basis is 10% to 12%?

Jon Pruzan

We have an ROE target of 9% to 11%.

Mike Mayo

Okay.

Jon Pruzan

For all of our common equity.

Mike Mayo

And what's the need behind this target, I mean is it just a target that sits there or is management paid off this? What's the follow through from this target to the organization?

James Gorman

Not totally sure, I understand your question. All of our employees are bonus eligible paid in stock. The stock is generally performed somewhere in line with ROE and price to book so everybody is affected by that. The most senior management team I receive as part of their compensation performance units which are directly affected too by ROE and total shareholder return so that's very specific for the senior team. But we are not doing this to frankly drive up our personal comp.

We're doing it because we think these businesses should be run with returns at or above 10% and nobody in this world predicted the last four or five years of what's gone in the markets and the amount of capital that would be required to support these businesses when I took this job our capital base was $40 billion, today it's $69 billion. We're in a tremendous E position and the challenge has been to get the R moving consistent with that rate of growth of the E.

And what we've done here is to frame it for investors because understandably they want to know what is a realistic timeframe just to Steven's question before what is a realistic timeframe, how do the pieces add up mathematically, to get you there. Are they believable, are they plausible and we thought it might going to be smart to layout what we think is a realistic timeframe that kind of range 9% to 11% 2017, the pieces are we are definitely taking out expenses, some of them are in the bag, if you will.

And some of them are going to be driven by management processes that we put in place. We believe there is revenue growth across many parts of our business over a two year period and we believe we are sufficiently capitalized given the world that we operate in so if you add all those pieces together putting it in terms of a target to help investors have a framework rather than open ended seem to be the right transition point for Morgan Stanley. In the last several years we couldn't have done that because we couldn't address some of the issues on the right hand side of that slide.

Mike Mayo

As a follow-up Slide 13, you addressed compensation by each of the three main business areas, but you didn't give any meat on the non-comp expenses. Can you just elaborate on any specifics there?

James Gorman

I'm sorry. Say that again. We addressed the compensation we didn't give meat on what?

Mike Mayo

On the non-comp Slide 13, location strategy, leverage technology, consolidated processes, outsourcing. What sort of expense savings could you get from the non-comp areas?

James Gorman

Well, I think what we wanted to frame was the total comp ratio. I'm sorry the total efficiency ratio of 74% and embedded in that was $1 billion of expense savings, which will be function of comp and non-comp. We're not going to break those out in detail on this call, we are very confident about that as we're referencing with Steve and there a number of these things, which obviously just go away through reality like the severance costs.

There is the elevated legal expenses we've carried in the last several years, which we think is unlikely to be carried forward. There is the restructuring we did which frankly just changes the run rate of your salaries benefits, medical and the bonus pool for those individuals, and we've already initiated a major effort under this project streamline and some of those pieces begin this week.

We started with changing our so-called contingent employees or our consultants in far away markets where we've achieved the objective of what that would be put to work. We've now reduced some of those numbers. And all of those efforts are coming together. So you'll see a mix of – and over the next several quarters we'll give you much more details on the non-comp. So we're not going to break it out now.

Mike Mayo

And then lastly any big restructuring or repositioning charge related to project streamline.

James Gorman

No. No.

Mike Mayo

All right. Thank you.

James Gorman

Certainly not that's visible at this point not that's planned.

Mike Mayo

Thanks.

James Gorman

Sure.

Operator

Your next question comes from the line of Michael Carrier with Bank of America. Please go ahead.

Michael Carrier

Thanks guys. James, just on the FIC side of the business, post restructuring, I know it's tough to gauge but when you mentioned and you look at the revenue environment and kind of where your run rate now, you wouldn't expect much of a drop-off. Just wanted to understand is that relative to like the second half of 2015, like total 2015 or is there any way to gauge it from like a return on asset like what you expect in FIC going forward?

James Gorman

No, I think of that in terms of the full year, obviously the second half but our revenue run rates of $500 million were incredibly low. But we look what the total market size is what our share is, and what our expected share is, and expected market size in the next couple of years and that's why we say we believe we're right-sized for revenue rate equivalent to 2015. We obviously – we'll be trying to do a lot better than that but we think that's a plausible outlook.

Michael Carrier

Okay, all right. That's helpful. And then Jon, just on the – I guess you mentioned like with the weak markets some of the impact that you can see in investment management. So I guess just two things on that. Last quarter we saw that kind of negative accrual I think on the Asia private equity your Merchant Banking fund [ph], just what type of exposure unit in the investment management business have – those types of products so we can see those swings. And then in wealth management I feel like the transaction revenues have been pretty weak for a while and that's more of an industry trend but just wanted to figure out are we stabilizing here, meaning are there pressures there somewhat coming to a slowdown?

Jon Pruzan

Sure, a couple of questions. I think on the investment management question the way I would try to think about it is there basically two major components of how we make business in that – how we make money in that business, one is just our fee revenues from managing money.

And obviously that's going to be a rate – that's a rate times volume equation. So if the amount of money we're managing goes down that will be impacted by the markets that we're seeing but that outline is pretty stable. The second line as you said is the investment line. When I refer to the investment line I'm talking about the segment reporting we do in our supplement, that number was negative $235 million last quarter we said that was predominately driven by our reversal of carry in our Asia PE fund or funds. This quarter it was $100 million that return to a positive number was driven by all of our – most of our investing businesses both private equity infrastructure and real estate that was more balanced.

We said in the third quarter when we took the reversal of carry that that eliminated the vast majority – excuse me, the majority of the carry that we have accrued in our Asia PE businesses we obviously have a carry accrued in other businesses. And that's disclosed in the queue but the exposure at certainly in Asia has been reduced and the fund that was under stress in the third quarter had no material changes, had no material changes this quarter. That was the first part of your question. I think, the second on transactional revenues. Those numbers have been subdued. Clients are cautious, whether that's a floor or not is hard to tell given the volatility, but we think that those numbers hopefully have stabilized.

Michael Carrier

Okay, thanks a lot.

Operator

Your next question comes from the line of Matt Burnell with Wells Fargo Securities. Please go ahead.

Matt Burnell

Good morning, thanks for taking my question. First of all, maybe for you, Jon on page 3 of the supplement, you break out the regional revenues, looks like if we don't adjust for DVA, the revenues are basically flat in the Americas up double-digit in EMEA and up high single-digit in Asia. How are you thinking about those – that revenue mix heading into 2016 given all your comments about some of the challenges emanating out of China and some of the growth challenges in Europe?

Jon Pruzan

I’m sorry, I’m just turning to page 3. Before getting that page in front of me, I think the results this quarter, we did see Asia was down, but it continues to be a strong and important part of our business. We did see weakness in the fourth quarter relative to the third quarter in Europe given the concerns and uncertainty around Brexit and some of the immigration issues, we still think that Europe although showing some signs of growth in certain areas, is going to be a fragile economy and the drivers of our business will be the U.S. and Asia.

In terms of the third – page 3, again, don’t have in front of me. Just this minute, but that you should also know is managed, the way we look at the business is on a managed basis, and so those revenues don’t necessarily tied back to the tax rate that I talked about earlier regarding the geographic mix of earnings.

Matt Burnell

Okay, thank you, and then a little closer to home, how are you thinking, it seems that you’re assuming that lending both in the corporate side of things, as well as Within Wealth Management is going to continue at what appears to be roughly similar growth rate as you saw this year. But I guess I’m curious how you’re thinking about what appears to be a greater level of regulatory scrutiny both in areas like leverage lending, but also in commercial real estate which seem – which where you’ve grown quite visibly over the last two years to three years as you’ve pushed on your bank growth program.

Jon Pruzan

So, Matt, I’m not sure, I wouldn’t agree with that statement, I think historically over the last couple of years, we’ve seen good growth in both the ISG lending product as well as the Wealth Management lending product and those have been the key drivers along with deploying our deposits away from securities into these loans. Those have been the key drivers of the NII growth historically.

I think going forward I would tell you that the primary driver of the lending growth is going to be Wealth Management. The growth assumptions in the ISG part of the business are much lower than they had been over the last couple of years as we built those portfolios up. So the key driver is going to be Wealth Management area.

Matt Burnell

Okay. And then just ripping on that theme, James, you mentioned less than 2% of your Wealth Management clients have a mortgage with Morgan Stanley. What's your target over the next two years to get that ratio to?

James Gorman

I don't have a target here. We could break out sort of mathematically how it separates and get back to, but I don't have a target off the top of my head. Obviously, it's very low single-digit, it's not – it's not in the – about 10%. You can see the numbers on the chart which just show mathematically what the total residential lending is $21 billion, up from $16 billion. So I guess that would imply we did about 2.4%.

Matt Burnell

Okay, thanks for taking my questions.

Operator

Your next question comes from the line of Devin Ryan with JMP Securities. Please go ahead.

Devin Ryan

Hey, thanks. Good morning. Thanks for squeezing me in here. When we think about the 3% to 5% revenue growth with ROE target, yes, some items like NII should increase without the backdrop changing and hopefully will be above that. So on the other hand, investment banking has been operating at a high level as you highlighted, a choppy market could impact those businesses.

So just thinking about, what type of investment banking revenues or environment during that 3% to 5% revenue growth, and sounds like you guys are a little more cautious on the near-term there. So is that fair? And then and how do you think about those businesses broadly relative to their cycle?

Jon Pruzan

Sure, I think first I'd highlighted that 2017 over the target I think. As you say the Wealth Management is being really driven by the lending growth and some of the other initiatives we have there. In terms of both equities and investment banking, listen, we think that we can continue to gain some share there. We have good shares in those businesses, but the backdrop is a constructive one, where the revenue pools are up modestly if we're in a situation where revenue pools for these products decline precipitously, these are – that's not just the backdrop that we set these assumptions. So a little bit of share gain and a little bit of revenue or pie growth.

Devin Ryan

Okay, great, helpful. And then just within the Wealth Management comp target that improvement to less than 56%, is that and entirely driven by leverage off of higher margin revenues like NII or are there other core comp expense reductions that they can occur within GWN, the GWN that we should be thinking about?

Jon Pruzan

Yes, I think it's a mix. I mean, clearly more a non-compensable revenues is helpful for that target. But as we've said from a – for the totality of the firm, we are very focused on expenses and comp and there are some other levers that we can use here other than just the growing non-compensable line item.

Devin Ryan

Okay. Thank you very much.

James Gorman

Sure.

Operator

Your next question comes from the line of Chris Kotowski with Oppenheimer. Please go ahead.

Chris Kotowski

Hi, yes, good morning. You've mentioned how much you've bought the fixed income RWAs down from $390 million to like $188 million at the end of last year and down to $136 million now. And I know you can't comment about this year's CCAR, but I guess, it just strikes me that given the huge progress you've made on bringing down the fixed RWAs, it doesn't seem like the CCAR process got – was mitigated somehow.

And I wonder if you can talk in a general way again not about this year's submission, but to what extent is – are the adverse CCAR results driven by the fixed income businesses or is it throughout the business. And in a – if the CCAR process this year were static with last year, would the reduction in RWAs that we've seen this year have a positive impact on CCAR?

James Gorman

Well, I can take out and Jon may want to add something. CCAR is a function, there are five different ratios under the normal scenario and then the severely adverse scenario, where we had an issue to the extent we did was on the total leverage ratio which we addressed with the top preferred securities. So I think was – CCAR was submitted last November, December I think.

Jon Pruzan

January.

James Gorman

The cycle got moved down this year, an extra three months to April. So the world we're in 15 months ago, our RWAs were significantly higher. They weren't where we finished the year at. So it's sort of an apples and oranges back then, we presented the firm as it was then. This April we'll be presenting a different firm, although there are various cutoff dates when balance sheet are set and so on.

So I don't really want to get into and I know you didn't ask for a specific prediction on CCAR, but all we can do is put ourselves in a position where it's clear we have sufficient capital and any incremental changes we make to the business or any incremental earnings that we accrete by definition become excess capital, whether that flows on a dollar-for-dollar basis. Obviously, it's something to be considered, when we submit our thing in here from our regulators.

Chris Kotowski

Okay. Thank you.

Operator

Your final question comes from the line of Fiona Swaffield with RBC. Please go ahead.

Fiona Swaffield

Hi. Just had two areas. One was, you talked about funding benefits, I think it's $0.4 at the beginning, tailwind from now funding cost. I just wondered if you could talk a bit more about how much that was for 2015 and also where we would see it because I didn't notice the net interest income in IS was very strong in Q4. I didn't know if that's related, so if you could talk about that.

And then the last area was really on Slide 16, on the deposit assumptions. I have thought that there was a big strategy to increase the deposits. I think I had a number in my head of $200 billion. Has that changed or is it that – just that you're not putting that or you're assuming there's a length within your 2017 kind of roll forward? Thanks.

Jon Pruzan

Okay. so the – Fiona, the two parts of the question, I think on the funding question, there's obviously a lot of components that go into those lines including the size of our balance sheet, secured versus unsecured. What we said, just to give you some – to try to cuff it we did about $21 billion of new unsecured last year and those came in at rates that were significantly below where the historical debt had been issued, our average maturity or WAM on our unsecured stack now is about six years.

So, we were sort of retiring five year debt and putting on slightly longer, but we saw our credit spreads were easily 100 tighter than where they were before. That process went out through – that process went on throughout the year. We obviously didn't refinance all of the debt on day one. So, we will continue to get the benefit from those funding savings as we annualize. And so that, I think addresses question number one.

And question number two on the deposits, we will continue to grow our deposit base. I think what we would like to try to do this year and 2016, is try to optimize the deposits. We have different deposits that have different liquidity values. We think we can support the lending growth that we've highlighted in the strategy – excuse me, in the strategy deck without growing our deposit base, but clearly that is a goal, and in 2017 that will be requirement to support our future lending growth. We've talked about some of the digital strategy and cash management product that are – we're growing out, and that will support – that will hopefully drive the deposit growth in 2017 and beyond.

Fiona Swaffield

Thanks. Can I just go back to the first thing, and what the explanation of net internet income in IS? Is quarter-on-quarter?

Jon Pruzan

I'm sorry…

Fiona Swaffield

Institutional Securities?

Jon Pruzan

Again, I'll come back to you on that one, Fiona.

Fiona Swaffield

Okay. Thanks so much.

Operator

Thank you. I'd like to turn the call back over for any closing remarks.

James Gorman

Now I think we have – this is probably our longest call. I'm glad we got everybody's questions in and we look forward to talking to you again at the end of the first quarter. Thank you.