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Registered office:
Luna Arena
Herikerbergweg 238
1101 CM
Amsterdam
The Netherlands

MORGAN STANLEY B.V.

Interim financial report

30 June 2020

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INTERIM MANAGEMENT REPORT

The Directors present their interim management report, Directors' responsibility statement and the condensed financial statements for Morgan Stanley B.V. (the "Company") for the six months ended 30 June 2020.

RESULTS AND DIVIDENDS

The profit for the six months ended 30 June 2020, after tax, was €1,282,000 (30 June 2019: €310,000).

During the six months ended 30 June 2020, no dividends were paid or proposed (30 June 2019: €nil).

PRINCIPAL ACTIVITY

The principal activity of the Company is the issuance of financial instruments including notes, certificates and warrants ("Structured Notes") and the hedging of the obligations arising pursuant to such issuances.

The Company was incorporated under Dutch law on 6 September 2001 and has its statutory seat in Amsterdam, The Netherlands. The business office of the Company is at Luna Arena, Herikerbergweg 238, 1101 CM, Amsterdam, The Netherlands.

The Company's ultimate parent undertaking and controlling entity is Morgan Stanley, which, together with the Company and Morgan Stanley's other subsidiary undertakings, form the "Morgan Stanley Group".

FUTURE OUTLOOK

There have not been any significant changes in the Company's principal activity in the period under review and no significant change in the Company's principal activity is expected.

BUSINESS REVIEW

Global market and economic conditions

The Coronavirus disease ("COVID-19") pandemic created a severe disruption in the global economy, causing global economic output to contract by an annual rate of 4.9% in the first half of 2020. The economic impact was broad-based, across both developed markets and emerging markets. In developed markets, the economy contracted at an annual rate of 6.5% in the first half of 2020; in emerging markets, economic activity declined by an annual rate of 3.9%. In response to the pandemic, policy makers have embarked on significant monetary and fiscal easing measures, bringing central banks' balance sheets and fiscal deficits to multi-year highs. In the US, the Federal Reserve has cut the federal funds rate to the zero lower bound and expanded its balance sheet by 14% of Gross Domestic Product ("GDP") since February. Congress is expected to pass a new stimulus package in September worth $1.5 to $2 trillion. If $1.5 trillion is approved, the US fiscal deficit will likely widen to around 27.1% of GDP this year. In the United Kingdom ("UK"), the Bank of England has cut the Bank Rate to the lower bound and expanded its balance sheet by 11%. The UK government has also announced various other measures, bringing its deficit to 17.2% of GDP this year. In the euro area, the European Central Bank ("ECB") has expanded its balance sheet by 15% of GDP since February, and the euro area's fiscal deficit will reach 10.3% of GDP this year. Likewise, in Japan, the Bank of Japan has expanded its balance sheet by 15% of GDP since February, and the announced supplemental budgets will push the fiscal deficit to 15.1% of GDP this year. In China, the People's Bank of China has lowered interest rates, and the fiscal support announced in May by the National People's Congress will bring China's fiscal deficit to 15.2% of GDP this year. Other major central banks, such as the Reserve Bank of India, the Central Bank of Russia and the Central Bank of Brazil have lowered interest rates to multi-year lows, and governments in other economies have similarly implemented measures to ensure adequate credit flows to businesses and to provide relief to households.

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

COVID-19 pandemic

The COVID-19 pandemic and related government-imposed shelter-in-place restrictions have had, and will likely continue to have, a severe impact on global economic conditions and the environment in which we operate our businesses. Morgan Stanley has begun implementing a return-to-workplace program, which is phased based on role, location and employee willingness and ability to return, and focused on the health and safety of all returning staff. Recognising that our offices around the world face different local conditions, time lines for return may vary significantly, though Morgan Stanley is currently planning for the return of approximately 50% ofadditional employees to offices by the end of 2020. Morgan Stanley continues to be fully operational, with approximately 90% of global employees and 95% of employees in the Americas working from home as of 30 June 2020.

Economic conditions have had mixed effects on the Morgan Stanley Group’s and the Group’s businesses. For the six month period to 30 June 2020 high levels of client trading activity, related to market volatility, have significantly increased revenues in the Group, however this was partially offset by the negative impact of the lower level of company dividends impacting the EMEA Equity businesses. The increased allowances for credit losses for the Group were immaterial.

Although Morgan Stanley is unable to estimate the extent of the impact, the ongoing COVID-19 pandemic and related global economic crisis are likely to have adverse impacts on future operating results of the Group. In addition, levels of client trading activity may not remain elevated and investment banking advisory activity may be subdued.

Morgan Stanley and the Group continue to use their Risk Management framework, including stress testing, to manage the significant uncertainty in the present economic and market conditions.

United Kingdom withdrawal from the European Union

On 31 January 2020, the UK withdrew from the European Union (the “EU”) under the terms of a withdrawal agreement between the UK and the EU. The withdrawal agreement provides for a transition period to the end of December 2020, during which time the UK will continue to apply EU law as if it were a member state, and UK firms' passporting rights to provide financial services in EU jurisdictions will continue.

In 2019, Morgan Stanley Group prepared its European operation to be able to do business with its clients in the EU regardless of whether or not equivalence (or an alternative arrangement for financial services) is granted. Changes have been made to European operations in an effort to ensure that the Morgan Stanley Group can continue to provide cross-border banking and investment and other services in EU member states from within the EU where necessary.

As a result of the political uncertainty described above, it is currently unclear what the final post-Brexit structure of European operations will be. Given the potential negative disruption to regional and global financial markets, results of Morgan Stanley’s operations and business prospects could be negatively affected. However, the Company’s principal activity and risks are expected to remain unchanged.

Overview of 2020 financial results

The issued Structured Notes expose the Company to the risk of changes in market prices of the underlying securities, interest rate risk and, where denominated in currencies other than Euros, the risk of changes in rates of exchange between the Euro and the other relevant currencies. The Company uses the contracts that it purchases from other Morgan Stanley Group undertakings to hedge the market price, interest rate and foreign currency risks associated with the issuance of the Structured Notes.

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

Overview of 2020 financial results (continued)

The condensed statement of comprehensive income for the six months ended 30 June 2020 is set out on page 8. The profit before income tax for the six months ended 30 June 2020 of €1,710,000 primarily comprises management charges recognised in 'Other revenue' compared to €413,000 recognised for the six months ended 30 June 2019. The increase in management charge revenue is attributable to an increase in business costs.

The Company has recognised a loss in 'Net trading expense' of €703,589,000 (30 June 2019: Income of €654,669,000), with a corresponding net gain of €703,589,000 recognised in 'Net income on other financial instruments held at fair value' (30 June 2019:Expense of €654,669,000). This is due to fair value changes attributable to market movements on the equities underlying Structured Notes hedged by derivatives.

The condensed statement of financial position for the Company is set out on page 10. The Company's total assets at 30 June 2020 are €10,015,310,000, an increase of €958,444,000 or 11% when compared to 31 December 2019. Total liabilities of €9,972,588,000 represent a increase of €957,162,000 or 11% when compared to total liabilities at 31 December 2019. These movements are primarily attributable to the value of issued Structured Notes and the related hedging instruments held at 30 June 2020. Structured Notes reflected in 'Debt and other borrowings' have increased since 31 December 2019 as a result of new issuances in the period offset by fair value movements and maturities.

The risk management section below sets out the Company's and the Morgan Stanley Group's policies for the management of liquidity and cash flow risk and other significant business risks.

Risk management

Risk is an inherent part of the Company's business activity. The Company seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities, in accordance with defined policies and procedures. The Company has developed its own risk management policy framework, which leverages the risk management policies and procedures of the Morgan Stanley Group. The risk management policy framework includes escalation to the Company's Board of Directors and to appropriate senior management personnel as well as oversight through the Company's Board of Directors.

Note 18 to the Company's annual financial statements for the year ended 31 December 2019 ("2019 annual financial statements") provides more detailed qualitative disclosures on the Company's exposure to financial risks. Note 13 to the condensed financial statements provides more detailed quantitative disclosures.

Set out below is an overview of the Company's policies for the management of financial risk and other significant business risks.

Market risk

Market risk refers to the risk of losses for a position or portfolio due to changes in rates, foreign exchange, equities, volatilities, correlations or other market factors.

The Company manages the market risk associated with its trading activities at both a trading division and an individual product level.

Sound market risk management is an integral part of the Company's culture. The Company is responsible for ensuring that market risk exposures are well-managed and monitored. The Company also ensures transparency of material market risks, monitors compliance with established limits, and escalates risk concentrations to appropriate senior management.

Market risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to the Company's Board of Directors and appropriate senior management personnel.

It is the policy and objective of the Company not to be exposed to net market risk.

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Credit risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company. Further detail on the Morgan Stanley Group's management of country risk is set out below.

Credit risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to the Company's Board of Directors and appropriate senior management personnel.

Credit risk exposure is managed on a global basis and in consideration of each significant legal entity within the Morgan Stanley Group. The credit risk management policies and procedures establish the framework for identifying, measuring, monitoring and controlling credit risk whilst ensuring transparency of material credit risks, compliance with established limits and escalating risk concentrations to appropriate senior management.

Country risk exposure

Country risk exposure is the risk that events in, or affecting, a foreign country might adversely affect the Company. "Foreign country" means any country other than The Netherlands. Sovereign risk, by contrast, is the risk that a government will be unwilling or unable to meet its debt obligations, or renege on the debt it guarantees. Sovereign risk is single-name risk for a sovereign government, its agencies and guaranteed entities.

The Company enters into the majority of its financial asset transactions with other Morgan Stanley Group undertakings primarily in Luxembourg and the US. Both the Company and the other Morgan Stanley Group undertakings are wholly-owned subsidiaries of the same ultimate parent entity, Morgan Stanley. As a result of the implicit support that would be provided by Morgan Stanley, the Company's country risk is considered a component of the Morgan Stanley Group's credit risk.

For further information on how the Company identifies, monitors and manages country risk exposure refer to page 5 of the Directors' report of the Company's 2019 annual financial statements.

Liquidity risk

Liquidity risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity risk encompasses the Company's ability (or perceived ability) to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten the Company's viability as a going concern as well as the associated funding risks triggered by the market or idiosyncratic stress events that may cause unexpected changes in funding needs or an inability to raise new funding.

For further discussion on the Company's liquidity risk refer to page 5 of the Directors' report in the Company's 2019 annual financial statements.

Operational risk

Operational risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes, people and systems or from external events (e.g. fraud, theft, legal and compliance risks, cyber attacks or damage to physical assets). Operational risk relates to the following risk event categories as defined by Basel Capital Standards: internal fraud; external fraud; employment practices and workplace safety; clients, products and business practices; business disruption and system failure; damage to physical assets; and execution, delivery and process management. Legal, regulatory and compliance risk is discussed below under "Legal, regulatory and compliance risk".

The Company may incur operational risk across the full scope of its business activities.

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Operational risk (continued)

For further discussion on the Company's operational risk refer to pages 6 and 7 of the Directors' report in the Company's 2019 annual financial statements.

Legal, regulatory and compliance risk

Legal, regulatory and compliance risk includes the risk of legal or regulatory sanctions, material financial loss; including fines, penalties, judgements, damages and/ or settlements or loss to reputation which the Company may suffer as a result of a failure to comply with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to our business activities. This risk also includes contractual and commercial risk, such as the risk that a counterparty's performance obligations will be unenforceable. It also includes compliance with Anti-Money Laundering, anti-corruption and terrorist financing rules and regulations. The Company is generally subject to extensive regulation in the different jurisdictions in which it conducts its business.

For further discussion on the Company's legal, regulatory and compliance risk, refer to pages 7 and 8 of the Directors' report in the Company's 2019 annual financial statements.

Going concern

Business risks associated with the uncertain market and economic conditions are being actively monitored and managed by the Company. Retaining sufficient capital and liquidity to withstand these market pressures remains central to the Company's strategy. The existing and potential effects of COVID-19 on the business of the Company have been considered as part of the going concern analysis, including impact on operational capacity, access to liquidity and capital, contractual obligations, asset valuations and other critical accounting judgements and key sources of estimation uncertainty. Additionally, the specific impact of Brexit on the business of the Company has been considered. The Company has access to further Morgan Stanley Group capital and liquidity as required.

Taking the above factors into consideration, the Directors believe it is reasonable to assume that the Company will have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the interim management report and condensed financial statements.

DIRECTORS

The following Directors held office throughout the period and to the date of approval of this report:

H. Herrmann
S. Ibanez
P.J.G. de Reus
A. Doppenberg
TMF Management B.V.

The Company has taken notice of Dutch legislation effective as of 13 April 2017, as a consequence of which the Company should take into account as much as possible a balanced composition of the Board of Directors in terms of gender, when nominating or appointing Directors, to the effect that at least 30 percent of the positions should be held by women and at least 30 percent by men. Currently the composition of the Board of Directors deviates from the gender diversity objectives. When appointing a Director, the Board of Directors considers the gender diversity objectives, as appropriate.

EVENTS AFTER THE REPORTING DATE

On 23 September 2020, the Directors approved a dividend of €15,000,000 from distributable reserves with expected payment date of 25 September 2020.

INTERIM MANAGEMENT REPORT

AUDIT COMMITTEE

The Company qualifies as an organisation of public interest pursuant to Dutch and EU law and has established its own audit committee which complies with the applicable corporate governance rules as detailed in the Articles of Association of the Company.

Approved by the Board and signed on its behalf by:

Date: 23 September 2020

H. Herrmann	S. Ibanez	P.J.G. de Reus
A. Doppenberg	TMF Management B.V.	

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors, the names of whom are set out below, confirm to the best of their knowledge:

- the condensed financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *'Interim Financial Reporting'* ("IAS 34") as adopted by the EU and Title 9 of Book 2 of the Dutch Civil Code on the basis of the Company's international connections and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the interim management report includes a fair review of the important events that have occurred during the six months ended 30 June 2020 and the impact on the condensed financial statements and provides a description of the principal risks and uncertainties that the Company faces for the remaining six months of the financial year.

Approved by the Board and signed on its behalf by:

Date: 23 September 2020

H. Herrmann	S. Ibanez	P.J.G. de Reus
A. Doppenberg	TMF Management B.V.	

CONDENSED STATEMENT OF COMPREHENSIVE INCOME
Six months ended 30 June 2020

	Note	Six months ended 30 June 2020 €'000 (unaudited)	Six months ended 30 June 2019 €'000 (unaudited)
Net trading (expense)/ income on financial assets		(462,085)	220,829
Net trading (expense)/ income on financial liabilities		(241,504)	433,840
Net trading (expense)/ income		(703,589)	654,669
Net (expense)/ income on other financial assets held at fair value		(43,708)	154,996
Net income/ (expense) on other financial liabilities held at fair value		747,297	(809,665)
Net income/ (expense) on other financial instruments held at fair value	2	703,589	(654,669)
Other revenue	3	2,898	413
Total non-interest revenues		2,898	413
Interest income		5,276	6,352
Interest expense		(5,919)	(5,488)
Net interest income	4	(643)	864
Net revenues		2,255	1,277
Non-interest expense:			
Other expense	5	(545)	(864)
PROFIT BEFORE INCOME TAX		1,710	413
Income tax expense	6	(428)	(103)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		1,282	310

All operations were continuing in the current and prior period.

The notes on pages 12 to 33 form an integral part of the condensed financial statements.

CONDENSED STATEMENT OF CHANGES IN EQUITY
Six months ended 30 June 2020

	Share capital €'000	Retained earnings €'000	Total equity €'000
Balance at 1 January 2019 (audited)	15,018	25,657	40,675
Profit and total comprehensive income for the period	-	310	310
Balance at 30 June 2019 (unaudited)	15,018	25,967	40,985
Balance at 1 January 2020 (audited)	15,018	26,422	41,440
Profit and total comprehensive income for the period	-	1,282	1,282
Balance at 30 June 2020 (unaudited)	15,018	27,704	42,722

The notes on pages 12 to 33 form an integral part of the condensed financial statements.

CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 June 2020
(Including Proposed Appropriation of Results)

	Note	30 June 2020 €'000 (unaudited)	31 December 2019 €'000 (audited)
ASSETS			
Cash and short-term deposits		4,371	4,543
Trading financial assets	7	313,233	447,464
Loans and advances	7	8,203,001	7,065,314
Trade and other receivables	7/ 9	1,494,354	1,536,756
Current tax assets		351	2,789
TOTAL ASSETS		10,015,310	9,056,866
LIABILITIES			
Trading financial liabilities	7	742,337	193,375
Convertible preferred equity certificates	7/ 8	1,125,281	1,125,281
Trade and other payables	7/ 10	278,214	325,902
Debt and other borrowings	7/ 11	7,826,756	7,370,868
TOTAL LIABILITIES		9,972,588	9,015,426
EQUITY			
Share capital		15,018	15,018
Retained earnings		27,704	26,422
Equity attributable to owners of the Company		42,722	41,440
TOTAL EQUITY		42,722	41,440
TOTAL LIABILITIES AND EQUITY		10,015,310	9,056,866

These condensed financial statements were approved by the Board and authorised for issue on 23 September 2020.

Signed on behalf of the Board
23 September 2020

H. Herrmann S. Ibanez P.J.G. de Reus

A. Doppenberg TMF Management B.V.

The notes on pages 12 to 33 form an integral part of the condensed financial statements.

CONDENSED STATEMENT OF CASH FLOWS
Six months ended 30 June 2020

	Six months ended 30 June 2020 €'000 (unaudited)	Six months ended 30 June 2019 €'000 (unaudited)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(172)	2,094
INVESTING ACTIVITIES		
Repayment of interest from another Morgan Stanley Group undertaking	10,382	12,193
NET CASH FLOWS FROM INVESTING ACTIVITIES	10,382	12,193
FINANCING ACTIVITIES		
Yield paid on convertible preferred equity certificates	(11,494)	(11,545)
Financing paid from/ (to) another Morgan Stanley Group undertaking	1,112	(648)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(10,382)	(12,193)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(172)	2,094
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4,543	903
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4,371	2,997

The notes on pages 12 to 33 form an integral part of the condensed financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2020

1. BASIS OF PREPARATION

a. Accounting policies

The Company prepares its annual financial statements in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") as adopted by the EU, Interpretations issued by the IFRS Interpretations Committee and Dutch Law. The condensed financial statements have been prepared in accordance with IAS 34 as adopted by the EU.

In preparing these condensed financial statements, the Company has applied consistently the accounting policies and methods of computation used in the Company's 2019 annual financial statements.

New standards and interpretations adopted during the period

The following amendments to standards relevant to the Company's operations were adopted during the period. These standards, amendments to standards and interpretations did not have a material impact on the Company's condensed financial statements.

Amendments to IAS 1 '*Presentation of Financial Statements*' and IAS 8 '*Accounting Policies, Changes in Accounting Estimates and Errors*' were issued by the IASB in October 2018, for application in accounting periods beginning on or after 1 January 2020. The amendments were endorsed by the EU in December 2019.

There were no other standards or interpretations relevant to the Company's operations which were adopted during the period.

New standards and interpretations not yet adopted during the period

At the date of authorisation of these condensed financial statements, the following amendments to standards relevant to the Company's operations were issued by the IASB but not mandatory for accounting periods beginning 1 January 2020. Except where otherwise stated, the Company does not expect the adoption of these amendments to standards and interpretations to have a material impact on the Company's condensed financial statements.

An amendment to IAS 1 'Presentation of Financial Statements': Classification of Liabilities as Current or Non-current was issued by the IASB in January 2020, for application in accounting periods beginning on or after 1 January 2023.

b. Critical accounting judgements and key sources of estimation uncertainty

No judgements, other than those involving estimations noted below, have been made in the process of applying the Company's accounting policies that have had a significant effect on the amounts recognised in the condensed financial statements.

The preparation of the Company's condensed financial statements requires management to make judgements involving estimates and other assumptions regarding the valuation of certain financial instruments that affect the condensed financial statements and related disclosures.

The key source of estimation uncertainty relate to the valuation of Level 3 financial instruments. For further detail refer to note 15 and accounting policy note 3(d) of the Company's 2019 annual financial statements.

The Company believes that the estimates used in preparing the condensed financial statements are reasonable, relevant and reliable. Actual results could differ from these estimates.

c. The going concern assumption

The Company's business activities, together with the factors likely to affect its future development, performance and position, are reflected in the Future Outlook and Business Review section of the Directors' report on pages 1 to 5. In addition, the notes to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

As set out in the Directors' report, retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy.

1. BASIS OF PREPARATION

c. The going concern assumption (continued)

Business risks associated with the uncertain market and economic conditions are being actively monitored and managed by the Company. Retaining sufficient capital and liquidity to withstand these market pressures remains central to the Company's strategy. Though Morgan Stanley is unable to estimate the extent of the impact, the ongoing COVID-19 pandemic and related global economic crisis are likely to have adverse impacts on future operating results. In addition, levels of client trading activity may not remain elevated and investment banking advisory activity may be subdued. The existing and potential effects of COVID-19 on the business of the Company have been considered as part of the going concern analysis, including impact on operational capacity, access to liquidity and capital, contractual obligations, asset valuations and other critical accounting judgements and key sources of estimation uncertainty. Additionally, the specific impact of Brexit on the business of the Company has been considered. The Company has access to further Morgan Stanley Group capital and liquidity as required.

Taking the above factors into consideration, the Directors believe it is reasonable to assume that the Company will have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the interim management report and condensed financial statements.

2. NET INCOME/ (EXPENSE) ON OTHER FINANCIAL INSTRUMENTS HELD AT FAIR VALUE

	Six months ended 30 June 2020 €'000	Six months ended 30 June 2019 €'000
Net (expense)/ income on:		
Non-trading financial assets at fair value through profit or loss ("FVPL"):		
Trade and other receivables:		
Prepaid equity securities contracts	(10,738)	3,328
Financial assets designated at FVPL:		
Loans and advances:		
Loans	(32,970)	151,668
Financial liabilities designated at FVPL:		
Debt and other borrowings:		
Issued Structured Notes	747,297	(809,665)
	703,589	(654,669)

3. OTHER REVENUE

	Six months ended 30 June 2020 €'000	Six months ended 30 June 2019 €'000
Management charges to other Morgan Stanley Group undertakings	2,898	413

4. INTEREST INCOME AND INTEREST EXPENSE

'Interest income' represents total interest generated from financial assets at amortised cost, while 'interest expense' represents total interest arising on financial liabilities at amortised cost, recognised using the effective interest rate ("EIR") method.

No other gains or losses have been recognised in respect of financial assets measured at amortised cost other than as disclosed as 'Interest income', foreign exchange differences disclosed in 'Other expense' (note 5) and impairment losses recognised in 'Other expense' (note 5).

4. INTEREST INCOME AND INTEREST EXPENSE (CONTINUED)

No other gains or losses have been recognised in respect of financial liabilities at amortised cost other than as disclosed as 'Interest expense' and foreign exchange differences disclosed in 'Other expense' (note 5).

'Interest expense' includes the yield payable on Convertible Preferred Equity Certificates ("CPECs") (see note 8).

5. OTHER EXPENSE

	Six months ended 30 June 2020 €'000	Six months ended 30 June 2019 €'000
Net foreign exchange losses	13	357
Management charges from other Morgan Stanley Group undertakings	392	431
Other	140	76
	545	864

The Company actively manages its foreign currency exposure risk arising on its assets and liabilities in currencies other than Euro. Net foreign exchange losses include translation differences that have arisen due to foreign exchange exposure created as a result of hedging assets and liabilities recognised for Morgan Stanley Group reporting purposes.

6. INCOME TAX EXPENSE

	Six months ended 30 June 2020 €'000	Six months ended 30 June 2019 €'000
Current tax expense		
Current period	428	103
Income tax expense	428	103

Reconciliation of effective tax rate

The current period income tax expense is the same as (30 June 2019: same as) that resulting from applying the average standard rate of corporation tax in The Netherlands of 25.0% (30 June 2019: 25.0%) as shown below:

	Six months ended 30 June 2020 €'000	Six months ended 30 June 2019 €'000
Profit before income tax	1,710	413
Income tax using the average standard rate of corporation tax in The Netherlands of 25.0% (30 June 2019: 25.0%)	428	103
Total income tax expense in the condensed statement of comprehensive income	428	103

The Company is included in a fiscal unity with Archimedes Investments Coöperatieve U.A. and is not a stand-alone taxpayer for Dutch corporate income tax purposes. If, and to the extent that, the Company would benefit from losses of other members of the fiscal unity, these may be settled via inter-company mechanisms.

7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY

The following table analyses financial assets and financial liabilities as at 30 June 2020 presented in the condensed statement of financial position by classification.

30 June 2020 **€'000**	**FVPL (mandatorily)**	**FVPL (designated)**	**Amortised cost**	**Total**
Cash and short-term deposits	-	-	4,371	4,371
Trading financial assets:				
Derivatives	313,233	-	-	313,233
Loans and advances:				
Loans	-	8,203,001	-	8,203,001
Trade and other receivables:				
Trade receivables	-	-	317,918	317,918
Other receivables	-	-	1,159,366	1,159,366
Prepaid equity securities contracts	17,070	-	-	17,070
Total financial assets	330,303	8,203,001	1,481,655	10,014,959
Trading financial liabilities:				
Derivatives	742,337	-	-	742,337
Convertible preferred equity certificates	-	-	1,125,281	1,125,281
Trade and other payables:				
Trade payables	-	-	6,692	6,692
Other payables	-	-	271,522	271,522
Debt and other borrowings:				
Issued Structured Notes	-	7,826,756	-	7,826,756
Total financial liabilities	742,337	7,826,756	1,403,495	9,972,588

31 December 2019 **€'000**	**FVPL (mandatorily)**	**FVPL (designated)**	**Amortised cost**	**Total**
Cash and short-term deposits	-	-	4,543	4,543
Trading financial assets:				
Derivatives	447,464	-	-	447,464
Loans and advances:				
Loans	-	7,065,314	-	7,065,314
Trade and other receivables:				
Trade receivables	-	-	20,222	20,222
Other receivables	-	-	1,485,410	1,485,410
Prepaid equity securities contracts	31,124	-	-	31,124
Total financial assets	478,588	7,065,314	1,510,175	9,054,077
Trading financial liabilities:				
Derivatives	193,375	-	-	193,375
Convertible preferred equity certificates	-	-	1,125,281	1,125,281
Trade and other payables:				
Trade payables	-	-	300,354	300,354
Other payables	-	-	25,548	25,548
Debt and other borrowings:				
Issued Structured Notes	-	7,370,868	-	7,370,868
Total financial liabilities	193,375	7,370,868	1,451,183	9,015,426

7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY (CONTINUED)

Financial assets and financial liabilities designated at FVPL

Financial assets and financial liabilities shown in the tables above as designated at FVPL consist primarily of the following financial assets and financial liabilities:

Structured Notes: These relate to financial liabilities which arise from selling structured products generally in the form of notes, certificates and warrants. These instruments contain an embedded derivative which significantly modifies the cash flows of the issuance. The return on the instrument is linked to an underlying that is not clearly and closely related to the debt host including, but not limited to, equity-linked notes. These Structured Notes are designated at FVPL as the risks to which the Company is a contractual party are risk managed on a fair value basis as part of the Company's trading portfolio and the risk is reported to key management personnel on this basis.

Loans: These are loans to other Morgan Stanley Group undertakings that, along with the prepaid equity securities contracts and the derivative contracts classified as mandatorily at FVPL, are part of the hedging strategy for the obligations arising pursuant to the issuance of the Structured Notes. These loans are designated at FVPL to eliminate or significantly reduce an accounting mismatch which would otherwise arise.

The Company determines the amount of changes in fair value attributable to changes in counterparty credit risk or own credit risk, as relating to loans and issued Structured Notes, by first determining the fair value including the impact of counterparty credit risk or own credit risk, and then deducting those changes in fair value representing managed market risk. In determining fair value, the Company considers the impact of changes in own credit spreads based upon observations of the secondary bond market spreads when measuring the fair value for issued Structured Notes. The Company considers that this approach most faithfully represents the amount of change in fair value due to both counterparty credit risk and the Company's own credit risk.

At initial recognition of a specific Structured Note issuance program, the Company's issuance process, and any planned hedging structure relating to the issuance of those Structured Notes, has been considered, to determine whether the presentation of fair value changes attributable to credit risk of those Structured Notes through other comprehensive income would create or enlarge an accounting mismatch in the income statement. If financial instruments, such as prepaid equity securities contracts, derivatives and loans held at FVPL, for which changes in fair value incorporating counterparty credit risk are reflected within the income statement, are traded to economically hedge the Structured Note issuances in full, the fair value incorporating any counterparty credit risk arising on the hedging instruments may materially offset any changes in the credit risk ("DVA") applied to Structured Notes, where the counterparties of the hedging instruments are part of the Morgan Stanley Group. In such cases, the DVA of those Structured Notes is not reflected within other comprehensive income and instead is presented in the income statement.

7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY (CONTINUED)

Financial assets and financial liabilities designated at FVPL (continued)

The following table presents the change in fair value and the cumulative change recognised in the condensed statement of comprehensive income attributable to own credit risk for issued Structured Notes and counterparty credit risk for loans.

	Gain or (loss) recognised in the condensed statement of comprehensive income		Cumulative gain or (loss) recognised in the condensed statement of comprehensive income	
	Six months ended 30 June 2020 €'000	Six months ended 30 June 2019 €'000	30 June 2020 €'000	31 December 2019 €'000
Issued Structured Notes	65,082	(75,708)	26,711	(91,793)
Loans	(65,082)	75,708	(26,711)	91,793
	-	-	-	-

The carrying amount of financial liabilities designated at fair value was €8,743,000 lower than the contractual amount due at maturity (31 December 2019: €8,638,000 lower).

The following tables present the carrying value of the Company's financial liabilities designated at FVPL, classified according to underlying security type, including single name equities, equity indices and equity portfolio.

30 June 2020	Single name equities €'000	Equity indices €'000	Equity portfolio €'000	Other[1] €'000	Total €'000
Certificates and warrants	144,186	7,479	57,963	-	209,628
Notes	1,462,390	2,361,859	2,829,554	963,325	7,617,128
Total debt and other borrowings	1,606,576	2,369,338	2,887,517	963,325	7,826,756

31 December 2019	Single name equities €'000	Equity indices €'000	Equity portfolio €'000	Other[1] €'000	Total €'000
Certificates and warrants	303,770	8,991	79,196	-	391,957
Notes	845,708	3,318,552	1,741,472	1,073,179	6,978,911
Total debt and other borrowings	1,149,478	3,327,543	1,820,668	1,073,179	7,370,868

[1] Other includes Structured Notes that have coupon or repayment terms linked to the performance of funds, debt securities, currencies or commodities.

The majority of the Company's financial liabilities designated at FVPL provide exposure to an underlying single name equity, an equity index or portfolio of equities. The prepaid equity securities contracts, derivative contracts and loans held at FVPL that the Company enters into in order to hedge the Structured Notes are valued as detailed in note 3(d) and note 20(a) of the Company's 2019 annual financial statements, and have similar valuation inputs to the liabilities they hedge.

8. CONVERTIBLE PREFERRED EQUITY CERTIFICATES

On 30 March 2012, the Company issued 11,252,813 of CPECs of €100 each, classified as financial liabilities at amortised cost. The CPECs were issued to one of the Company's shareholders, Archimedes Investments Coöperatieve U.A. (a Morgan Stanley Group undertaking), in exchange for cash consideration of €1,125,281,000.

The CPECs carry no voting rights. The Company and the holder have the right to convert each issued CPEC into one ordinary share with a nominal value of €100.

The maturity date of the CPECs is 49 years from the date of issuance. The CPECs may be redeemed earlier at the option of the Company or on liquidation of the Company.

The CPECs rank ahead of the ordinary shares in the event of liquidation.

The holder of the CPECs is entitled to receive an annual yield on a date agreed by the Company and the holder. The yield for each CPEC is calculated as income deriving from the Company's activities less the necessary amounts to cover the costs of the Company divided by the number of CPECs then in issue. Other income relating to management charges received from other Morgan Stanley Group undertakings and gains or losses from financial instruments designated or mandatorily at fair value through profit or loss are excluded from the calculation.

On 27 March 2020, the Company paid the accrued yield of €11,494,000 to the holders of the CPECs. An accrued yield for the period ended 30 June 2020 of €6,126,000 has been recognised in the condensed statement of comprehensive income in 'Interest expense' (30 June 2019: €5,625,000). The liability to the holders of the CPECs at 30 June 2020, recognised within 'Trade and other payables,' is €3,525,000 (31 December 2019: €8,893,000).

9. TRADE AND OTHER RECEIVABLES

	30 June 2020 €'000	31 December 2019 €'000
Trade and other receivables (amortised cost)		
Trade receivables:		
Amounts due from other Morgan Stanley Group undertakings	317,918	20,222
Other receivables:		
Amounts due from other Morgan Stanley Group undertakings	1,159,418	1,485,414
Less: Expected Credit Loss ("ECL") allowance	(52)	(4)
	1,159,366	1,485,410
Total trade and other receivables (amortised cost)	1,477,284	1,505,632
Trade and other receivables (non-trading at FVPL)		
Prepaid equity securities contracts	17,070	31,124
Trade and other receivables	1,494,354	1,536,756

10. TRADE AND OTHER PAYABLES

	30 June 2020 €'000	31 December 2019 €'000
Trade and other payables (amortised cost)		
Trade payables:		
Amounts due to other Morgan Stanley Group undertakings	6,692	300,354
Other payables:		
Amounts due to other Morgan Stanley Group undertakings	271,522	25,548
	278,214	325,902

11. DEBT AND OTHER BORROWINGS

	30 June 2020 €'000	31 December 2019 €'000
Issued Structured Notes	7,826,756	7,370,868
Debt and other borrowings (designated at FVPL)	7,826,756	7,370,868

Refer to note 7 for details of issued Structured Notes included within 'Debt and other borrowings' designated at FVPL.

12. SEGMENT REPORTING

Segment information is presented in respect of the Company's business and geographical segments. The business segments and geographical segments are based on the Company's management and internal reporting structure.

Business segments

Morgan Stanley structures its business segments primarily based upon the nature of the financial products and services provided to customers and Morgan Stanley's internal management structure. The Company's own business segments are consistent with those of Morgan Stanley.

The Company has one reportable business segment, Institutional Securities, which provides financial services to financial institutions. Its business includes the issuance of financial instruments and the hedging of the obligations arising pursuant to such issuances.

Geographical segments

The Company operates in three geographic regions as listed below:

- Europe, Middle East and Africa ("EMEA")
- Americas
- Asia

The following table presents selected condensed statement of comprehensive income and condensed statement of financial position information of the Company's operations by geographic area. The external revenues (net of interest expense) and total assets disclosed in the following table reflect the regional view of the Company's operations, on a managed basis. The basis for attributing external revenues (net of interest expense) and total assets is determined by trading desk location.

	EMEA		Americas		Asia		Total	
	30 June 2020 €'000	30 June 2019 €'000	30 June 2020 €'000	30 June 2019 €'000	30 June 2020 €'000	30 June 2019 €'000	30 June 2020 €'000	30 June 2019 €'000
External revenues net of interest	1,353	1,088	619	138	283	51	2,255	1,277
Profit before income tax	808	224	619	138	283	51	1,710	413

	EMEA		Americas		Asia		Total	
	30 June 2020 €'000	31 December 2019 €'000	30 June 2020 €'000	31 December 2019 €'000	30 June 2020 €'000	31 December 2019 €'000	30 June 2020 €'000	31 December 2019 €'000
Total assets	4,299,114	4,966,427	3,966,874	2,756,664	1,749,322	1,333,775	10,015,310	9,056,866

Of the Company's external revenue, 100% (30 June 2019: 100%) arises from transactions with other Morgan Stanley Group undertakings.

13. FINANCIAL RISK MANAGEMENT

Risk management procedures

The Company's risk management procedures are consistent with those disclosed in the Company's 2019 annual financial statements. This disclosure is limited to quantitative data for each risk category and should be read in conjunction with the risk management procedures detailed in note 18 of the Company's 2019 annual financial statements.

Credit risk

Exposure to credit risk

The maximum exposure to credit risk ("gross credit exposure") of the Company as at 31 December 2019 is the carrying amount of the financial assets held in the condensed statement of financial position. The table below includes financial instruments subject to ECL and not subject to ECL. Those financial instruments that bear credit risk but are not subject to ECL are subsequently measured at fair value. This table does not include receivables arising from pending securities transactions with market counterparties as credit risk is considered insignificant. Where the Company enters into credit enhancements, including receiving cash as collateral and master netting agreements, to manage the credit exposure on these financial instruments, the financial effect of the credit enhancements is also disclosed below. The net credit exposure represents the credit exposure remaining after the effect of the credit enhancements

The Company does not have any significant exposure arising from items not recognised on the condensed statement of financial position.

Collateral and other credit enhancements

The Company has entered into collateral arrangements with other Morgan Stanley Group undertakings to mitigate credit risk. Collateral held is managed in accordance with the Morgan Stanley Group's guidelines and the relevant underlying agreements.

Class	30 June 2020			31 December 2019		
	Gross credit exposure (1)	Credit enhancements	Net credit exposure (2)	Gross credit exposure (1)	Credit enhancements	Net credit exposure (2)
€'000						
Subject to ECL:						
Cash and short-term deposits	4,371	-	4,371	4,543	-	4,543
Trade and other receivables(3)	1,477,284	-	1,477,284	1,505,632	-	1,505,632
Not subject to ECL:						
Trading financial assets(3)	313,233	(248,520)	64,713	447,464	(394,777)	52,687
Loans and advances	8,203,001	-	8,203,001	7,065,314	-	7,065,314
Trade and other receivables(3):						
Prepaid equity securities contracts	17,070	(17,070)	-	31,124	(31,124)	-
	10,014,959	(265,590)	9,749,369	9,054,077	(425,901)	8,628,176

(1) The carrying amount recognised in the condensed statement of financial position best represents the Company's maximum exposure to credit risk.

(2) Of the residual net credit exposure, intercompany cross product netting arrangements are in place which would allow for an additional €26,783,000 (2019: €nil) to be offset in the event of default by certain Morgan Stanley counterparties.

(3) At 30 June 2020, net cash collateral pledged of €279,809,000 was recognised in trade and other receivables in the condensed statement of financial position against derivatives classified as trading financial assets/liabilities and prepaid equity securities contract. At 31 December 2019, trade and other receivables included net cash collateral pledged of €172,489,000. Cash collateral is determined and settled on a net basis.

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Exposure to credit risk by internal rating grades

Internal credit ratings are derived using methodologies generally consistent with those used by external agencies.

Investment grade: internal grades AAA - BBB
Non-investment grade: internal grades BB - CCC
Default: internal grades D

The tables below shows gross carrying amount by internal rating grade.

At 30 June 2020	**AA**	**A**	**BBB**	**Total Investment Grade / Gross Carrying Amount**	**Loss Allowance**	**Carrying Amount**
€'000						
Subject to ECL:						
Cash and short term deposits	868	3,437	66	4,371	-	4,371
Trade and other receivables(1)	-	1,418,654	58,683	1,477,337	(53)	1,477,284
Total subject to ECL	868	1,422,091	58,749	1,481,708	(53)	1,481,655
Not subject to ECL:						
Trading financial assets - derivatives	-	240,137	73,096	313,233	-	313,233
Loans and advances	-	-	8,203,001	8,203,001	-	8,203,001
Trade and other receivables:						
Prepaid equity securities contracts	-	17,070	-	17,070	-	17,070
Total not subject to ECL	-	257,207	8,276,097	8,533,304	-	8,533,304
At 31 December 2019						
€'000						
Subject to ECL:						
Cash and short term deposits	96	4,447	-	4,543	-	4,543
Trade and other receivables(1)	-	1,152,640	352,996	1,505,636	(4)	1,505,632
Total subject to ECL	96	1,157,087	352,996	1,510,179	(4)	1,510,175
Not subject to ECL:						
Trading financial assets - derivatives	-	334,200	113,264	447,464	-	447,464
Loans and advances	-	-	7,065,315	7,065,315	-	7,065,315
Trade and other receivables:						
Prepaid equity securities contracts	-	31,124	-	31,124	-	31,124
Total not subject to ECL	-	365,324	7,178,579	7,543,903	-	7,543,903

(1) The Company has no financial assets at stage 3. At 30 June 2020 there were no financial assets past due but not impaired or individually impaired (31 December 2019: nil).

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

Maturity analysis

In the following maturity analysis of financial assets and financial liabilities, derivative contracts and other financial instruments held at FVPL are disclosed according to their earliest contractual maturity; all such amounts are presented at their fair value, consistent with how these financial instruments are managed. All other amounts represent undiscounted cash flows receivable and payable by the Company arising from its financial assets and financial liabilities to earliest contractual maturities as at 30 June 2020 and 31 December 2019. Receipts of financial assets and repayments of financial liabilities that are subject to immediate notice are treated as if notice were given immediately and are classified as on demand. This presentation is considered by the Company to appropriately reflect the liquidity risk arising from these financial assets and financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial assets and financial liabilities is managed by the Company.

30 June 2020	On demand	Less than one year	Equal to or more than one year but less than two years	Equal to or more than two years but less than five years	Equal to or more than five years	Total
€'000						
Financial assets						
Cash and short term deposits	4,371	-	-	-	-	4,371
Trading financial assets:						
Derivatives	10,553	128,122	23,047	74,666	76,845	313,233
Loans and advances:						
Loans	171,274	3,253,290	998,524	1,978,067	1,801,846	8,203,001
Trade and other receivables:						
Trade receivables	317,918	-	-	-	-	317,918
Other receivables	1,159,366	-	-	-	-	1,159,366
Prepaid equity securities contracts	17,070	-	-	-	-	17,070
Total financial assets	1,680,552	3,381,412	1,021,571	2,052,733	1,878,691	10,014,959
Financial liabilities						
Trading financial liabilities:						
Derivatives	37,676	315,617	103,071	177,665	108,308	742,337
Convertible preferred equity certificates	1,125,281	-	-	-	-	1,125,281
Trade and other payables:						
Trade payables	6,692	-	-	-	-	6,692
Other payables	271,522	-	-	-	-	271,522
Debt and other borrowings:						
Issued Structured Notes	197,010	3,065,795	918,500	1,875,068	1,770,383	7,826,756
Total financial liabilities	1,638,181	3,381,412	1,021,571	2,052,733	1,878,691	9,972,588

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Maturity analysis (continued)

31 December 2019	On demand	Less than one year	Equal to or more than one year but less than two years	Equal to or more than two years but less than five years	Equal to or more than five years	Total
€'000						
Financial assets						
Cash and short term deposits	4,543	-	-	-	-	4,543
Trading financial assets:						
Derivatives	61,667	116,270	47,510	135,904	86,113	447,464
Loans and advances:						
Loans	281,885	1,927,130	1,094,600	1,938,880	1,822,819	7,065,314
Trade and other receivables:						
Trade receivables	20,222	-	-	-	-	20,222
Other receivables	1,485,410	-	-	-	-	1,485,410
Prepaid equity securities contracts	31,124	-	-	-	-	31,124
Total financial assets	1,884,851	2,043,400	1,142,110	2,074,784	1,908,932	9,054,077
Financial liabilities						
Trading financial liabilities:						
Derivatives	29,254	52,934	35,247	36,054	39,886	193,375
Convertible preferred equity certificates	1,125,281	-	-	-	-	1,125,281
Trade payables and other payables:						
Trade receivables	300,354	-	-	-	-	300,354
Other receivables	25,548	-	-	-	-	25,548
Debt and other borrowings:						
Issued Structured Notes	365,763	1,990,466	1,106,863	2,038,730	1,869,046	7,370,868
Total financial liabilities	1,846,200	2,043,400	1,142,110	2,074,784	1,908,932	9,015,426

Market risk

Equity price sensitivity analysis

The sensitivity analysis below is determined based on the exposure to equity price risk at 30 June 2020 and 31 December 2019 respectively.

The market risk related to such equity price risk is measured by estimating the potential reduction in total comprehensive income associated with a 10% decline in the underlying equity price as shown in the table below.

	Impact on total comprehensive income gains/ (losses)	
	30 June 2019	31 December 2019
	€'000	€'000
Trading financial instruments	(780,969)	(733,975)
Trade and other receivables – at FVPL	(1,707)	(3,112)
Debt and other borrowings	782,676	737,087
	-	-

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (continued)

Equity price sensitivity analysis (continued)

The Company's equity risk price risk is mainly concentrated on equity securities in EMEA.

The Company enters into the majority of its financial asset transactions with other Morgan Stanley Group undertakings, where both the Company and the other Morgan Stanley Group undertakings are wholly-owned subsidiaries of the same group parent entity, Morgan Stanley.

The issued Structured Notes expose the Company to the risk of changes in market prices of the underlying securities, interest rate risk and, where denominated in currencies other than Euros, the risk of changes in rates of exchange between the Euro and the other relevant currencies. The Company uses the contracts that it purchases from other Morgan Stanley Group undertakings to hedge the market price, interest rate and foreign currency risks associated with the issuance of the Structured Notes, consistent with the Company's risk management strategy. As such, the Company is not exposed to any net market risk on these financial instruments.

The net foreign exchange losses and gains recognised in 'Other expense' have arisen as a result of exposure to hedging on assets and liabilities recognised for Morgan Stanley Group purposes, under the Morgan Stanley Group's local reporting requirements.

14. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING

In the following table:

- 'Gross amounts' include transactions which are not subject to master netting agreements or collateral agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.
- 'Amounts not offset in the condensed statement of financial position' are transactions where master netting arrangements and collateral arrangements have been determined by the Company to be legally enforceable, but do not meet all criteria required for net presentation.

14. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING (CONTINUED)

30 June 2020	Gross and net amounts presented in the condensed statement of financial position (1)	Amounts not offset in the condensed statement of financial position (2) (4)		
		Financial instruments	Cash collateral (3)	Net exposure
€'000				
Assets				
Trading financial assets:				
Derivatives	313,233	-	(248,520)	64,713
Trade and other receivables:				
Prepaid equity securities contracts	17,070	-	(17,070)	-
TOTAL ASSETS	330,303	-	(265,590)	64,713
Liabilities				
Trading financial liabilities:				
Derivatives	742,337	-	(542,822)	199,515
Debt and other borrowings:				
Issued Structured Notes	7,826,756	-	-	7,826,756
TOTAL LIABILITIES	8,569,093	-	(542,822)	8,026,271
31 December 2019				
€'000				
Assets				
Trading financial assets:				
Derivatives	447,464	-	(394,777)	52,687
Trade and other receivables:				
Prepaid equity securities contracts	31,124	-	(31,124)	-
TOTAL ASSETS	478,588	-	(425,901)	52,687
Liabilities				
Trading financial liabilities:				
Derivatives	193,375	-	(149,608)	43,767
Debt and other borrowings:				
Issued Structured Notes	7,370,868	-	-	7,370,868
TOTAL ASSETS	7,564,243	-	(149,608)	7,414,635

(1) Amounts include €64,713,000 (31 December 2019: €52,687,000) of trading financial assets – derivatives, €199,515,000 (31 December 2019: €43,767,000) of trading financial liabilities – derivatives and €7,729,839,000 (31 December 2019: €7,146,869,000) of debt and other borrowings – issued Structured Notes which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.

(2) Amounts relate to master netting arrangements and collateral arrangements which have been determined by the Company to be legally enforceable, but do not meet all criteria required for net presentation within the condensed statement of financial position.

(3) Cash collateral used to mitigate credit risk on exposures arising under derivatives contracts and prepaid equity securities contracts is determined and settled on a net basis and has been recognised in the condensed statement of financial position within 'Trade and other receivables' in 2020 and 'Trade and other payables' in 2019.

(4) In addition to the balances disclosed in the table above, certain 'Trade and other receivables' and 'Trade and other payables' of €17,320,000 (31 December 2019: €19,737,000) not presented net within the condensed statement of financial position have legally enforceable master netting agreements in place and can be offset in the ordinary course of business and/or in the event of default.

15. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

a. Financial assets and liabilities recognised at fair value on a recurring basis

The following tables present the carrying value of the Company's financial assets and financial liabilities recognised at fair value on a recurring basis, classified according to the fair value hierarchy. The information below is limited to quantitative information and should be read in conjunction with note 20 of the Company's 2019 annual financial statements.

30 June 2020	**Quoted prices in active market (Level 1) €'000**	**Valuation techniques using observable inputs (Level 2) €'000**	**Valuation techniques with significant unobservable inputs (Level 3) €'000**	**Total €'000**
Trading financial assets:				
Derivatives				
Interest rate contracts	-	37,328	9,529	46,857
Equity contracts	-	244,997	18,956	263,953
Foreign exchange contracts	-	118	-	118
Commodity contracts	-	2,305	-	2,305
Total trading financial assets	-	284,748	28,485	313,233
Trade and other receivables:				
Prepaid equity securities contracts	-	17,070	-	17,070
Loans and advances:				
Loans	-	8,203,001	-	8,203,001
Total financial assets measured at fair value	-	8,504,819	28,485	8,533,304
Trading financial liabilities:				
Derivatives				
Interest rate contracts	-	9,843	15,696	25,539
Equity contracts	-	591,057	124,226	715,283
Foreign exchange contracts	-	1,271	-	1,271
Commodity contracts	-	244	-	244
Total trading financial liabilities	-	602,415	139,922	742,337
Debt and other borrowings:				
Certificates and warrants	-	207,574	2,054	209,628
Notes	-	7,149,789	467,339	7,617,128
Total debt and other borrowings	-	7,357,363	469,393	7,826,756
Total financial liabilities measured at fair value	-	7,959,778	609,315	8,569,093

15. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

a. Financial assets and liabilities recognised at fair value on a recurring basis (continued)

31 December 2019	Quoted prices in active market (Level 1) €'000	Valuation techniques using observable inputs (Level 2) €'000	Valuation techniques with significant unobservable inputs (Level 3) €'000	Total €'000
Trading financial assets:				
Derivatives				
Interest rate contracts	-	10,611	15,676	26,287
Equity contracts	-	398,916	21,064	419,980
Commodity contracts	-	1,197	-	1,197
	-	410,724	36,740	447,464
Trade and other receivables:				
Prepaid equity securities contracts	-	31,124	-	31,124
Loans and advances:				
Loans	-	7,065,314	-	7,065,314
Total financial assets measured at fair value	-	7,507,162	36,740	7,543,902
Trading financial liabilities:				
Derivatives				
Interest rate contracts	-	7,306	14,407	21,713
Equity contracts	-	140,850	28,720	169,570
Foreign exchange contracts	-	1,918	21	1,939
Commodity contracts	-	153	-	153
	-	150,227	43,148	193,375
Debt and other borrowings:				
Certificates and warrants	-	387,802	4,155	391,957
Notes	-	6,578,957	399,954	6,978,911
Total debt and other borrowings	-	6,966,759	404,109	7,370,868
Total financial liabilities measured at fair value	-	7,116,986	447,257	7,564,243

b. Transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets and liabilities recognised at fair value on a recurring basis

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the current period and prior year.

15. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

c. Changes in Level 3 financial assets and liabilities recognised at fair value on a recurring basis

The following tables present the changes in the fair value of the Company's Level 3 financial assets and financial liabilities for the period ended 30 June 2020 and year ended 31 December 2019. Level 3 instruments may be hedged with instruments classified in Level 2. As a result, the realised and unrealised gains/ (losses) for assets and liabilities within the Level 3 category presented in the following tables do not reflect the related realised and unrealised gains/ (losses) on hedging instruments that have been classified by the Company within the Level 2 category.

Unrealised gains/ (losses) during the period for assets and liabilities within the Level 3 category presented in the following tables may include changes in fair value during the period that were attributable to both observable and unobservable inputs.

15. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

c. Changes in Level 3 financial assets and liabilities recognised at fair value on a recurring basis (continued)

30 June 2020 €'000	Balance at 1 January 2020	Total gains or (losses) recognised in condensed statement of comprehensive income (1)	Purchases	Issuances	Settlements	Net transfers in and/ or out of Level 3(2)	Balance at 30 June 2020	Unrealised gains or (losses) for Level 3 assets /(liabilities) outstanding as at 30 June 2020(3)
Trading financial liabilities:								
Net derivative contracts (4)	(6,408)	(93,249)	6,205	(5,242)	(7,929)	(4,814)	(111,437)	(85,170)
Debt and other borrowings:								
Issued Structured Notes	(404,109)	82,655	-	(111,011)	47,767	(84,695)	(469,393)	81,844
Total financial liabilities measured at fair value	(410,517)	(10,594)	6,205	(116,253)	39,838	(89,509)	(580,830)	(3,326)

(1) The total gains or (losses) are recognised in the condensed statement of comprehensive income as detailed in the financial instruments accounting policy in the Company's 2019 annual financial statements.

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

(3) Amounts represent unrealised gains or (losses) for the period ended 30 June 2020 related to assets and liabilities still outstanding at 30 June 2020. The unrealised gains or (losses) are recognised in the condensed statement of comprehensive income as detailed in the financial instruments accounting policy in the Company's 2019 annual financial statements.

(4) Net derivative contracts represent trading financial assets – derivative contracts net of trading financial liabilities – derivative contracts.

During the period, the Company reclassified approximately €1,589,000 of net derivative contracts (31 December 2019: €7,984,000) and €203,185,000 of issued Structured Notes (31 December 2019: €13,966,000) from Level 2 to Level 3. The reclassifications were due to a reduction in the volume of recently executed transactions or a lack of available broker quotes for these instruments, such that certain significant inputs became unobservable.

During the period the Company reclassified €118,489,000 of issued Structured Notes (31 December 2019: €167,667,000) from Level 3 to Level 2. The reclassifications were due to the availability of market data for these or comparable instruments, or available broker quotes, or consensus data such that certain significant inputs become observable. There were no other material transfers from Level 3 to Level 2 of the fair value hierarchy (31 December 2019: nil).

15. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

c. Changes in Level 3 financial assets and liabilities recognised at fair value on a recurring basis (continued)

31 December 2019

	Balance at 1 January 2019 €'000	Total gains or (losses) recognised in statement of comprehensive income (1) €'000	Purchases €'000	Issuances €'000	Settlements €'000	Net transfers in and/ or out of Level 3(2) €'000	Balance at 31 December 2019 €'000	Unrealised gains or (losses) for Level 3 assets /(liabilities) outstanding as at 31 December 2019(3) €'000
Trade and other receivables:								
Prepaid equity securities contracts	63,752	255	-	796	(61,157)	(3,646)	-	-
Total financial assets measured at fair value	**63,752**	**255**	**-**	**796**	**(61,157)**	**(3,646)**	**-**	**-**
Trading financial liabilities:								
Net derivative contracts (4)	(103,708)	79,396	819	(3,364)	(15,979)	36,428	(6,408)	59,657
Debt and other borrowings:								
Issued Structured Notes	(529,505)	(73,506)	-	(168,138)	213,339	153,701	(404,109)	(49,300)
Total financial liabilities measured at fair value	**(633,213)**	**5,890**	**819**	**(171,502)**	**197,360**	**190,129**	**(410,517)**	**10,357**

(1) The total gains or (losses) are recognised in the statement of comprehensive income as detailed in the financial instruments accounting policy (note 3 (c)).

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

(3) Amounts represent unrealised gains or (losses) for the period ended 31 December related to assets and liabilities still outstanding at 31 December. The unrealised gains or (losses) are recognised in the statement of comprehensive income as detailed in the financial instruments accounting policy (note 3 (c)).

(4) Net derivative contracts represent trading financial assets – derivative contracts net of trading financial liabilities – derivative contracts.

d. Valuation of Level 3 financial assets and liabilities recognised at fair value on a recurring basis

The following disclosures provide information on the sensitivity of fair value measurements to key inputs and assumptions.

1. Quantitative information about and qualitative sensitivity of significant unobservable inputs:

The following table provides 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.

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. There are no predictable relationships between multiple significant unobservable inputs attributable to a given valuation technique. A single amount is disclosed when there is no significant difference between the minimum, maximum and average (weighted average or similar average/ median).

15. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

d. Valuation of Level 3 financial assets and liabilities recognised at fair value on a recurring basis (continued)

30 June 2020	Fair value €'000	Predominant valuation techniques/ Significant unobservable inputs	Range [2] (Averages)[3]
LIABILITIES			
- Net derivative contracts: [1]			
- Interest rate	6,167	Option model	
		Interest rate - Foreign exchange correlation	54% to 59% (mean 57%, mediun 56%)
		Interest rate - Interest rate curve correlation	55% to 93% (mean 74%, mediun 75%)
		NAV	
		NAV	176.4551 – 176.4551 (176.4551)
- Equity	105,270	Option model	
		At the money volatility	17% to 73% (26%)
		Volatility skew	-2% to 0% (-1%)
		Equity – Equity correlation	36% to 93% (73%)
		Equity – Foreign exchange correlation	-63% to 5% (-30%)
Debt and other borrowings:			
- Issued Structured Notes	469,393	Option model	
		At the money volatility	17% to 73% (27%)
		Volatility skew	-2% to 0% (-1%)
		Equity – Equity correlation	40% to 94% (68%)
		Equity – Foreign exchange correlation	-72% to 10% (-29%)
		Interest rate - Foreign exchange correlation	54% to 59% (mean 57%, mediun 56%)
		Interest rate - Interest rate correlation	55% to 93% (mean 74%, mediun 75%)

(1) Net derivative contracts represent trading financial assets – derivative contracts net of trading financial liabilities – derivative contracts.

(2) The ranges of significant unobservable inputs are represented in percentages.

(3) Amounts represent weighted averages except where simple averages and the median of the inputs are provided when more relevant.

15. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

d. Valuation of Level 3 financial assets and liabilities recognised at fair value on a recurring basis (continued)

31 December 2019	Fair value €'000	Predominant valuation techniques/ Significant unobservable inputs	Range (2) (Averages)(3)
ASSETS			
Trade and other receivables:			
- Prepaid equity securities contracts	-	Option model	0% (0%)
		At the money volatility	
LIABILITIES			
- Net derivative contracts: (1)			
- Interest rate	1,269	Option model	
		Interest rate - Foreign exchange correlation	55% to 58% (mean 56%, median 56%)
		Interest rate - Interest rate curve correlation	56% to 93% (mean 74%, median 75%)
		Net asset value ("NAV")	
		NAV	100% (100%)
- Equity	(7,656)	Option model	
		At the money volatility	12% to 69% (23%)
		Volatility skew	-2% to 0% (-1%)
		Equity – Equity correlation	30% to 94% (69%)
		Equity – Foreign exchange correlation	-80% to 10% (-29%)
- Foreign exchange	(21)		
- Commodities	-	Option model	
		Quanto correlation	0% to 0% (0%)
Debt and other borrowings:			
- Issued Structured Notes	(404,109)	Option model	
		At the money volatility	12% to 69% (23%)
		Volatility skew	-2% to 0% (-1%)
		Equity – Equity correlation	38% to 93% (67%)
		Equity – Foreign exchange correlation	-51% to 12% (-27%)
		Interest rate - Foreign exchange correlation	55% to 58% (mean 56%, median 56%)
		Interest rate - Interest rate curve correlation	56.1% to 92.5% (mean 74%, median 75%)
		NAV	
		NAV	99% (101%)

(1) Net derivative contracts represent trading financial liabilities – derivative contracts net of trading financial assets – derivative contracts.

(2) The ranges of significant unobservable inputs are represented in percentages.

(3) Amounts represent weighted averages except where simple averages and the median of the inputs are provided when more relevant.

A description of significant unobservable inputs included in the tables above for all major categories of assets and liabilities is included within note 20 of the Company's 2019 annual financial statements.

15. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

d. Valuation of Level 3 financial assets and liabilities recognised at fair value on a recurring basis (continued)

2. Sensitivity of fair values to changing significant assumptions to reasonably possible alternatives:

The following table presents the potential impact of both favourable and unfavourable changes, both of which would be reflected in condensed statement of comprehensive income.

	30 June 2020		31 December 2019(2)(3)	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	€'000	€'000	€'000	€'000
Trading financial liabilities:				
Net derivatives contracts(1)	18,976	(10,290)	2,336	(3,296)
Debt and other borrowings:				
Issued Structured Notes	14,798	(14,134)	9,226	(5,908)
	41,591	(32,241)	11,562	(9,204)

(1) Net derivative contracts represent trading financial assets – derivative contracts net of trading financial liabilities – derivative contracts. The reasonably possible alternative assumptions are applied to derivative assets and derivative liabilities separately when assessing potential variability of the fair value measurement.

(2) The increase in the potential impact of favourable and unfavourable changes compared to the prior year is primarily driven by a decrease in the carrying value of financial assets and financial liabilities classified as Level 3.

(3) The difference between the total favourable and total unfavourable changes is primarily a result of net derivative contracts classified as Level 3 in the fair value hierarchy hedging issued Structured Notes which can be classified as either Level 2 or Level 3 in the fair value hierarchy.

e. Assets and liabilities measured at fair value on a non-recurring basis

Non-recurring fair value measurements of assets and liabilities are those which are required or permitted in the condensed statement of financial position in particular circumstances. There were no assets or liabilities measured at fair value on a non-recurring basis during the current period or prior year.

16. ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

For all financial instruments not measured at fair value, the carrying amount is considered to be a reasonable approximation of fair value due to the short term nature of these assets and liabilities.

Regarding the CPECs, their carrying value including the accrued yield in 'Trade and other payables', as detailed in note 8, is considered in aggregate as an approximation of their fair value.

17. EVENTS AFTER THE REPORTING DATE

On 23 September 2020, the Directors approved a dividend of €15,000,000 from distributable reserves with expected payment date of 25 September 2020.

Deloitte.

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Review report

To the shareholder of Morgan Stanley B.V.

Introduction

We have reviewed the accompanying interim financial information of Morgan Stanley B.V., Amsterdam, which comprises the condenced statement of financial position as at June 30, 2020, the condensed statements of comprehensive income, condenced statement of changes in equity, and condensed statement of cash flows for the period of 6 months ended June 30, 2020, and the notes. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope

We conducted our review in accordance with Dutch law including standard 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Emphasis of the impact of the COVID-19

The coronavirus also impacts Morgan Stanley B.V. Management disclosed the current impact and their plans to deal with these events or circumstances on page 12 and 13 of the interim financial information. Management indicates that it is currently not possible for them to properly estimate the impact of the COVID-19 on the financial performance and health of Morgan Stanley B.V. Our opinion is not modified in respect of this matter.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as at June 30, 2020 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Amsterdam, September 23, 2020

Deloitte Accountants B.V.

Signed on the original: J. Penon

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