Morgan Stanley

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Morgan Stanley & Co. International plc

2022 Interim Report and Financial Statements

30 June 2022

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MORGAN STANLEY & CO. INTERNATIONAL plc

INTERIM MANAGEMENT REPORT

The Directors present their Interim Management Report and the Condensed Consolidated Financial Statements ("Interim Financial Statements") for Morgan Stanley & Co. International plc (the "Company") and all of its subsidiary undertakings (together "the Group") for the six month period ended 30 June 2022 ("the period") .

These Interim Financial Statements should be read in conjunction with, and as an update to the Group's 2021 Report and Financial Statements, available at:
https://www.morganstanley.com/about-us-ir/subsidiaries

Group and Company Overview

The Company and Governance

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

Morgan Stanley International Limited ("MSI") is the ultimate United Kingdom ("UK") parent undertaking of the Company. MSI, together with all its subsidiary undertakings forms the "MSI Group".

The Company operates within the financial services industry and, as such, is subject to extensive supervision and regulation. The Company shares elements of its Corporate Governance, and in certain circumstances its supervision with MSI. The Directors may refer to policies, procedures and practices that the Company and/or the Group share with MSI and the MSI Group.

Principal Activity

The principal activity of the Group is the provision of financial services to a global client base consisting of corporations, governments and financial institutions. There have not been any changes in the Group's principal activity during the period and no significant change is expected.

The Company conducts business from its headquarters in London, UK and operates branches in the Dubai International Financial Centre, France, the Qatar Financial Centre, South Korea and Switzerland.

Overview of the Period

The Group's net revenue decreased by 2% compared to 30 June 2021 ("the prior year period") predominantly driven by lower investment banking activity and partially offset by higher equity product trading activity. As a result, the Group's profit before tax decreased to $1,235 million, a 1% decrease as compared to the prior year period. See 'Overview of 2022 Financial Results' for further information.

The Group continues to monitor the war in Ukraine and its impact on both the Ukrainian and Russian economies, as well as related impacts on other world economies and the financial markets. The Group also continues to monitor the impact of the macroeconomic environment on various sectors and industries.

Morgan Stanley continued to successfully implement its transition plan for Interbank Offered Rates ("IBOR") exposures. For further detail on IBOR transition, refer to 'Group and Company Overview - Business Environment'.

During the period the Company complied with all its capital and liquidity requirements. See 'Liquidity and Capital Resource Management and Regulation' for further detail.

Supervision and Regulation

As a UK-based financial services provider, the Company is authorised by the Prudential Regulation Authority ("PRA") as a PRA-designated investment firm and is regulated by the PRA and the Financial Conduct Authority ("FCA").

As a provider of services to global clients, the Company is registered with the Securities and Exchange Commission ("SEC") as a Securities Based Swap Dealer ("SBSD"), and per regulatory guidance, provisionally registered with the Commodity Futures Trading Commission ("CFTC") as a Swap Dealer until rules are finalised.

Risk Factors and Business Environment

Risk Factors

Risk is an inherent part of the Group's business activity. The Group 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 Group Risk Appetite Statement articulates the aggregate level and type of risk that the Group is willing to accept in order to execute its business strategy.

The Group has an established Risk Management Framework, to support the identification, monitoring and management of risk.

The primary risk areas for the Group include Market, Credit, Operational, and Liquidity and Funding risks. Climate risk is largely managed through these principal risks. A description of the principal risks and how these risks are managed within the Group is outlined in detail within the relevant section of 'Risk Management'.

The key risk factors impacting the Group are outlined in the 2021 Report and Financial Statements, with updates below.

Business Environment

During 2022, the Group has continued to monitor the factors in the global environment which impact its performance and financial stability. In particular, the war in Ukraine introduced risks and uncertainties that may adversely affect the results and operations of the Group. Other factors which the Group continues to monitor are continued inflation and rising interest rates.

Future Developments

The Interim Management Report contains certain forward-looking statements and information on future developments. These statements are made by the Board of Directors (the "Board") in good faith, based on the information available at the time of the approval of the report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Russia and Ukraine War

The Group is monitoring the war in Ukraine and its impact on both the Ukrainian and Russian economies, as well as related impacts on other world economies and the financial markets. During the period, the Group recognised expected credit losses in relation to cash and margin deposited with exchanges in Russia, see 'Overview of 2022 Financial Results'. Following the recognition of these expected credit losses, the Group's direct exposure to both Russia and Ukraine is limited.

Morgan Stanley's activities in Russia are limited to helping global clients address and close out pre-existing obligations.

Macroeconomic Environment

The global economic and geopolitical environment during the period, which has been characterised by continued inflation, rising interest rates and commodity prices and volatility in global financial markets, had a mixed impact on the Group. See 'Overview of 2022 Financial Results'.

UK withdrawal from the EU

Morgan Stanley continues to assess and refine the scope and location of its operations and employees following the UK withdrawal from the European Union ("EU"). Such activity did not have a material impact on the Group's or Company's financial position or on its financial performance in the period.

Replacement of London Interbank Offered Rate ("LIBOR") and Replacement or Reform of Other Interest Rate Benchmarks

The Morgan Stanley Group continues to implement its IBOR transition plan for LIBOR and other interest rate benchmarks (collectively, the 'IBORs') exposures. The Group's primary IBOR exposures arise on its derivative contracts, and the significant majority of such exposures reference United States dollar ("USD") LIBOR tenors (and/or USD swap rates), which are expected to continue to be published until 30 June 2023.

At 30 June 2022, the Group's exposures on bilateral external derivative contracts which did not contain fallback provisions to allow for the transition to alternative reference rates upon the cessation of the applicable IBOR rate, remained substantially similar to the nominal exposures reported in the 2021 Report and Financial Statements.

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Financial Performance and Condition

Financial Performance Indicators

In order to effectively implement the Group's strategy, the Board monitors the results of the Group by reference to a range of performance and risk based metrics, including, but not limited to the following:

Key Performance Indicators

Return on Shareholders' Equity (Group)

in $ millions	At 30 June 2022	At 30 June 2021
Total shareholders' equity at beginning of the period	22,175	21,021
Profit after tax	960	923
Return on shareholders' equity - annualised	8.7%	8.8%

Leverage Ratio (Company)

in $ millions	At 30 June 2022	At 31 December 2021
Leverage exposure	427,375	496,231
Tier 1 capital	21,565	20,522
Leverage ratio	5.0%	4.1%

Tier 1 Capital Ratio (Company)

in $ millions	At 30 June 2022	At 31 December 2021
Risk-weighted assets ("RWAs")	137,181	136,746
Tier 1 capital	21,565	20,522
Tier 1 capital ratio	15.7%	15.0%

Liquidity Coverage Ratio (Company)

in $ millions	At 30 June 2022	At 31 December 2021
Liquidity buffer - High quality liquid assets ("HQLA")	41,980	40,982
Liquidity coverage ratio (1)	199%	196%

1. Calculated as the average of the preceding twelve months

Movements in key performance indicators are primarily explained by movements in the financial statement components in the following 'Overview of 2022 Financial Results' section, as well as the 'Leverage Ratio' section and the 'Liquidity and Funding Management' section.

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Overview of 2022 Financial Results

Income Statement

Set out below is an overview of the Group's financial results for the period and the prior year period.

in $ millions	Six Months Ended 2022	2021	Increase/ (decrease)	Variance %
Investment banking	373	939	(566)	-60%
Sales and trading	650	685	(35)	-5%
Other	29	30	(1)	-3%
Fee and Commission Income	**1,052**	**1,654**	**(602)**	**-36%**
Sales and trading net trading income	**2,987**	**2,484**	**503**	**20%**
Net revenue	**4,039**	**4,138**	**(99)**	**-2%**
Staff related expenses	963	1,213	(250)	-21%
Non-staff related expenses	1,702	1,675	27	2%
Net impairment loss/ (reversal) on financial instruments	139	(2)	141	N/M
Non-interest expenses	**2,804**	**2,886**	**(82)**	**-3%**
Profit before tax	**1,235**	**1,252**	**(17)**	**-1%**
Income tax expense	275	329	(54)	-16%
Profit after tax	**960**	**923**	**37**	**4%**

Non meaningful ("N/M")

The condensed consolidated income statement for the year is set out on page 17 and the geographical split is in note 16.

The Group reported a 1% decrease in profit before tax for the period, driven by lower investment banking activity partially offset by an increase in Europe, Middle East, and Africa ("EMEA") equity product trading activity.

30 June 2022	Net revenue (millions / %)		Profit before tax (millions / %)	
EMEA	2,695	67%	573	46%
Asia	1,111	27%	547	44%
Americas	233	6%	115	10%
Total	**4,039**		**1,235**	
30 June 2021				
EMEA	2,846	69%	715	57%
Asia	1,059	25%	435	35%
Americas	233	6%	102	8%
Total	**4,138**		**1,252**	

For a description of the activities included in the line items in the Income Statement table, refer to 'Overview of 2021 Financial Results – Income Statement' in the Strategic Report to the 2021 Report and Financial Statements.

Net Revenue

Investment Banking

Investment banking revenue decreased 60%, primarily related to a decrease in equity underwriting and fixed income underwriting revenues, partially offset by an increase in advisory revenues.

Sales and Trading

Sales and trading income is comprised of commission income of $650 million (30 June 2021: $685 million) and net trading income of $2,987 million (30 June 2021: $2,484 million).

Sales and trading net trading income, which largely derives from client activity, is comprised of 'Net gains from financial instruments at fair value through profit or loss ("FVPL")' and 'Net interest expense', as set out in the condensed consolidated income statement on page 18.

Sales and trading commission income decreased 5%, primarily in equity products within the Asia segment of the Group's business.

Sales and trading net trading income increased by 20%, reflecting an increase from equity products and fixed income products.

- The equity product revenues increased in the EMEA and Asia segments benefiting from higher client activity.
- The fixed income product revenues increase was primarily across EMEA and Asia as a result of higher client activity in Macro products and Commodities derivatives offset by lower client activity in Credit products.
- 'Net interest expense' increased as a result of interest rates increasing, notably in USD, British pound ("GBP") and Euro ("EUR") markets.

Non-Interest Expenses

Staff-Related Expenses

Staff related expenses decreased by 21% and was driven by lower mark-to-market on deferred equity compensation, primarily due to the decrease in the Morgan Stanley share price in the period, compared to an increase in share price in the prior year period, as well as lower discretionary compensation as a result of decreased global revenues.

Non-Staff Related Expenses

Non-staff related expenses increased by 2% and reflects a litigation provision and an increase in Asia and EMEA brokerage fees, partially offset by a decrease in transaction taxes.

Net Impairment Loss/(Reversal) on Financial Instruments

During the period, the Group recognised $139 million of expected credit losses related to cash and margin cash deposited with exchanges in Russia.

Income Tax Expense

The Group's tax expense for the period is $275 million, compared to $329 million for the prior year period. This represents an actual effective tax rate ("ETR") of 22.3% (30 June 2021: 26.3%), compared to the average standard rate of UK corporation tax (inclusive of the UK Banking surcharge) of 27% (30 June 2021: 27%).

The Group's actual ETR is sensitive to the geographic mix of profits and tax rates in non-UK jurisdictions (including the net effect of foreign withholding taxes suffered by the Group), the additional 8% UK banking surcharge, as well as the non-deductibility of certain expenses for tax purposes. Partially offsetting this is the availability of group relief and the income tax benefit of coupon payments on AT1 instruments, which reduces the tax expense for the period.

Balance Sheet

in $ millions	30 June 2022 (unaudited)	31 December 2021	Increase/ (decrease)	Variance %
Cash and short term deposits	41,537	28,532	13,005	46%
Trading financial assets	350,920	332,635	18,285	5%
Secured financing	125,241	125,895	(654)	-1%
Trade and other receivables	84,697	79,334	5,363	7%
Other assets	581	790	(209)	-26%
Total Assets	**602,976**	**567,186**	**35,790**	**6%**
Trading financial liabilities	325,773	300,325	25,448	8%
Secured borrowing	104,374	97,262	7,112	7%
Trade and other payables	105,267	94,052	11,215	12%
Debt and other borrowings	42,943	52,679	(9,736)	-18%
Other liabilities	556	693	(137)	-20%
Total Liabilities	**578,913**	**545,011**	**33,902**	**6%**
Total Equity	**24,063**	**22,175**	**1,888**	**9%**

Assets and Liabilities

The increases in 'Trading financial assets' and 'Trading financial liabilities' were primarily driven by derivatives, as a result of fair value movements caused by foreign exchange rates as the USD strengthened against major currencies including EUR and an increase in client activity towards the end of the period. Partially offsetting the increase in derivative assets, cash security assets decreased largely due to lower client activity towards the end of the period and market movements across the EMEA and Asia segments.

The increase in 'Cash and short term deposits' is mainly due to an increase in cash held with central banks as part of the Group's liquidity reserve.

The increases in 'Trade and other receivables' and 'Trade and other payables' reflect higher derivative collateral pledged and received due to an increase in derivative assets and liabilities.

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The decrease in 'Debt and other borrowings' is due to a decrease in unsecured funding as business activity decreased towards the end of the period.

Equity

Total Equity increased by $1,888 million primarily reflecting profit after tax of $960 million, the issuance of $800 million of Additional Tier 1 ("AT1") capital in the period and a gain of $177 million in the 'Debt Valuation Reserve' within Other Comprehensive Income ("OCI") as a result of credit spreads widening.

No dividends were paid during the period (30 June 2021: $nil).

Liquidity and Capital Resource Management and Regulation

The Company views the management of capital and liquidity as an important source of financial strength and manages its resources based upon, among other things, business opportunities, risks, availability and rates of return together with internal policies, regulatory requirements and rating agency guidelines.

Further information is available in the Pillar 3 Regulatory Disclosures Report of the MSI Group, available at https://www.morganstanley.com/about-us-ir/pillar-uk. The MSI Group's Pillar 3 disclosure includes specific disclosure of the Company as a significant subsidiary.

Capital Management

Regulatory Capital and Leverage Requirements

As at 30 June 2022, the Company's Total Capital Requirement ("TCR") was $14,994 million, equivalent to 10.9% of RWAs. In addition, the PRA sets a buffer if required, which is available to support the Company in a stressed market environment.

in $ millions	30 June 2022	31 December 2021
Common Equity Tier 1 ("CET1") capital	17,265	17,022
Tier 1 capital	21,565	20,522
TCR	14,994	15,015

The Company's capital is monitored on an ongoing basis to ensure compliance with these requirements. The Company complied with all of its capital requirements during the period.

Capital Resources

Set out below are details of the Company's Capital Resources, as at 30 June 2022 and at 31 December 2021:

in $ millions	30 June 2022	31 December 2021
Balance sheet equity	24,041	22,330
Regulatory adjustments	(2,476)	(1,808)
Tier 1 Capital	21,565	20,522
Of which		
CET1	*17,265*	*17,022*
Additional Tier 1	*4,300*	*3,500*
Tier 2 Capital	7,378	5,376
Total Capital Resources	**28,943**	**25,898**
RWAs	137,181	136,746
CET1 Ratio	12.6%	12.4%
Tier 1 Capital Ratio	15.7%	15.0%
Total Capital Ratio	21.1%	18.9%

Refer to 'Overview of 2022 Financial Results' for further detail on the increase in total Company equity. The Total Capital Ratio increased as compared to 31 December 2021, primarily due to capital issuances.

RWAs

in $ millions	30 June 2022	31 December 2021
Credit risk RWAs	80,111	77,267
Market risk RWAs	47,003	49,412
Operational risk RWAs	10,067	10,067
Total RWAs	**137,181**	**136,746**

RWAs increased by $435 million during the period, primarily driven by Credit Risk and Concentration Risk RWAs. This is due to Capital Requirements Regulation ("CRRII") and the standardised approach to counterparty credit risk ("SA-CCR") implementation with reduction in available eligible capital and increased exposures.

Leverage Ratio

The Company's leverage ratio is detailed in the table below.

in $ millions	30 June 2022	31 December 2021
Tier 1 Capital	21,565	20,522
Leverage Exposure	427,375	496,231
Leverage Ratio	5.0%	4.1%

Leverage exposure decreased over the period, primarily due to the migration to CRRII, driven by the implementation of the SA-CCR calculation and the deduction of central bank claims.

The Company will be subject to a binding leverage ratio of 3.25% from 1 January 2023 as part of the UK's implementation of the prudential standards included in the CRRII.

Liquidity and Funding Management

Regulatory Liquidity and Funding Requirements

The Company complied with all liquidity requirements during the period.

in $ millions	30 June 2022	31 December 2021
HQLA	41,980	40,982
Liquidity coverage ratio[1]	199%	196%

1. Calculated as the average of the preceding twelve months

The Company manages HQLA to exceed Pillar 1 and period as the Pillar 1 requirement increased. As Pillar 2 is a fixed requirement, the minimum Liquidity coverage ratio percentage is variable.

Credit Ratings

At 30 June 2022, the Company's senior unsecured ratings are unchanged from 31 December 2021.

Regulatory Developments

Regulatory developments are in line with those disclosed in the 'Regulatory Developments' section of the Strategic Report to the 2021 Report and Financial Statements.

Risk Management

Risk is an inherent part of the Group's business activity and effective risk management is vital to the Group's success. The Group has an established Risk Management Framework, which leverages the risk management policies and procedures of the MSI Group and Morgan Stanley Group to support the identification, monitoring, management and mitigation of the various types of risk involved in its business activities.

The Risk Management Framework includes a well-defined, comprehensive risk governance structure with appropriate risk management expertise, including processes for periodically assessing the efficacy of the Risk Management Framework. The Board is supported in its oversight of the risk management by the addition of a number of management level committees.

This section and note 17 'Financial Risk Management' provide disclosure on the Group's risk strategy and appetite, risk management framework, and exposure to financial risks.

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

Market Risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities, correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio.

The Group manages the market risk associated with its trading activities at both a division and an individual product level, and includes consideration of market risk at the legal entity level.

The Group uses the statistical technique known as Value at Risk ("VaR") as one of its tools to measure, monitor and review the market risk exposures of its trading portfolios. The Market Risk Department calculates and distributes daily VaR-based risk measures to various levels of management. The following table shows the Group's Management VaR at the total level as well as the contribution from primary risk categories for the period and for the year ended 31 December 2021.

	95%/ one-day VaR			
	For the six months ended 30 June 2022		For the year ended 31 December 2021	
in $ millions	Period end	Average	Period end	Average
Primary Risk Categories	24	24	23	29
Credit Portfolio(1)	7	5	6	7
Less diversification benefit(2)	(8)	(5)	(6)	(6)
Total Management VaR	**23**	**24**	**23**	**30**

(1) The Credit Portfolio VaR is disclosed as a separate category from the Primary Risk Categories and includes loans that are carried at fair value and associated hedges as well as counterparty credit valuation adjustments and related hedges.

(2) Diversification benefit equals the difference between total trading VaR and the sum of the VaRs for the individual risk categories. This benefit arises because the simulated one-day losses for each of the primary market risk categories occur on different days; similar diversification benefits are also taken into account within each category.

The decrease in average VaR is primarily driven by reduced exposures to interest rate and equity risk.

Credit Risk

Credit Risk Management Framework

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Group. Credit risk includes country risk, which is further described on the next page.

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.

Exposure to Credit Risk

Counterparty Risk Exposure

The table below shows the Group's maximum exposure to credit risk and credit exposure for certain financial assets. It takes into account credit enhancements, including receiving cash and security as collateral and master netting agreements.

The net credit exposure represents the credit exposure remaining after the effect of the credit enhancements. Exposure to other Morgan Stanley Group undertakings is included in this table.

	30 June 2022			31 December 2021		
in $ millions	Gross credit exposure(1)	Credit enhancements	Net credit exposure	Gross credit exposure(1)	Credit enhancements	Net credit exposure
Trading financial assets:						
Derivatives	274,989	(260,939)	14,050	242,432	(229,230)	13,202
Secured financing	125,241	(124,587)	654	125,895	(124,594)	1,301
Trade and other receivables	421	(290)	131	993	(777)	216
Loan commitments	8	(2)	6	121	(2)	119
	400,659	**(385,818)**	**14,841**	**369,441**	**(354,603)**	**14,838**

(1) Gross credit exposure is the carrying amount which best represents the Group's maximum exposure to credit risk, and for recognised financial instruments is reflected in the condensed consolidated statement of financial position.

Additional information on the exposure to credit risk, including the maximum exposure to credit risk by credit rating is presented in 'Financial Risk Management' note 17.

Country and Sovereign Risk Exposure

Country risk is the risk that events in, or affecting, a foreign country might adversely affect the Group. "Foreign country" means any country other than the UK. Sovereign risk, by contrast, is the risk that a government will be unwilling or unable to meet its debt obligations or will renege on the debt it guarantees. Sovereign risk is single-name risk for a sovereign government, its agencies and guaranteed entities. For further information on how the Group identifies, monitors and manages country risk exposure refer to 'Credit risk – Country and Sovereign Risk Exposure' in the 2021 Report and Financial Statements.

The Group's sovereign exposures consist of financial instruments entered into with sovereign and local governments. Its non-sovereign exposures consist of exposures to primarily corporations and financial institutions. The table on the following page shows the Group's five largest non-UK country net exposures as at 30 June 2022. Exposure to other Morgan Stanley Group undertakings has been excluded from this table.

Five largest non-UK country risk net exposures:

in $ millions Country	Net inventory(1)	Net counterparty exposure(2)	Funded lending	Exposure before hedges	Hedges(3)	Net exposure 30 June 2022(4)	Net exposure 31 December 2021
United States							
Sovereigns	(876)	138	—	(738)	(34)	(772)	(262)
Non-sovereigns	861	5,157	28	6,046	(14)	6,032	5,273
Total United States	**(15)**	**5,295**	**28**	**5,308**	**(48)**	**5,260**	**5,011**
Germany							
Sovereigns	2,565	3	—	2,568	(361)	2,207	(2,819)
Non-sovereigns	(44)	2,155	—	2,111	(236)	1,875	1,504
Total Germany	**2,521**	**2,158**	**—**	**4,679**	**(597)**	**4,082**	**(1,315)**
France							
Sovereigns	898	13	—	911	—	911	(1,069)
Non-sovereigns	46	1,799	—	1,845	(521)	1,324	1,556
Total France	**944**	**1,812**	**—**	**2,756**	**(521)**	**2,235**	**487**
Korea							
Sovereigns	863	193	—	1,056	(25)	1,031	1,047
Non-sovereigns	102	645	—	747	—	747	622
Total Korea	**965**	**838**	**—**	**1,803**	**(25)**	**1,778**	**1,669**
Norway							
Sovereigns	(5)	1,004	—	999	—	999	700
Non-sovereigns	38	68	—	106	—	106	64
Total Norway	**33**	**1,072**	**—**	**1,105**	**—**	**1,105**	**764**

(1) Net inventory represents exposure to both long and short single name and index positions (i.e. bonds and equities at fair value and Credit Default Swaps ("CDS") based on notional amount assuming zero recovery adjusted for any fair value receivable or payable). As a market maker, the Group transacts in these CDS positions to facilitate client trading.
(2) Net counterparty exposure (i.e. repurchase transactions, securities lending and Over-the-Counter ("OTC") derivatives) taking into consideration legally enforceable master netting agreements and collateral.
(3) Represents CDS hedges (purchased and sold) on net counterparty exposure and lending executed by trading desks responsible for hedging counterparty and lending credit risk exposures for the Group. Amounts are based on the CDS notional amount assuming zero recovery adjusted for any fair value receivable or payable.
(4) In addition, as at 30 June 2022, the Group had exposure to these countries for overnight deposits with banks of approximately $1,049 million.

Liquidity and Funding Risk

Liquidity and funding risk refers to the risk that the Group 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 Group's ability (or perceived ability) to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern. Liquidity risk also encompasses 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.

Generally, the Group incurs liquidity and funding risk as a result of its trading, investing and client facilitation activities.

For a further discussion on the Group's liquidity risk, refer to 'Liquidity and Funding Risk' in the 2021 Report and Financial Statements.

Operational Risk

Operational risk refers to the risk of loss, or of damage to the Group's reputation, resulting from inadequate or failed processes or systems, from human factors 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. The scope also includes oversight of technology risk, cybersecurity risk, information security risk, and third party risk management (supplier and affiliate risk).

For further information on the Group's operational risk including conduct risk and legal, regulatory and compliance risk, refer to 'Operational Risk' in the 2021 Report and Financial Statements.

Climate Risk

The integration of climate financial risk into MSI Group's Risk Framework continued to evolve in the period. In July 2022, the Morgan Stanley Group published its second annual climate report, guided by the recommendations of the Taskforce on Climate-related Financial Disclosures ("TCFD"). This report includes financed emissions data for 2019 that represents the baseline for 2030 interim financed emissions targets in the most emission-intensive sectors of the Morgan Stanley Group's lending portfolio. Its publication was coordinated with other sustainability-related reports for 2021, including the Morgan Stanley Group's Sustainability Report and Diversity & Inclusion report, all of which can be found at https://www.morganstanley.com/about-us/sustainability-reports-research.

Going Concern

Business risks associated with the uncertain market and economic conditions are being actively monitored and managed by the Group. Retaining sufficient capital and liquidity to withstand these market pressures remains central to the Group's strategy. In particular, the Group's capital and liquidity is deemed sufficient to exceed regulatory minimums under both a normal and in a stressed market environment for the foreseeable future, including the impact of the current and potential stresses of the war in Ukraine, continued inflation and rising interest rates. The existing and potential effects on the business of the Group 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. The Group has access to further Morgan Stanley Group capital and liquidity as required.

Taking all of these factors into consideration, the Directors believe it is reasonable to assume that the Group 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 Report and Financial Statements.

Approved by the Board and signed on its behalf by

DocuSigned by:

Kim Lazaroo

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K Lazaroo

Director

22 September 2022

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MORGAN STANLEY & CO. INTERNATIONAL plc

DIRECTORS' RESPONSIBILITIES STATEMENT

In accordance with Article 4(2)(c) of the Luxembourg Law on Transparency Requirements for Issuers of 11 January 2008, as amended, and with rule 4.2.3(3) of the FCA's Disclosure and Transparency Rules ("DTR"), there are certain transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market (the "Transparency Law").

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

a. the condensed set of Interim Financial Statements, which has been prepared in accordance with International Accounting Standard ("IAS") 34 'Interim Financial Reporting' as adopted by the EU and UK, gives a true and fair view of the assets, liabilities, financial position and result of the Group; and

b. the Interim Management Report includes an indication of the important events that have occurred during the period and their impact on the condensed consolidated Interim Financial Statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year.

Board of Directors:

J Bloomer	Chairman
D O Cannon	
T Duhon	
A Kohli	
K Lazaroo	
S Orlacchio	
M Richards	
D A Russell	
A V Sekhar	
P D Taylor	
N P Whyte	
C Woodman	

By order of the Board

DocuSigned by:
Kim Lazaroo
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K Lazaroo

Director
22 September 2022

INDEPENDENT REVIEW REPORT TO THE MEMBERS OF MORGAN STANLEY & CO. INTERNATIONAL plc

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated statement of financial position, the condensed consolidated statement of cash flows and related notes 1 to 21.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 is not prepared, in all material respects, in accordance with Article 4 of the Luxembourg Transparency Law, in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority and in accordance with United Kingdom and European Union adopted International Accounting Standard 34 'Interim Financial Reporting'.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 ("ISRE (UK))" "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the UK. 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 International Standards on Auditing (UK) 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.

As disclosed in note 1, the annual financial statements of the Group will be prepared in accordance with UK and EU adopted International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee ("IFRIC"). The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with Article 4 of the Luxembourg Transparency Law, in accordance with the Disclosure Guidance and Transparency Rules of the UK's Financial Conduct Authority and in accordance with UK and EU adopted International Accounting Standard 34 'Interim Financial Reporting.'

Conclusion relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE (UK), however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the Directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the UK's Financial Conduct Authority and Article 4 of the Luxembourg Transparency Law.

In preparing the half-yearly financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Review of the Financial Information

In reviewing the half-yearly financial report, we are responsible for expressing to the Group a conclusion on the condensed set of financial statement in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of Our Report

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

DocuSigned by:

Deloitte LLP

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Deloitte LLP

Statutory Auditor

London

22 September 2022

MORGAN STANLEY & CO. INTERNATIONAL plc

CONDENSED CONSOLIDATED INCOME STATEMENT

Six months ended 30 June 2022

in $ millions	Note	Six months ended 30 June 2022 (unaudited)	Six months ended 30 June 2021 (unaudited)
Net gains from financial instruments at fair value through profit or loss	2	3,370	2,686
Fee and commission income	3	1,052	1,654
Other revenue		1	6
Interest income	4	135	(199)
Interest expense	4	(519)	(9)
Net interest expense		(384)	(208)
Net revenue		**4,039**	**4,138**
Non-interest expenses:			
Operating expense	5	(2,665)	(2,888)
Net impairment (loss)/reversal on financial instruments	6	(139)	2
PROFIT BEFORE TAX		**1,235**	**1,252**
Income tax expense	7	(275)	(329)
PROFIT FOR THE PERIOD		**960**	**923**

All operations were continuing in the current and prior periods.

The notes on pages 22 to 47 form an integral part of the Interim Financial Statements.

MORGAN STANLEY & CO. INTERNATIONAL plc

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2022

in $ millions	Six months ended 30 June 2022 (unaudited)	Six months ended 30 June 2021 (unaudited)
PROFIT FOR THE PERIOD	**960**	**923**
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of net defined benefit liability	1	(2)
Changes in fair value attributable to own credit risk on financial liabilities designated at fair value	177	30
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences arising on foreign operations	(49)	(14)
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX	**129**	**14**
TOTAL COMPREHENSIVE INCOME	**1,089**	**937**

The notes on pages 22 to 47 form an integral part of the Interim Financial Statements.

MORGAN STANLEY & CO. INTERNATIONAL plc

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2022

in $ millions	Six months ended 30 June 2022 (unaudited)	Six months ended 30 June 2021 (unaudited)
Share capital and Other equity instruments – at 1 January	**15,965**	**15,965**
Issuance of AT1 instrument	800	—
Share capital and Other equity instruments – at 30 June	**16,765**	**15,965**
Share premium – at 1 January and 30 June	**513**	**513**
Currency translation reserve - at 1 January	**107**	**140**
Foreign currency translation differences arising on foreign operations	(49)	(14)
Currency translation reserve - at 30 June	**58**	**126**
Capital contribution reserve – at 1 January and 30 June	**3**	**3**
Capital redemption reserve – at 1 January and 30 June	**1,400**	**1,400**
Debt valuation reserve - at 1 January	**(259)**	**(339)**
Changes in fair value attributable to own credit risk on financial liabilities designated at fair value	177	30
Realised debt valuation losses	—	9
Debt valuation reserve - at 30 June	**(82)**	**(300)**
Retained earnings and pension reserve - at 1 January	**4,446**	**3,339**
Profit for the period	960	923
Remeasurement of defined benefit liability	1	(2)
Realised debt valuation losses	—	(9)
Share based payments	(1)	—
Retained earnings and pension reserve - at 30 June	**5,406**	**4,251**
Total equity at 30 June	**24,063**	**21,958**

The notes on pages 22 to 47 form an integral part of the Interim Financial Statements.

MORGAN STANLEY & CO. INTERNATIONAL plc

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

in $ millions	Note	30 June 2022 (unaudited)	31 December 2021
ASSETS			
Cash and short term deposits		41,537	28,532
Trading financial assets (of which $37,386 million (2021: $41,685 million) were pledged to various parties)	9	350,920	332,635
Secured financing	8	125,241	125,895
Loans and advances		69	67
Investment securities		152	165
Trade and other receivables		84,697	79,334
Current tax assets		176	272
Deferred tax assets		118	213
Property, plant and equipment		29	33
Other assets		37	40
TOTAL ASSETS		**602,976**	**567,186**
LIABILITIES AND EQUITY			
Bank loans and overdrafts		21	48
Trading financial liabilities	9	325,773	300,325
Secured borrowing	8	104,374	97,262
Trade and other payables		105,267	94,052
Debt and other borrowings	13	42,943	52,679
Provisions	14	101	43
Current tax liabilities		112	124
Accruals and deferred income		315	469
Post-employment benefit obligations		7	9
TOTAL LIABILITIES		**578,913**	**545,011**
EQUITY			
Share capital		12,465	12,465
Other equity instruments	15	4,300	3,500
Share premium account		513	513
Currency translation reserve		58	107
Capital contribution reserve		3	3
Capital redemption reserve		1,400	1,400
Pension reserve		(3)	(4)
Debt valuation reserve		(82)	(259)
Retained earnings		5,409	4,450
TOTAL EQUITY		**24,063**	**22,175**
TOTAL LIABILITIES AND EQUITY		**602,976**	**567,186**

The notes on pages 22 to 47 form an integral part of the Interim Financial Statements.

MORGAN STANLEY & CO. INTERNATIONAL plc

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

As at 30 June 2022

in $ millions	Note	Six months ended 30 June 2022 (unaudited)	Six months ended 30 June 2021 (unaudited)
NET CASH FLOWS USED IN OPERATING ACTIVITIES		13,154	6,945
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		—	(6)
Proceeds from sale of property, plant and equipment		3	—
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**3**	**(6)**
FINANCING ACTIVITIES			
Issuance of AT1 instrument	15	800	—
Issuance of subordinated loan liabilities	13	2,500	—
Issuance of senior subordinated loan liabilities	13	600	—
Repayment of senior subordinated loan liabilities	13	(2,300)	—
Interest on senior subordinated loan liabilities		(53)	(53)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**1,547**	**(53)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		14,704	6,886
Currency translation differences on foreign currency cash balances		(1,672)	(338)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**28,484**	**24,933**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**41,516**	**31,481**

The notes on pages 22 to 47 form an integral part of the Interim Financial Statements.

1. BASIS OF PREPARATION

a. General Information

These Interim Financial Statements do not constitute statutory accounts within the meaning of Section 435 of the United Kingdom Companies Act 2006 ("Companies Act").

Statutory accounts for the year ended 31 December 2021 were approved by the Board of Directors on 25 April 2022 and delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2016. Other comparative information for the six months ended 30 June 2021 is included in certain instances.

b. Accounting Policies

The Group has prepared its annual consolidated financial statements in accordance with IFRSs issued by the IASB as adopted by the EU and the UK, Interpretations issued by the IFRIC and the UK Companies Act. The Interim Financial Statements have been prepared in accordance with Article (4)(2)(c) of the Luxembourg Transparency Law, with rule 4.2.4(1) of the FCA's DTR and in accordance with IAS 34 'Interim Financial Reporting', as adopted by the EU and the UK.

In preparing these Interim Financial Statements the Group has applied consistently the accounting policies and methods of computation used in the Group's 2021 Report and Financial Statements for the year ended 31 December 2021. During the period, there were no substantial updates to the Group's significant accounting policies.

c. Change in Presentation

The Group has updated the income statement presentation for gains and losses arising on financial instruments measured at FVPL, such that these are now presented in the 'Net gains from financial instruments at fair value through profit or loss' income statement line. In prior reporting periods, this information was presented across two income statement lines: 'Net gains/losses from financial instruments measured at fair value' and 'Net trading income', both of which are now included in note 2. This presentation is more closely aligned to the way that the business is managed and therefore provides more relevant information. The comparative period has also been re-presented.

d. Critical Accounting Judgements and Sources of Estimation Uncertainty

In preparing these condensed consolidated financial statements, the critical judgements made in applying the Group's accounting policies and the Group's critical sources of estimation uncertainty are consistent with those applied to the 2021 Report and Financial Statements. The Group evaluates the critical accounting judgements and accounting estimates on an ongoing basis and believes that these are reasonable.

2. NET GAINS FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June	
in $ millions	2022	2021
Assets and liabilities held for trading	**1,641**	**2,708**
Non-trading financial assets at FVPL		
Secured financing	(36)	(2)
Loans and advances - corporate loans	—	(10)
Investment securities	2	17
Trade and other receivables - prepaid OTC contracts	41	5
Total non-trading financial assets at FVPL	**7**	**10**
Financial liabilities designated at FVPL		
Secured borrowing	2	(56)
Trade and other payables - prepaid OTC contracts	(71)	(100)
Debt and other borrowings - issued structured notes	1,791	124
Total financial liabilities designated at FVPL	**1,722**	**(32)**
Net gains from financial instruments at fair value through profit or loss	**3,370**	**2,686**

Non-trading financial assets at FVPL and Financial liabilities designated at FVPL are frequently economically hedged with trading financial instruments. Accordingly, gains or losses arising from Non-trading financial assets at FVPL and Financial liabilities designated at FVPL can be partially offset by gains or losses reported in Assets and liabilities held for trading.

3. FEE AND COMMISSION INCOME

	30 June	
in $ millions	2022	2021
Investment banking(1)	373	939
Commission income	425	476
Trust and other fiduciary activities	92	91
Other fee and commission income	162	148
Total fee and commission income	**1,052**	**1,654**
Of which, revenue from contracts with customers	*1,162*	*1,585*

(1) Includes advisory and underwriting revenues

Total fee and commission income includes the transfer of revenues totalling $110 million to other Morgan Stanley Group undertakings (30 June 2021: $69 million transferred from other Morgan Stanley Group undertakings). These transfers do not relate to revenue from contracts with customers.

4. INTEREST INCOME AND INTEREST EXPENSE

The table below presents interest income and expense by accounting classification. Interest income and expense is calculated using the effective interest rate method for financial assets and financial liabilities measured at amortised cost.

	30 June	
in $ millions	2022	2021
Financial assets measured at amortised cost	**150**	**39**
Trading financial assets	108	81
Non-trading financial assets at FVPL	(123)	(319)
Financial assets measured at FVPL	**(15)**	**(238)**
Total interest income	**135**	**(199)**
Of which, negative interest income	*(409)*	*(450)*
Financial liabilities measured at amortised cost	406	83
Financial liabilities designated at FVPL	113	(74)
Total interest expense	**519**	**9**
Of which, negative interest expense	*(355)*	*(433)*

'Interest income' represents total interest generated from financial assets and 'Interest expense' represents total interest arising from financial liabilities, with the exception of instances where interest is included as a component of the financial instrument's fair value, in which case interest is reflected in 'Net gains from financial instruments at FVPL'.

The recognition of negative interest income and positive interest expense may result from transactions in certain currencies which may at times have negative interest rates. In addition, 'Interest income' includes fees paid on securities borrowed transactions. 'Interest expense' includes fees received on securities loaned and fees from prime brokerage customers for stock loan transactions entered into to cover customers' short positions.

5. OPERATING EXPENSE

	30 June	
in $ millions	2022	2021
Direct staff costs	699	886
Management charges from other Morgan Stanley Group undertakings relating to staff costs	264	327
Staff-related expenses	**963**	**1,213**
Management charges from other Morgan Stanley Group undertakings relating to other services	669	619
Brokerage fees	379	314
Administration and corporate services	49	42
Professional services	135	82
Other taxes	334	428
Commission and other similar arrangements	113	126
Other	23	64
Non-staff related expenses	**1,702**	**1,675**
Total operating expense	**2,665**	**2,888**

The Group employs staff directly and also uses the services of staff who are employed by other Morgan Stanley Group undertakings.

Staff-related expenses decreased by 21% from $1,213 million to $963 million. The decrease was driven by lower mark-to-market on deferred equity compensation, primarily due to the decrease in the Morgan Stanley share price in the period, compared to an increase in share price in the prior year period, as well as lower discretionary compensation as a result of decreased global revenues.

Non-staff related expenses increased by 2% from $1,675 million to $1,702 million. The increase reflects a litigation provision, an increase in Asia and EMEA brokerage fees partially offset by a decrease in transaction taxes.

6. NET IMPAIRMENT LOSS/(REVERSAL) ON FINANCIAL INSTRUMENTS

	30 June	
in $ millions	2022	2021
Cash and short term deposits	101	—
Trade and other receivables	38	—
Loan commitments	—	(2)
Net Impairment loss/(reversal) on financial instruments	**139**	**(2)**

All impairment losses were calculated on an individual basis. No collective impairment assessments were made during the period or prior year period.

The increase in net impairment loss is driven by expected credit losses related to Russian exposures.

7. INCOME TAX

The Group's tax expense has been accrued based on the expected tax rate that takes into account current expectations concerning the allocation of group relief within the Morgan Stanley UK tax group and prevailing tax rates in the jurisdictions in which the Group operates.

The UK Bank Levy (the "Levy") is an annual charge on a bank's balance sheet. Under IFRIC 21, 'Levies', the Levy is not recognised in the Interim Financial Statements, since the Levy's obligating event has not yet arisen. However, for the purposes of calculating the ETR, an adjustment has been made for the forecast Levy (since it is non-deductible for UK corporation tax purposes). As such, the Levy impacts the annual ETR and the tax expense for the period.

The Group's actual ETR for the period is 22.3% (six months ended 30 June 2021: 26.3%), which is lower than the standard rate of corporation tax (inclusive of the UK Banking Surcharge) in the UK of 27%. The Group's actual ETR is sensitive to the geographic mix of profits and tax rates in non-UK jurisdictions (including the net effect of foreign withholding taxes suffered by the Group), the additional 8% UK banking surcharge, as well as the non-deductibility of certain expenses for tax purposes. Partially offsetting this is the availability of group relief and the income tax benefit of coupon payments on AT1 instruments, which reduces the tax expense for the period.

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY

The following table analyses financial assets and financial liabilities presented in the Group's condensed consolidated statement of financial position by IFRS 9 classifications as at 30 June 2022 and 31 December 2021.

	30 June 2022				31 December 2021			
in $ millions	FVPL	FVPL designated	Amortised cost	Total	FVPL	FVPL designated	Amortised cost	Total
Cash and short term deposits	—	—	41,537	**41,537**	—	—	28,532	**28,532**
Trading financial assets	350,920	—	—	**350,920**	332,635	—	—	**332,635**
Secured financing:								
Cash collateral on securities borrowed	19,214	—	—	**19,214**	19,360	—	—	**19,360**
Securities purchased under agreements to resell	93,472	—	—	**93,472**	90,296	—	—	**90,296**
Other secured financing	12,555	—	—	**12,555**	16,239	—	—	**16,239**
Loans and advances	—	—	69	**69**	—	—	67	**67**
Investment securities	152	—	—	**152**	165	—	—	**165**
Trade and other receivables	421	—	83,859	**84,280**	993	—	78,069	**79,062**
Total financial assets	**476,734**	**—**	**125,465**	**602,199**	**459,688**	**—**	**106,668**	**566,356**
Bank loans and overdrafts	—	—	21	**21**	—	—	48	**48**
Trading financial liabilities	325,773	—	—	**325,773**	300,325	—	—	**300,325**
Secured borrowing:								
Cash collateral on securities loaned	—	21,447	6,525	**27,972**	—	25,141	4,362	**29,503**
Securities sold under agreements to repurchase	—	29,232	26,889	**56,121**	—	19,609	24,939	**44,548**
Other financial liabilities	—	17,045	3,236	**20,281**	—	20,053	3,158	**23,211**
Trade and other payables	—	437	103,995	**104,432**	—	748	92,569	**93,317**
Debt and other borrowings	—	10,084	32,859	**42,943**	—	9,602	43,077	**52,679**
Total financial liabilities	**325,773**	**78,245**	**173,525**	**577,543**	**300,325**	**75,153**	**168,153**	**543,631**

9. TRADING FINANCIAL ASSETS AND LIABILITIES

in $ millions	30 June 2022 Assets	30 June 2022 Liabilities	31 December 2021 Assets	31 December 2021 Liabilities
Government debt securities	15,505	16,624	14,097	20,475
Corporate and other debt	11,600	5,163	10,807	3,724
Corporate equities	48,826	29,967	65,299	28,608
Derivatives (see note 10)	274,989	274,019	242,432	247,518
	350,920	**325,773**	**332,635**	**300,325**

10. DERIVATIVES

	30 June 2022			
in $ millions	Bilateral OTC	Cleared OTC	Listed derivative contracts	Total
Derivative assets				
Interest rate contracts	60,131	8,280	19	**68,430**
Credit contracts	13,662	236	—	**13,898**
Foreign exchange and gold contracts	123,779	3,159	—	**126,938**
Equity contracts	37,617	—	7,772	**45,389**
Commodity contracts	19,096	—	1,238	**20,334**
	254,285	**11,675**	**9,029**	**274,989**
Derivative liabilities				
Interest rate contracts	62,549	7,241	25	**69,815**
Credit contracts	12,793	215	—	**13,008**
Foreign exchange and gold contracts	121,239	2,831	10	**124,080**
Equity contracts	38,697	—	8,074	**46,771**
Commodity contracts	19,011	—	1,334	**20,345**
	254,289	**10,287**	**9,443**	**274,019**

	31 December 2021			
in $ millions	Bilateral OTC	Cleared OTC	Listed derivative contracts	Total
Derivative assets				
Interest rate contracts	56,787	3,731	10	**60,528**
Credit contracts	9,745	405	—	**10,150**
Foreign exchange and gold contracts	84,810	1,224	—	**86,034**
Equity contracts	61,052	—	9,853	**70,905**
Commodity contracts	13,983	—	832	**14,815**
	226,377	**5,360**	**10,695**	**242,432**
Derivative liabilities				
Interest rate contracts	58,118	2,619	13	**60,750**
Credit contracts	8,935	392	—	**9,327**
Foreign exchange and gold contracts	84,080	1,244	5	**85,329**
Equity contracts	68,914	—	8,411	**77,325**
Commodity contracts	14,243	—	544	**14,787**
	234,290	**4,255**	**8,973**	**247,518**

11. INTERESTS IN SUBSIDIARIES

On 17 June 2022, the Directors approved a $207 million capital infusion into Morgan Stanley Turnberry Limited and a $11 million capital infusion into Morgan Stanley Humboldt Investments Limited, both direct subsidiaries of the Company. The Company impaired its investment in each subsidiary by $203 million and $8 million respectively. These changes had no impact to the Group.

12. INTERESTS IN STRUCTURED ENTITIES

The Group's involvement with structured entities, including those of which it considers itself the sponsor, is consistent with that described in the Group's 2021 Report and Financial Statements.

Consolidated Structured Entities

The table below shows information about the structured entities which the Group consolidated. Consolidated structured entity assets and liabilities are presented after intercompany eliminations and include assets financed on a non-recourse basis.

	30 June 2022		
in $ millions	Client Intermediation	Mortgage and asset-backed securitisations	Total
Assets of structured entities	200	554	**754**
Liabilities of structured entities	192	295	**487**

	31 December 2021		
in $ millions	Client Intermediation	Mortgage and asset-backed securitisation	Total
Assets of structured entities	200	419	**619**
Liabilities of structured entities	188	221	**409**

Unconsolidated Structured Entities

The following table shows certain non-consolidated structured entities in which the Group has an interest at 30 June 2022 and at 31 December 2021. The table includes all structured entities in which the Group has determined that its maximum exposure to loss exceeds specific thresholds or meets certain other criteria. The majority of the structured entities included in the table are sponsored by unrelated parties; the Group's involvement generally is the result of the Group's secondary market-making activities.

The Group's maximum exposure to loss is dependent on the nature of the Group's interest in the structured entity and is limited to notional amounts of certain liquidity facilities; total return swaps and the fair value of certain other derivatives and investments the Group has made in the structured entity. The reported exposure does not include the offsetting benefit of hedges, including total return swaps in relation to fund investments and other entities, or any reductions associated with the collateral held as part of a transaction with the structured entity or with any party to the structured entity. Where notional amounts are used to quantify the maximum exposure related to derivatives, such amounts do not reflect changes in fair value already recorded by the Group. Liabilities issued by structured entities generally are non-recourse to the Group.

	30 June 2022			
in $ millions	Client intermediation	Mortgage and asset-backed securitisations	Collateralised debt obligations	Total
Assets of the structured entity	16,367	5,173	177	**21,717**
Maximum exposure to loss:				
Debt and equity interests	879	144	107	**1,130**
Derivative and other contracts	3,616	—	—	**3,616**
Total	**4,495**	**144**	**107**	**4,746**
Carrying value of interests - assets [(1)]:				
Debt and equity interests	879	144	107	**1,130**
Derivative and other contracts	1,550	—	—	**1,550**
Total	**2,429**	**144**	**107**	**2,680**
Carrying value of interests - liabilities [(1)]:				
Debt and equity interests	1,557	—	—	**1,557**
Derivative and other contracts	326	—	—	**326**
Total	**1,883**	**—**	**—**	**1,883**
Additional interests in structured entities[(2)]	**8**	**206**	**200**	**414**

(1) Amounts are recognised in the condensed consolidated statement of financial position in Trading financial assets or Trading financial liabilities – derivatives or liabilities – Corporate and other debt.

(2) Primarily as a result of its secondary market-making activities, the Group owned additional securities issued by securitisation structured entities for which the maximum exposure to loss is less than the specific thresholds noted earlier.

	31 December 2021			
in $ millions	Client intermediation	Mortgage and asset-backed securitisations	Collateralised debt obligations	Total
Assets of the structured entity	17,150	5,255	193	**22,598**
Maximum exposure to loss:				
Debt and equity interests	846	197	118	**1,161**
Derivative and other contracts	5,201	—	—	**5,201**
Total	**6,047**	**197**	**118**	**6,362**
Carrying value of interests - assets [1]:				
Debt and equity interests	846	197	118	**1,161**
Derivative and other contracts	1,969	—	—	**1,969**
Total	**2,815**	**197**	**118**	**3,130**
Carrying value of interests - liabilities [1]:				
Debt and equity interests	1,067	—	—	**1,067**
Derivative and other contracts	354	—	—	**354**
Total	**1,421**	**—**	**—**	**1,421**
Additional interests in structured entities[2]	**2**	**203**	**129**	**334**

(1) Amounts are recognised in the condensed consolidated statement of financial position in Trading financial assets or Trading financial liabilities – derivatives or liabilities – Corporate and other debt..

(2) Primarily as a result of its secondary market-making activities, the Group owned additional securities issued by securitisation structured entities for which the maximum exposure to loss is less than the specific thresholds noted earlier.

For further detail on the type of transactions in the above table, refer to the explanations provided in note 15 of the 2021 Report and Financial Statements.

The Group has not provided financial support to, or otherwise agreed to be responsible for supporting financially, any unconsolidated structured entity.

Sponsored unconsolidated structured entities

Details of when the Group considers itself the sponsor of certain non-consolidated structured entities are provided in note 15 of the 2021 Report and Financial Statements.

In some sponsored entities, the Group has been involved with the structured entity through establishing the structured entity, marketing of products associated with the structured entity in its own name, and/ or through involvement in the design of the structured entity. The Group has no interest in these entities as at 30 June 2022 (31 December 2021: $nil).

The loss related to sponsored entities during the period was $353 million (31 December 2021: loss of $370 million). Gains or losses are reported under 'Net gains from financial instruments at FVPL' in the condensed consolidated income statement alongside any offsetting benefit of hedges. For the period, $586 million of assets were transferred to those sponsored entities (31 December 2021: $1,398 million). It is the investors in the structured entity, rather than the Group, that are exposed to the carrying value of assets transferred. The Group's exposure to the structured entity is limited to net amounts receivable from swap transactions with the entity and is not directly linked to the transferred assets themselves.

13. DEBT AND OTHER BORROWINGS

in $ millions	30 June 2022	31 December 2021
Debt and other borrowings (amortised cost)		
Subordinated debt	8,898	6,400
Senior subordinated debt	3,900	5,600
Other borrowings(1)	20,061	31,077
	32,859	**43,077**
Debt and other borrowings (designated FVPL)		
Issued structured notes	10,084	9,602
	42,943	**52,679**

(1) There is a floating charge over a pool of assets in favour of Morgan Stanley International Limited ("MSIUK") to secure certain intercompany loans which MSIUK has provided to the Company and which are presented within 'Other borrowings'. The value of assets subject to this charge at 30 June 2022 was $19,822 million (31 December 2021: $28,518 million).

The amounts subject to subordinated loan agreements are wholly repayable as shown below:

in $ millions			30 June 2022		31 December 2021	
Counterparty	Repayment Date	Interest Rate	Accrued Interest	Balance	Accrued Interest	Balance
MSIUK	21 December 2025	OBFR(1) plus 2.3%	89	5,000	21	5,000
MSIUK	11 August 2032	SOFR(2) plus 1.44%	21	1,400	8	1,400
MSIUK	13 June 2033	SOFR(2) plus 2.34%	5	2,500	—	—

(1) Overnight Bank Funding Rate ("OBFR")
(2) Secured Overnight Financing Rate ("SOFR")

The amounts subject to senior subordinated loan agreements are wholly repayable as shown below:

in $ millions			30 June 2022		31 December 2021	
Counterparty	Repayment Date	Interest Rate	Accrued Interest	Balance	Accrued Interest	Balance
MSIUK	30 January 2023 (3)	MS Proxy(4)	—	3,900	—	5,600

(3) The repayment date can be extended for 395 days on each business day but no later than 49 years from utilisation date, and unless a term-out notice is sent.
(4) Interest rate at which Morgan Stanley is offering loans, in the relevant currency, to members of the Morgan Stanley Group on such day, which counterparties have acknowledged and agreed to apply to any loan, acting on an arm's length basis

The senior subordinated loan, including accrued interest, may be bailed in by the Bank of England in certain circumstances.

The Group has not defaulted on principal, interest or breached any terms of its subordinated loans or senior subordinated loans during the period.

All amounts outstanding under subordinated loan agreements are repayable on the repayment date. Any prepayment of the $5,000 million instrument prior to contractual maturity of 21 December 2025 would require mutual agreement between the Company and the Lender. Prepayment of the $2,500 million instrument and the $1,400 million instrument is at the Company's discretion from the contractual call option date. PRA consent is required prior to any repayment.

14. PROVISIONS

in $ millions	Property	Litigation	Other	Total
At 1 January 2022	2	41	—	**43**
Additional provisions	—	61	—	**61**
Foreign exchange revaluation	—	(3)	—	**(3)**
At 30 June 2022	**2**	**99**	**—**	**101**

Litigation Matters

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

The Group is also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding the Group's business, and involving, among other matters, sales and trading activities, financial products or offerings sponsored, underwritten or sold by the Group, and accounting and operational matters, certain of which may result in adverse judgements, settlements, fines, penalties, injunctions or other relief.

Refer to Note 18 to the 2021 Report and Financial Statements for further information regarding litigation matters. While the Group has identified in the 2021 Report and Financial Statements certain proceedings that the Group believes to be material, individually or collectively, there can be no assurance that additional material losses will not be incurred from claims that have not yet been asserted or are not yet determined to be material. There are no significant updates to the litigation matters disclosed in the 2021 Report and Financial Statements.

The Group is responding to a number of governmental investigations and civil litigation matters related to, amongst other things, allegations of anticompetitive conduct in various aspects of the financial services industry, including an investigation by the UK Competition and Markets Authority into potentially anti-competitive arrangements in the financial services sector.

Tax Matters

The preparation of the Group's condensed consolidated financial statements requires management to make judgements, estimates and assumptions regarding the outcome of matters that are uncertain, including those relating to tax. The Group has reserves arising on a number of uncertain tax matters, for which management has made judgements and interpretations about the application of inherently complex tax laws when determining these provisions. Whilst a range of outcomes is foreseeable, management considers the amount reserved to be a reasonable estimate of expected future liabilities after consideration of all pertinent facts.

15. EQUITY INSTRUMENTS

On 13 June 2022, the Company issued an $800 million AT1 instrument to MSI. The instrument includes a trigger mechanism whereby, if the CET1 capital ratio of the Company or MSI Group falls below a pre-determined level, the outstanding principal amount of the Instrument, together with any accrued interest coupon will be written down. In this situation, MSI, the holder of the AT1, would have no further rights against the Group in respect of the AT1.

The instrument has no defined maturity and is subordinated to senior creditors and subordinated loan creditors of the Company. The instrument is not entitled to any participation in the residual net assets of the Company. The instrument is callable at the Company's discretion from 30 November 2027. Coupons on the instrument are non-cumulative and are payable at a fixed rate of 7.42% per annum. Payment of the coupon is wholly at the discretion of the Company.

16. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. The business and geographical segments are based on the Group's management and internal reporting structure. Transactions between business segments are on normal commercial terms and conditions.

Business Segment

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 Group's own business segments are consistent with those of Morgan Stanley.

The Group has one reportable business segment, Institutional Securities.

Geographical Segments

The Group operates in three geographic regions, being EMEA, the Americas and Asia.

The following table presents selected condensed consolidated income statement and condensed consolidated statement of financial position information of the Group'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 Group's operations, on a managed basis. The attribution of external revenues (net of interest expense) and total assets is determined by a combination of client and trading desk location.

Geographical Segments	Net revenue		Profit before tax	
	30 June		30 June	
in $ millions	2022	2021	2022	2021
EMEA	2,695	2,846	573	715
Asia	1,111	1,059	547	435
Americas	233	233	115	102
Total	**4,039**	**4,138**	**1,235**	**1,252**

	Total assets	
in $ millions	30 June 2022	31 December 2021
EMEA	366,440	337,702
Asia	122,124	99,774
Americas	114,412	129,710
Total	**602,976**	**567,186**

17. FINANCIAL RISK MANAGEMENT

17.1 Risk Management procedures

The Group's risk management procedures are consistent with those disclosed in the Group's 2021 Report and Financial Statements. This disclosure is therefore limited to quantitative data for each risk category which is material or which has had a significant update from the year end disclosure.

17.2 Market Risk

17.2.1 VaR for the Period

The table on the following page presents the period end, average, maximum and minimum values for the Group's management VaR for the period ending 30 June 2022 and compared to the year ending 31 December 2021.

	95%/one-day Var for the six months ended 30 June 2022				95%/one-day VaR for the year ended 31 December 2021			
in $ millions	Period end	Average	High	Low	Period end	Average	High	Low
Market risk category:								
Interest rate and credit spread	15	13	18	11	12	16	26	12
Equity price	19	19	26	15	19	22	31	17
Foreign exchange rate	6	5	11	2	4	6	13	3
Commodity price	8	6	9	2	3	3	7	2
Less diversification benefit(1)(2)	(24)	(19)	N/A	N/A	(15)	(18)	N/A	N/A
Primary Risk Categories	24	24	31	19	23	29	37	22
Credit Portfolio(3)	7	5	8	4	6	7	12	5
Less diversification benefit(1)(2)	(8)	(5)	N/A	N/A	(6)	(6)	N/A	N/A
Total Management VaR	**23**	**24**	**31**	**19**	**23**	**30**	**41**	**23**

(1) Diversification benefit equals the difference between total trading VaR and the sum of the VaRs for the four risk categories. This benefit arises because the simulated one-day losses for each of the four primary market risk categories occur on different days; similar diversification benefits also are taken into account within each category.
(2) N/A - Not Applicable. The minimum and maximum VaR values for the total VaR and each of the component VaRs might have occurred on different days during the year and therefore the diversification benefit is not an applicable measure.
(3) The Credit Portfolio VaR is disclosed as a separate category from the Primary Risk Categories and includes loans that are carried at fair value and associated hedges as well as counterparty credit valuation adjustments and related hedges.

The Group's average Total Management VaR for the period was $24 million, compared to $30 million for the year ended 2021. The decrease in average VaR is primarily driven by decreased exposures to interest rate and equity risk. Period end Commodity price VaR increased by $5 million due to larger volatility in the second half of the period following the disruption of supply chains caused by the War in Ukraine.

17.2.2 Non-Trading Risks for the Period

The Group believes that sensitivity analysis is an appropriate representation of the Group's non-trading risks. Reflected below is this analysis, which covers substantially all of the non-trading risk in the Group's portfolio, with the exception of counterparty credit valuation adjustments, which are covered in the previous section.

17.2.3 Interest Rate Risk

The Group and Company's VaR excludes certain funding liabilities and money market transactions. The application of a parallel shift in interest rates of 200 basis points increase or decrease to these positions would result in a net loss or gain, respectively, of approximately $124.2 million as at 30 June 2022, compared to a net loss or gain of $39.6 million as at 31 December 2021.

17.2.4 Funding Liabilities

The credit spread risk sensitivity of the Group's mark-to-market funding liabilities corresponds to an increase in value of approximately $4.6 million and $5.4 million for each 1 basis point widening in the Group's credit spread level at 30 June 2022 and 31 December 2021, respectively.

17.3 Credit Risk

17.3.1 Credit Risk Management

Refer to 'Credit Risk Management Framework' of the Interim Management Report and the 2021 Annual Report and Financial Statements for details of the Group's credit risk management processes.

17.3.2 Exposure to Credit Risk

The maximum exposure to credit risk ("gross credit exposure") of the Group as at 30 June 2022 is disclosed on the following page, based on the carrying amounts of the financial assets and the maximum amount that the Group could have to pay in relation to unrecognised financial instruments, which the Group believes are subject to credit risk. The table includes both financial instruments subject to expected credit loss ("ECL") and those not subject to ECL.

Where the Group enters into credit enhancements, including receiving cash and security as collateral and master netting agreements, to manage the credit exposure on these financial instruments the financial effect of the credit enhancements is disclosed below. The net credit exposure represents the credit exposure remaining after the effect of the credit enhancements.

The Group primarily incurs credit risk to institutions and sophisticated investors, mainly through its Institutional Securities business segment.

Trading financial assets are subject to traded credit risk through exposure to the issuer of the financial asset; the Group manages this issuer credit risk through its market risk management infrastructure and this traded credit risk is incorporated within the VaR based risk measures included in the market risk disclosure. However, listed derivatives are included below as they are recognised as having credit risk exposure to central counterparties.

	30 June 2022			31 December 2021		
Exposure to credit risk class in $ millions	Gross credit exposure	Credit enhance-ments	Net credit exposure(1)	Gross credit exposure	Credit enhance-ments	Net credit exposure(1)
Subject to ECL:						
Cash and short-term deposits	41,537	—	41,537	28,532	—	28,532
Loans and advances	69	—	69	67	—	67
Trade and other receivables(2)	83,859	—	83,859	78,069	—	78,069
Not subject to ECL:						
Trading financial assets:						
Derivatives	274,989	(260,939)	14,050	242,432	(229,230)	13,202
Secured financing	125,241	(124,587)	654	125,895	(124,594)	1,301
Trade and other receivables(2)	421	(290)	131	993	(777)	216
	526,116	**(385,816)**	**140,300**	**475,988**	**(354,601)**	**121,387**
Unrecognised financial instruments						
Not subject to ECL:						
Loan commitments	8	(2)	6	121	(2)	119
Unsettled securities purchased under agreements to resell(3)	54,842	—	54,842	34,493	—	34,493
Total unrecognised financial instruments	**54,850**	**(2)**	**54,848**	**34,614**	**(2)**	**34,612**
	580,966	**(385,818)**	**195,148**	**510,602**	**(354,603)**	**155,999**

(1) Of the residual net credit exposure, intercompany cross product netting arrangements are in place which would allow Group an additional $7,734 million of an available $38,747 million (31 December 2021: $7,041 million of an available $31,977 million) to be offset in the event of default by certain Morgan Stanley counterparties.
(2) Trade and other receivables primarily include cash collateral pledged against the payable on OTC derivative positions. These derivative liabilities are included within trading financial liabilities in the consolidated statement of financial position.
(3) For unsettled securities purchased under agreements to resell, collateral in the form of securities will be received at the point of settlement. Since the value of collateral is determined at a future date, it is currently unquantifiable and not included in the table.

The impact of master netting arrangements and similar agreements on the Group's ability to offset financial assets and financial liabilities is disclosed in note 18.

17.3.3 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: AAA - BBB

Non-investment grade: BB – CCC

Default: D

The table below presents gross carrying/ nominal amount by internal rating grade. All exposures subject to ECL are Stage 1, unless otherwise shown. For the unrated trade receivable balances, a lifetime ECL is always calculated without considering a significant increase in credit risk ("SICR") has occurred.

in $ millions	Investment Grade AAA	AA	A	BBB	Non-Investment Grade	Unrated(1) / Default	Total	Net of ECL
At 30 June 2022								
Subject to ECL:								
Cash and short term deposit								
Stage 1	16,686	10,241	13,561	913	136	—	41,537	41,537
Stage 3	—	—	—	—	—	101	101	—
Loans and advances								
Stage 1	—	—	69	—	—	—	69	69
Trade and other receivables								
Stage 1	1,233	7,321	49,221	13,319	7,300	5,439	83,833	83,833
Stage 3	2	2	4	2	—	59	69	26
	17,921	**17,564**	**62,855**	**14,234**	**7,436**	**5,599**	**125,609**	**125,465**
Not subject to ECL:								
Trading financial assets - derivatives	5,026	22,864	170,481	59,884	16,644	90	274,989	274,989
Secured financing	4,538	18,056	87,753	12,733	2,135	26	125,241	125,241
Trade and other receivables	—	—	417	—	4	—	421	421
	9,564	**40,920**	**258,651**	**72,617**	**18,783**	**116**	**400,651**	**400,651**
Unrecognised financial instruments not subject to ECL:								
Unsettled securities purchased under agreements to resell	8	21,059	25,117	6,996	1,611	51	54,842	54,842
Loan commitments	—	—	—	—	8	—	8	8
	8	**21,059**	**25,117**	**6,996**	**1,619**	**51**	**54,850**	**54,850**

(1) For the unrated trade receivables, a lifetime ECL is always calculated without considering whether SICR has occurred.

The Cash and short term deposit loss allowance as at 30 June 2022 is $101 million (31 December 2021: $nil) and Trade and other receivables loss allowance as at 30 June 2022 is $43 million (31 December 2021: $5 million). These loss allowances include $139 million of expected credit losses related to Russian exposures.

	Investment Grade				Non-Investment Grade	Unrated(1) / Default	Total	Net of ECL
in $ millions	AAA	AA	A	BBB				
At 31 December 2021								
Subject to ECL:								
Cash and short term deposit								
Stage 1	6,516	9,272	11,831	852	61	—	28,532	28,532
Stage 3	—	—	—	—	—	—	—	—
Loans and advances								
Stage 1	—	—	67	—	—	—	67	67
Trade and other receivables								
Stage 1	1,544	5,203	47,597	12,139	8,536	3,016	78,035	78,035
Stage 3	2	2	2	7	—	26	39	34
	8,062	**14,477**	**59,497**	**12,998**	**8,597**	**3,042**	**106,673**	**106,668**
Not subject to ECL:								
Trading financial assets - derivatives	2,457	20,476	155,689	52,764	11,016	30	242,432	242,432
Secured financing	2,324	37,965	68,978	11,816	4,765	47	125,895	125,895
Trade and other receivables	—	—	445	—	545	3	993	993
	4,781	**58,441**	**225,112**	**64,580**	**16,326**	**80**	**369,320**	**369,320**
Unrecognised financial instruments not subject to ECL:								
Unsettled securities purchased under agreements to resell	—	26,419	1,374	5,295	1,405	—	34,493	34,493
Loan commitments	—	—	—	—	27	94	121	121
	—	**26,419**	**1,374**	**5,295**	**1,432**	**94**	**34,614**	**34,614**

(1) For the unrated trade receivables, a lifetime ECL is always calculated without considering whether SICR has occurred.

17.4 Liquidity and Funding Risk

Refer to 'Liquidity and Funding Risk' of the Interim Management Report and the 2021 Report and Financial Statements for further detail on the Group's liquidity and funding risk.

17.4.1 Maturity Analysis

In the following maturity analysis of financial liabilities, derivative contracts and other financial liabilities held as part of the Group's trading activities are presented at fair value, consistent with how these financial liabilities are managed, and disclosed as on demand. Derivatives not held as part of the Group's trading activities and financial liabilities designated at fair value through profit or loss which contain an embedded derivative are disclosed according to their earliest contractual maturity; all such amounts are presented at their fair value, consistent with how these financial liabilities are managed. All other amounts represent undiscounted cash flows payable by the Group arising from its financial liabilities to their earliest contractual maturities as at 30 June 2022 and 31 December 2021.

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 Group to appropriately reflect the liquidity risk arising from those financial liabilities, and is consistent with how the liquidity risk on these financial liabilities is managed by the Group.

in $ millions	On demand	Less than 1 month	1 month - 3 months	3 months - 1 year	1 year - 5 years	Greater than 5 years	Total
30 June 2022							
Financial liabilities							
Bank loans and overdrafts	21	—	—	—	—	—	21
Trading financial liabilities:							
Derivatives	274,019	—	—	—	—	—	274,019
Other	51,754	—	—	—	—	—	51,754
Secured borrowing	73,658	16,187	4,412	7,597	2,378	294	104,526
Trade and other payables	104,143	—	—	229	293	29	104,694
Debt and other borrowings	1,161	248	2,164	2,010	32,131	8,660	46,374
Total financial liabilities	**504,756**	**16,435**	**6,576**	**9,836**	**34,802**	**8,983**	**581,388**
Unrecognised financial instruments							
Guarantees	391	—	—	—	—	—	391
Loan commitments	8	—	—	—	—	—	8
Unsettled securities purchased under agreements to resell(1)	54,156	522	55	109	—	—	54,842
Other commitments	96	—	—	—	—	—	96
Total unrecognised financial instruments	**54,651**	**522**	**55**	**109**	**—**	**—**	**55,337**
31 December 2021							
Financial liabilities							
Bank loans and overdrafts	48	—	—	—	—	—	48
Trading financial liabilities:							
Derivatives	247,518	—	—	—	—	—	247,518
Other	52,807	—	—	—	—	—	52,807
Secured borrowing	67,880	14,392	3,739	6,574	4,492	221	97,298
Trade and other payables	92,897	55	10	258	407	47	93,674
Debt and other borrowings	1,035	194	2,321	1,747	43,926	5,160	54,383
Total financial liabilities	**462,185**	**14,641**	**6,070**	**8,579**	**48,825**	**5,428**	**545,728**
Unrecognised financial instruments							
Guarantees	348	—	—	—	—	—	348
Loan commitments	121	—	—	—	—	—	121
Unsettled securities purchased under agreements to resell(1)	32,922	1,227	—	345	—	—	34,494
Other commitments	37	—	—	—	—	—	37
Total unrecognised financial instruments	**33,428**	**1,227**	**—**	**345**	**—**	**—**	**35,000**

(1) The Group enters into forward starting reverse repurchase agreements (agreements which have a trade date at or prior to 30 June 2022 and settle subsequent to period end). These agreements primarily settle within three business days and of the total amount at 30 June 2022, $54,155 million (31 December 2021: $32,922 million) settled within three business days.

18. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING

To manage credit exposure arising from its business activities, the Group applies various credit risk management policies and procedures, see note 29 of the 2021 Report and Financial Statement for further details.

The following tables present information about the offsetting of financial instruments and related collateral amounts. The tables do not include information about financial instruments that are subject only to a collateral agreement. The effect of master netting arrangements, collateral agreements and other credit enhancements, on the Group's exposure to credit risk is disclosed in note 17.

in $ millions	Gross amounts	Amounts offset[(1)(3)]	Net amounts	Amounts not offset Collateralised by: Financial instruments	Cash collateral[(2)]	Net exposure[(4)]	Not subject to legally enforceable master netting agreement
30 June 2022							
Secured Financing:							
Cash collateral on securities borrowed	26,377	(7,163)	19,214	(18,780)	—	434	30
Securities purchased under agreement to resell	155,634	(62,162)	93,472	(93,252)	—	220	163
Trading financial assets - derivatives	398,747	(123,758)	274,989	(233,018)	(28,527)	13,444	3,296
TOTAL ASSETS	**580,758**	**(193,083)**	**387,675**	**(345,050)**	**(28,527)**	**14,098**	**3,489**
Secured borrowing:							
Cash collateral on securities loaned	35,135	(7,163)	27,972	(27,969)	—	3	—
Securities sold under agreement to repurchase	118,283	(62,162)	56,121	(56,073)	—	48	20
Trading financial liabilities - derivatives	393,482	(119,463)	274,019	(234,790)	(24,633)	14,596	3,056
TOTAL LIABILITIES	**546,900**	**(188,788)**	**358,112**	**(318,832)**	**(24,633)**	**14,647**	**3,076**
31 December 2021							
Secured Financing:							
Cash collateral on securities borrowed	27,615	(8,255)	19,360	(18,953)	—	407	95
Securities purchased under agreement to resell	139,115	(48,819)	90,296	(89,402)	—	894	857
Trading financial assets - derivatives	319,019	(76,587)	242,432	(208,784)	(20,446)	13,202	2,398
TOTAL ASSETS	**485,749**	**(133,661)**	**352,088**	**(317,139)**	**(20,446)**	**14,503**	**3,350**
Secured borrowing:							
Cash collateral on securities loaned	37,758	(8,255)	29,503	(29,492)	—	11	—
Securities sold under agreement to repurchase	93,366	(48,818)	44,548	(43,814)	—	734	641
Trading financial liabilities - derivatives	325,128	(77,610)	247,518	(205,666)	(30,488)	11,364	3,257
TOTAL LIABILITIES	**456,252**	**(134,683)**	**321,569**	**(278,972)**	**(30,488)**	**12,109**	**3,898**

(1) Includes $9,816 million and $5,521 million (31 December 2021: $6,697 million and $7,720 million) of Trading financial assets – derivatives and Trading financial liabilities – derivatives, respectively, which have been offset against cash collateral received and cash collateral paid, respectively.
(2) Cash collateral not offset is recognised within Trade and other receivables and Trade and other payables, respectively.
(3) In addition to the balances disclosed in the table above, legally enforceable master netting agreements are in place for $1,030 million (31 December 2021: $1,170 million) of other secured financing and secured borrowing balances which are presented net in the condensed consolidated statement of financial position, and for $0 million (31 December 2021: $197 million) of certain trade and other receivables and trade and other payables which are not presented net.
(4) Intercompany cross-product legally enforceable netting arrangements are in place which would allow for an additional $7,059 million (31 December 2021: $7,041 million) of the condensed consolidated statement of financial position, to be offset in the ordinary course of business and/ or in the event of default.

19. FINANCIAL INSTRUMENTS 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 Group'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 30 of the 2021 Report and Financial Statements.

30 June 2022 in $ millions	Quoted prices in active market (Level 1)	Observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Trading financial assets				
Government debt securities	12,972	2,373	160	**15,505**
Corporate and other debt	—	10,420	1,180	**11,600**
Corporate equities	47,749	941	136	**48,826**
Derivatives:				
Interest rate contracts	373	67,272	785	**68,430**
Credit contracts	—	13,588	310	**13,898**
Foreign exchange and gold contracts	—	126,856	82	**126,938**
Equity contracts	596	43,648	1,145	**45,389**
Commodity contracts	1,215	19,054	65	**20,334**
Total trading financial assets	**62,905**	**284,152**	**3,863**	**350,920**
Secured financing:				
Cash collateral on securities borrowed	—	19,214	—	**19,214**
Securities purchased under agreements to resell	—	92,532	940	**93,472**
Other secured financing	—	12,555	—	**12,555**
Total secured financing	**—**	**124,301**	**940**	**125,241**
Investment securities - corporate equities	**—**	**—**	**152**	**152**
Trade and other receivables:				
Prepaid OTC contracts	—	189	230	**419**
Other	—	—	2	**2**
Total trade and other receivables	**—**	**189**	**232**	**421**
Total financial assets measured at fair value	**62,905**	**408,642**	**5,187**	**476,734**

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30 June 2022 in $ millions	Quoted prices in active market (Level 1)	Observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Trading financial liabilities:				
Government debt securities	15,000	1,624	—	**16,624**
Corporate and other debt	1	5,152	10	**5,163**
Corporate equities	29,889	43	35	**29,967**
Derivatives:				
Interest rate contracts	361	68,757	697	**69,815**
Credit contracts	—	12,739	269	**13,008**
Foreign exchange and gold contracts	6	123,770	304	**124,080**
Equity contracts	751	45,073	947	**46,771**
Commodity contracts	1,173	19,139	33	**20,345**
Total trading financial liabilities	**47,181**	**276,297**	**2,295**	**325,773**
Secured borrowing:				
Cash collateral on securities loaned	—	21,447	—	**21,447**
Securities sold under agreements to repurchase	—	29,232	—	**29,232**
Other secured borrowing	—	17,045	—	**17,045**
Total secured borrowing	**—**	**67,724**	**—**	**67,724**
Trade and other payables - Prepaid OTC contracts	**—**	**207**	**230**	**437**
Debt and other borrowings - issued structured notes	**—**	**9,860**	**224**	**10,084**
Total financial liabilities measured at fair value	**47,181**	**354,088**	**2,749**	**404,018**

31 December 2021 **in $ millions**	Quoted prices in active market (Level 1)	Observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Trading financial assets:				
Government debt securities	11,289	2,599	209	**14,097**
Corporate and other debt	—	9,617	1,190	**10,807**
Corporate equities	64,886	378	35	**65,299**
Derivatives:				
Interest rate contracts	49	59,750	729	**60,528**
Credit contracts	1	9,859	290	**10,150**
Foreign exchange and gold contracts	—	85,816	218	**86,034**
Equity contracts	466	69,657	782	**70,905**
Commodity contracts	1,217	13,583	15	**14,815**
Total trading financial assets	**77,908**	**251,259**	**3,468**	**332,635**
Secured financing:				
Cash collateral on securities borrowed	—	19,360	—	**19,360**
Securities purchased under agreements to resell	—	89,433	863	**90,296**
Other secured financing	—	16,239	—	**16,239**
Total secured financing	**—**	**125,032**	**863**	**125,895**
Investment securities - corporate equities	**—**	**—**	**165**	**165**
Trade and other receivables:				
Prepaid OTC contracts	—	818	172	**990**
Other	—	—	3	**3**
Total trade and other receivables	**—**	**818**	**175**	**993**
Total financial assets measured at fair value	**77,908**	**377,109**	**4,671**	**459,688**
Trading financial liabilities:				
Government debt securities	18,714	1,761	—	**20,475**
Corporate and other debt	—	3,718	6	**3,724**
Corporate equities	28,541	36	31	**28,608**
Derivatives:				
Interest rate contracts	46	60,333	371	**60,750**
Credit contracts	—	9,103	224	**9,327**
Foreign exchange and gold contracts	2	85,120	207	**85,329**
Equity contracts	655	75,428	1,242	**77,325**
Commodity contracts	1,133	13,643	11	**14,787**
Total trading financial liabilities	**49,091**	**249,142**	**2,092**	**300,325**
Secured borrowing:				
Cash collateral on securities loaned	—	25,141	—	**25,141**
Securities sold under agreements to repurchase	—	19,609	—	**19,609**
Other secured borrowing	—	20,053	—	**20,053**
Total secured borrowing	**—**	**64,803**	**—**	**64,803**
Trade and other payables - Prepaid OTC contracts	**—**	**576**	**172**	**748**
Debt and other borrowings - issued structured notes	**—**	**9,496**	**106**	**9,602**
Total financial liabilities measured at fair value	**49,091**	**324,017**	**2,370**	**375,478**

b. Changes in Level 3 Financial Assets and Liabilities Recognised at Fair Value on a Recurring Basis

in $ millions	30 June 2022	31 December 2021
TRADING FINANCIAL ASSETS		
Government debt securities		
Beginning balance	209	266
Total (losses) recognised in the consolidated income statement[1]	(39)	(1)
Purchases	52	143
Sales	(99)	(189)
Net transfers in/(out) of Level 3[2]	37	(10)
Ending balance	**160**	**209**
Unrealised (losses)[3]	(37)	—
Corporate and other debt		
Beginning balance	1,190	822
Total (losses) recognised in the consolidated income statement[1]	(76)	(157)
Purchases	226	914
Sales	(306)	(308)
Net transfers in/(out) of Level 3[2]	146	(81)
Ending balance	**1,180**	**1,190**
Unrealised (losses)[3]	(64)	(41)
Corporate equities		
Beginning balance	35	8
Total (losses) recognised in the consolidated income statement[1]	(54)	(7)
Purchases	28	44
Sales	(40)	(9)
Net transfers in/(out) of Level 3[2]	167	(1)
Ending balance	**136**	**35**
Unrealised (losses)[3]	(52)	(5)
Net derivative contracts[4]		
Beginning balance	(21)	269
Total gains recognised in the consolidated income statement[1]	553	221
Purchases	131	303
Issuances	(126)	(626)
Settlements	(232)	(245)
Net transfers in/(out) of Level 3[2]	(168)	57
Ending balance	**137**	**(21)**
Unrealised gains/(losses)[3]	613	(196)

in $ millions	30 June 2022	31 December 2021
SECURED FINANCING		
Securities purchased under agreements to resell		
Beginning balance	863	778
Purchases	940	863
Sales	(863)	(778)
Ending balance	**940**	**863**
LOANS AND ADVANCES		
Corporate loans		
Beginning balance	—	7
Sales	—	(7)
Ending balance	**—**	**—**
INVESTMENT SECURITIES		
Corporate equities		
Beginning balance	165	151
Total (losses) recognised in the consolidated income statement[1]	—	(6)
Purchases	—	24
Sales	(13)	(4)
Ending balance	**152**	**165**
Unrealised (losses)[3]	—	(6)
TRADE AND OTHER RECEIVABLES		
Prepaid OTC contracts		
Beginning balance	172	1,291
Purchases	59	171
Sales	(1)	(241)
Net transfers in/(out) of Level 3[2]	—	(1,049)
Ending balance	**230**	**172**
Other		
Beginning balance	3	12
Settlements	(1)	(9)
Ending balance	**2**	**3**
TRADING FINANCIAL LIABILITIES		
Government debt securities		
Beginning balance	—	15
Net transfers (out) of Level 3[2]	—	(15)
Ending balance	**—**	**—**

in $ millions	30 June 2022	31 December 2021
Corporate and other debt		
Beginning balance	6	3
Purchases	(6)	—
Sales	10	**3**
Ending balance	**10**	**6**
Corporate equities		
Beginning balance	31	1
Total (gains) recognised in the consolidated income statement(1)	(20)	(15)
Purchases	(5)	(8)
Sales	29	53
Ending balance	**35**	**31**
Unrealised (gains)(3)	(17)	(15)
TRADE AND OTHER PAYABLES		
Prepaid OTC contracts		
Beginning balance	172	241
Issuances	59	171
Settlements	(1)	(240)
Ending balance	**230**	**172**
DEBT AND OTHER BORROWINGS		
Issued structured notes		
Beginning balance	106	334
Total (gains) recognised in the consolidated income statement(1)	(54)	(4)
Total (gains)/losses recognised in consolidated statement of comprehensive income(1)	(9)	4
Issuances	112	70
Settlements	(13)	(148)
Net transfers in/(out) of Level 3(2)	82	(150)
Ending balance	**224**	**106**
Unrealised (gains)/losses(3)	(10)	1

(1) The total gains or (losses) are recognised in the condensed consolidated income statement as detailed in the financial instruments accounting policy (note 3c to the 2021 Report and Financial Statements).
(2) For financial assets and financial liabilities that were transferred into or out of Level 3 during the year, 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 year.
(3) Amounts represent unrealised gains or (losses) for the period ended 30 June 2022 related to assets and liabilities still outstanding at 31 December 2021. The unrealised gains or (losses) are recognised in the consolidated income statement or consolidated statement of comprehensive income as detailed in the financial instruments accounting policy
(4) Net derivative contracts represent trading financial liabilities derivative contracts net of trading financial assets - derivative contracts.

During the period, there were no material transfers (2021: $1,050 million) from Level 3 to Level 2 of the fair value hierarchy. There were no material transfers from Level 2 to Level 3 of the fair value hierarchy (2021: no material transfers).

c. 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.

i. 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 material 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 groups in the financial services industry because of diversity in the types of products included in each group's inventory. The following disclosures also include qualitative information about the sensitivity of the fair value measurements to changes in the significant unobservable inputs. 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).

30 June 2022	Fair value $ millions	Predominant valuation techniques/ Significant unobservable inputs	Range (Average)[1]
ASSETS			
Trading financial assets:			
Government debt securities	160	Comparable pricing	
		Comparable bond price	84 to 99 pts (95 pts)
Corporate and other debt:			
Mortgage and asset-backed securities	224	Comparable pricing	
		Comparable bond price	41 to 116 pts (78 pts)
Corporate bonds	711	Comparable pricing	
		Comparable bond price	62 to 132 pts (89.93 pts)
Loans and lending commitments	190	Comparable pricing	
		Comparable loan price	83.7 to 100.0 pts (96.88 pts)
Other debt	50	Discounted Cash Flow	
		Default Rate	0-1.5% (0.08%)
Corporate equities	136	Comparable pricing	
		Comparable equity price	100% (100%)
Net derivatives contracts:[2]			
Interest rate	88	Option Model	
		Inflation Volatility	24% to 62% (44%/40%)
		Interest rate - Foreign exchange correlation	54% to 57% (55%/55%)
		Interest rate curve correlation	60% to 99% (78%/82%)
		Inflation curve	0.6% to 0.7% (0.6%/0.6%)
		Interest rate volatility skew	51% to 118% (72%/72%)
		Currency Basis	0% to 7% (3%/3%)
Credit	41	Credit default swap model	
		Credit spread	2bps to 566bps (138bps)
		Comparable pricing	
		Comparable bond price	8 to 99 pts (48 pts)
		Funding spread	82.7bps to 139.4bps (106.6bps)
Foreign exchange and gold[3]	(222)	Option model	
		Interest rate-foreign exchange correlation	23% to 57% (42%/44%)
		Interest rate volatility skew	51% to 118% (72%/72%)
		Deal execution probability	95%
		Foreign exchange volatility skew	-4% to 10% (5%/ 5%)
		Currency basis	-1.4% to 7% (5%/ 4%)
Equity	198	Option model	
		Equity volatility	5% to 65% (22%)
		Equity volatility skew	-4% to 0% (-1%)
		Equity equity correlation	5% to 99% (82%)
		Equity FX correlation	-80% to 65% (-33%)
Investment securities:			
Corporate equities	152	Comparable pricing	
		Comparable equity price	93% to 100% (93.9%)

30 June 2022	Fair value $ millions	Predominant valuation techniques/ Significant unobservable inputs	Range (Average)[1]
ASSETS			
Trade and other receivables:			
Prepaid OTC contracts	230	Discounted cash flows	
		Loss Given Default	54% to 84% (62%/54%)
Secured financing:			
Securities purchased under agreements to resell	940	Discounted cash flows	
		Funding spread	27bps to 103bps (65bps)
LIABILITIES			
Debt and other borrowings:			
Issued structured notes	(224)	Option model	
		Equity volatility	15% to 78% (22%)
		Equity volatility skew	-1% to 0% (-1%)
		Equity equity correlation	59% to 95% (86%)
		Equity FX correlation	-50% to -2% (-23%)
		Interest Rate Curve Correlation	60% to 99% (78%/82%)
Trade and other payables:			
Prepaid OTC contracts	(230)	Discounted cash flow	
		Loss Given Default	54% to 84% (62%/54%)
Trading financial liabilities:			
Corporate equities	(35)	Comparable pricing	
		Comparable equity price	100% (100%)

(1) A single amount is disclosed for range and average when there is no significant difference between the minimum, maximum and average. Amounts represent weighted averages except where simple averages and the median of the inputs are provided when more relevant.
(2) Net derivative contracts represent trading financial liabilities – derivative contracts net of trading financial assets – derivative contracts.
(3) Includes derivative contracts with multiple risks (i.e. hybrid products).

31 December 2021	Fair value $ millions	Predominant valuation techniques/ Significant unobservable inputs	Range (Average)(1)
ASSETS			
Trading financial assets:			
Government debt securities	209	Comparable pricing	
		Comparable bond price	100 to 140pts (120pts)
Corporate and other debt:			
Mortgage and asset-backed securities	219	Comparable pricing	
		Comparable bond price	40 to 101 pts (75 pts)
Corporate bonds	787	Comparable pricing	
		Comparable bond price	50 to 162 pts (104.31 pts)
Loans and lending commitments	177	Comparable pricing	
		Comparable loan price	18.0 to 100.0 pts (81.95 pts)
Corporate equities	35	Comparable pricing	
		Comparable equity price	1pts (1pts)
Investment securities:			
Corporate equities	165	Comparable pricing	
		Comparable equity price	80% to 100% (98%)
Secured financing:			
Securities purchased under agreements to resell	863	Consensus data on underlying curves	
		Funding spread	23bps to 98bps (60bps)
Trade and other receivables:			
Prepaid OTC contracts	172	Discounted cash flows	
		Recovery rate	54% to 84% (62%/54%)
LIABILITIES			
Net derivatives contracts:(2)			
Interest rate	358	Option model	
		Inflation volatility	24% to 65% (44%/40%)
		Interest rate-foreign exchange correlation	53% to 56% (55%/54%)
		Interest rate curve correlation	62% to 98% (84%/83%)
		Inflation curve	2.1% to 2.2% (2.1%/2.1%)
		Interest rate volatility skew	44% to 80% (65%/64%)
		Interest rate – inflation correlation	-80% to -5% (-42%/-48%
		Bond volatility	5% to 32% (14%/11%)
Credit	66	Credit default swap model	
		Credit spread	2bps to 341bps (96.36bps)
		Comparable pricing	
		Comparable bond price	8 to 101 pts (53 pts)
		Funding spread	52.8bps to 79.7bps (64 bps)
Foreign exchange and gold(3)	11	Option model	
		Interest rate-foreign exchange correlation	53% to 56% (55%/54%)
		Interest rate volatility skew	44% to 80% (65%/64%)
		Deal execution probability	90% to 95% (94%/95%)
		Foreign exchange volatility skew	0.4% to 0.5% (0.4%/0.4%)
		Currency basis	0.6% to 7% (0.03%/0.02%)
Equity	(460)	Option model	
		Equity volatility	5% to 62% (19%)
		Equity volatility skew	-5% to 0% (-1%)

31 December 2021	Fair value $ millions	Predominant valuation techniques/ Significant unobservable inputs	Range (Average)[(1)]
		Equity equity correlation	5% to 99% (77%)
		Equity FX correlation	-80% to 37% (-36%)
Corporate equities	(31)	Comparable pricing	
		Comparable equity price	100% (100%)
Debt and other borrowings:			
Issued structured notes	(106)	Option model	
		Equity volatility	17% to 69% (17%)
		Equity volatility skew	-1% to 0% (-1%)
		Equity equity correlation	43% to 76% (56%)
		Equity FX correlation	-45% to 10% (-24%)
Trade and other payables:			
Prepaid OTC contracts	(172)	Discounted cash flow	
		Recovery rate	54% to 68% (62%/54%)

(1) A single amount is disclosed for range and average when there is no significant difference between the minimum, maximum and average. Amounts represent weighted averages except where simple averages and the median of the inputs are provided when more relevant.
(2) Net derivative contracts represent trading financial liabilities – derivative contracts net of trading financial assets – derivative contracts.
(3) Includes derivative contracts with multiple risks (i.e. hybrid products).

A description of the significant unobservable inputs and qualitative sensitivity included in the table above for all major categories of assets and liabilities is included within note 30 of 2021 Report and Financial Statements.

ii. 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 the condensed consolidated income statement. The information below is limited to quantitative information and should be read in conjunction with note 30 of the 2021 Report and Financial Statements.

	30 June 2022		31 December 2021	
in $ millions	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Trading financial assets:				
Government debt securities	1	(1)	—	—
Corporate and other debt	16	(19)	15	(18)
Corporate equities	36	(40)	2	(8)
Net derivative contracts[(1)]	115	(113)	88	(100)
Secured Financing:				
Securities purchased under agreements to resell	1	(1)	1	(1)
Investment securities:				
Corporate equities	27	(23)	24	(15)
Trading financial liabilities:				
Corporate equities	11	(5)	9	(2)
Debt and other borrowings:				
Issued structured notes	4	(4)	1	(7)
	211	**(206)**	**140**	**(151)**

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

d. Financial Instruments Valued Using Unobservable Market Data

The amounts not recognised in the condensed consolidated income statement relating to the difference between the fair value at initial recognition (the transaction price) and the amounts determined at initial recognition using valuation techniques are as follows:

$ millions	30 June 2022	31 December 2021
At 1 January	369	409
New transactions	202	142
Amounts recognised in the consolidated income statement during the period	(76)	(182)
At 30 June 2022 / 31 December 2021	**495**	**369**

The balance above predominately relates to derivatives.

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 consolidated 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 or prior year period.

20. ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

The following table presents the carrying value, fair value and fair value hierarchy category of certain financial assets and financial liabilities that are not measured at fair value in the statement of financial position. Financial assets and financial liabilities not measured at fair value for which the carrying value is considered a reasonable approximation of fair value are excluded from the following table.

$ millions	Carrying value	Fair value	Fair value measurement using: Observable inputs (Level 2)
30 June 2022			
Subordinated loan liabilities	8,898	9,218	9,218
31 December 2021			
Subordinated loan liabilities	6,400	6,842	6,842

21. RELATED PARTY DISCLOSURES

The management and execution of business strategies on a global basis results in many Morgan Stanley transactions impacting a number of Morgan Stanley Group entities. The Morgan Stanley Group operates a number of intra-group policies to ensure arm's length pricing.

The Group receives and incurs management charges to and from other Morgan Stanley Group undertakings for infrastructure services, including the provision of staff and office facilities. For the period 'Management charges from other Morgan Stanley Group undertakings relating to staff costs' were $264 million (30 June 2021: $327 million) and 'Management charges from other Morgan Stanley Group undertakings relating to other services' were $782 million (30 June 2021: $745 million). See note 5 for further details.