Registered number: 34161590

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

MORGAN STANLEY B.V.

Interim financial report

30 June 2018

MORGAN STANLEY B.V.

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INTERIM MANAGEMENT REPORT

The Directors present their interim management report, Directors' responsibility statement and the condensed financial statements for Morgan Stanley B.V. (the "Company") for the six months ended 30 June 2018.

RESULTS AND DIVIDENDS

The profit for the six months ended 30 June 2018, after tax, was €503,000 (30 June 2017: €2,837,000).

During the six months ended 30 June 2018, no dividends were paid or proposed (30 June 2017: €nil).

PRINCIPAL ACTIVITY

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

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

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

FUTURE OUTLOOK

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

BUSINESS REVIEW

Global market and economic conditions

After a strong recovery in 2017, global growth remained broadly stable above its long-term average in the first half of 2018, with gross domestic product ("GDP") growth in the first quarter at 4.0% and the second quarter tracking at 3.9% for the year. In developed markets ("DMs") sequential growth rebounded in the second quarter (due to the United States ("US") and Japan) after a temporary softening in the first quarter. In emerging markets ("EMs"), growth remained strong at 5.1% in the first quarter before moderating slightly to 5.0% in the second quarter. In EM Asia, growth came in better than expected as China's GDP growth remained broadly stable and India's growth is expected to have accelerated, thereby offsetting a slowdown in other select EMs such as Brazil. Against a backdrop of solid growth and further tightening in labor markets, DM central banks continued to lean against accommodative financial conditions: the Federal Reserve remained on a hiking path, raising interest rates by 25bp each quarter, and the European Central Bank ("ECB") decided that it will halve its net purchases to €15 billion per month between October and December, and discontinue quantitative easing in June 2019. In China, the Morgan Stanley Group believes that the policy stance has turned neutral from a tightening bias earlier in the year. More specifically, the reserve requirement ratio was cut twice in April and June and there was some easing of regulatory norms to support broader credit growth amid lingering trade tensions and credit risk. In Brazil and Russia central banks cut rates in the first quarter. Meanwhile, the Reserve Bank of India maintained its gradual hiking path. Trade tensions remained elevated, with the US administration taking up a series of tariff measures in the first half of 2018 which were met with similar responses from trade partners such as China and the euro area. The impact on global trade and GDP growth has been limited so far, but we continue to see downside risks, particularly if further tariffs, such as the proposed measures on $200 billion of China imports, were to be implemented.

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)
UK Referendum

On 23 June 2016, the United Kingdom ("UK") electorate voted to leave the European Union ("EU"). On 29 March 2017, the UK formally invoked Article 50 of the Lisbon Treaty, which triggered a two-year period, subject to extension (which would need the unanimous approval of the EU Member States), during which the UK government is expected to negotiate its withdrawal agreement with the EU. Absent any extension, the UK is expected to leave the EU in March 2019. The terms and conditions of the anticipated withdrawal from the EU, and which of the several alternative models of relationship that the UK might ultimately negotiate with the EU, remain uncertain. However, the UK government has stated that the UK will leave the EU single market and will seek a phased period of implementation for the new relationship that may cover the legal and regulatory framework applicable to financial institutions with significant operations in Europe, such as Morgan Stanley. Since any transition or implementation periods and the eventual successor arrangements require agreement of both the UK and the EU, there is a risk that these arrangements may not be agreed by March 2019. Potential effects of the UK exit from the EU and potential mitigation actions may vary considerably depending on the timing of withdrawal and the nature of any transition, implementation or successor arrangements.

Overview of 2018 financial results

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

The condensed statement of comprehensive income for the six months ended 30 June 2018 is set out on page 8. The Company reported a profit before income tax for the six months ended 30 June 2018 of €671,000 compared to a profit before income tax of €3,783,000 for the six months ended 30 June 2017.

The profit before income tax for the period ended 30 June 2018 primarily comprises management charges recognised in 'Other revenue' of €671,000, compared to €3,027,000 received in the prior period. Management charges received have decreased as a result of the Company and Morgan Stanley Group updating its Global Transfer Pricing Policy. This change in transfer pricing policy is consistent with evolving transfer pricing guidance under the Organisation for Economic Cooperation and Development ("OECD") and evolving regulatory guidance. The transfer pricing method selected for implementation is one of the methods specified under the 2017 OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations. The profit before income tax for the prior period also includes additional costs of €756,000 included in the calculation of the yield payable on Convertible Preferred Equity Certificates ("CPECs") reducing the yield recognised in 'Interest expense'.

The Company has recognised in 'Net trading income' a loss of €62,859,000 (30 June 2017: €359,254,000 gain), with a corresponding net gain of €62,859,000 recognised in 'Net income on other financial instruments held at fair value' (30 June 2017: €359,254,000 loss). This is due to fair value changes attributable to market movements on the equities underlying Structured Notes hedged by derivatives classified as held for trading.

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

Overview of 2018 financial results (continued)

The condensed statement of financial position for the Company is set out on page 10. The Company's total assets at 30 June 2018 are €8,647,104,000, a decrease of €834,721,000 or 9% when compared to 31 December 2017. Total liabilities of €8,606,826,000 represent a decrease of €835,216,000 or 9% when compared to total liabilities at 31 December 2017. These movements are primarily attributable to the value of issued Structured Notes and the related hedging instruments held at 30 June 2018. Structured Notes reflected in 'Debt and other borrowings' have decreased since 31 December 2017 as a result of maturities and fair value movements in the period partially offset by new issuances. The decrease in the value of issued Structured Notes has resulted in a net decrease in the value of the related hedging instruments.

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

Risk management

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

Note 14 to the Company's annual financial statements for the year ended 31 December 2017 ("2017 annual financial statements") provides more detailed qualitative disclosures on the Company's exposure to financial risks. Note 16 to the condensed financial statements provides more detailed quantitative disclosures as well as qualitative information on the Company's expected credit loss ("ECL") measurement introduced from 1 January 2018.

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

Market risk

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

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

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

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

Credit risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company. Credit risk includes the risk that economic, social and political conditions and events in a foreign country will adversely affect an obligor's ability and willingness to fulfil their obligations. Further detail on the Morgan Stanley Group's management of country risk is set out below.

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

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Credit risk (continued)

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, ensuring compliance with established limits and escalating risk concentrations to appropriate senior management.

Country risk exposure

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

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

For further information on how the Company identifies, monitors and manages country risk exposure refer to page 4 of the Directors' report of the Company's 2017 annual financial statements.

Liquidity risk

Liquidity risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity risk encompasses the Company's ability (or perceived ability) to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten the Company's viability as a going concern. 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.

For further discussion on the Company's liquidity risk refer to page 4 of the Directors' report in the Company's 2017 annual financial statements.

Operational risk

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

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

For further discussion on the Company's operational risk refer to pages 5 and 6 of the Directors' report in the Company's 2017 annual financial statements.

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Legal, regulatory and compliance risk

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

For further discussion on the Company's legal, regulatory and compliance risk, refer to pages 6 and 7 of the Directors' report in the Company's 2017 annual financial statements.

Going concern

Retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy. Additionally, the Company 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 Company will have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the interim management report and condensed financial statements.

DIRECTORS

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

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

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

EVENTS AFTER THE REPORTING DATE

There have been no significant events since the reporting date.

INTERIM MANAGEMENT REPORT

AUDIT COMMITTEE

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

Approved by the Board and signed on its behalf by:

Date: 20 September 2018

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

L.P.A. Rolfes TMF Management B.V.

DIRECTORS' RESPONSIBILITY STATEMENT

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

- the condensed financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *'Interim Financial Reporting'* ("IAS 34") as adopted by the EU and Title 9 of Book 2 of the Dutch Civil Code on the basis of the Company's international connections and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the interim management report includes a fair review of the important events that have occurred during the six months ended 30 June 2018 and the impact on the condensed financial statements and provides a description of the principal risks and uncertainties that the Company faces for the remaining six months of the financial year.

Approved by the Board and signed on its behalf by:

Date: 20 September 2018

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

CONDENSED STATEMENT OF COMPREHENSIVE INCOME
Six months ended 30 June 2018

	Note	Six months ended 30 June 2018 €'000 (unaudited)	Six months ended 30 June 2017 €'000 (unaudited)
Net trading income on financial assets		(54,414)	237,323
Net trading income on financial liabilities		(8,445)	121,931
Net trading income		(62,859)	359,254
Net income on other financial assets held at fair value		(46,518)	102,767
Net income on other financial liabilities held at fair value		109,377	(462,021)
Net income on other financial instruments held at fair value	4	62,859	(359,254)
Other revenue	5	1,098	3,027
Total non-interest revenues		1,098	3,027
Interest income		6,583	7,899
Interest expense		(5,644)	(4,633)
Net interest income	6	939	3,266
Net revenues		2,037	6,293
Non-interest expense:			
Other expense	7	(1,362)	(2,510)
Net impairment loss on financial instruments		(4)	-
PROFIT BEFORE INCOME TAX		671	3,783
Income tax	8	(168)	(946)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		503	2,837

All operations were continuing in the current and prior period.

The notes on pages 12 to 47 form an integral part of the condensed financial statements.

MORGAN STANLEY B.V.

CONDENSED STATEMENT OF CHANGES IN EQUITY
Six months ended 30 June 2018

	Note	Share capital €'000	Retained earnings €'000	Total equity €'000
Balance at 1 January 2017 (audited)		15,018	23,218	38,236
Profit and total comprehensive income for the period		-	2,837	2,837
Balance at 30 June 2017 (unaudited)		15,018	26,055	41,073
Balance at 1 January 2018 (audited)		15,018	24,765	39,783
Impact of adoption of new accounting standards	3	-	(8)	(8)
Profit and total comprehensive income for the period		-	503	503
Balance at 30 June 2018 (unaudited)		15,018	25,260	40,278

The notes on pages 12 to 47 form an integral part of the condensed financial statements.

MORGAN STANLEY B.V.

Registered number: 34161590

CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 June 2018
(Including Proposed Appropriation of Results)

	Note	30 June 2018 €'000 (unaudited)	31 December 2017 €'000 (audited)
ASSETS			
Cash and short-term deposits		3,845	432
Trading financial assets	11	438,199	592,979
Loans and advances	9	6,545,016	6,797,365
Trade and other receivables	12	1,652,671	2,086,238
Current tax assets		7,373	4,811
TOTAL ASSETS		8,647,104	9,481,825
LIABILITIES AND EQUITY			
Trading financial liabilities	11	411,958	319,651
Convertible preferred equity certificates	10	1,125,281	1,125,281
Trade and other payables	13	345,227	656,509
Debt and other borrowings	9	6,724,360	7,340,601
TOTAL LIABILITIES		8,606,826	9,442,042
EQUITY			
Share capital		15,018	15,018
Retained earnings		25,260	24,765
Equity attributable to owners of the Company		40,278	39,783
TOTAL EQUITY		40,278	39,783
TOTAL LIABILITIES AND EQUITY		8,647,104	9,481,825

These condensed financial statements were approved by the Board and authorised for issue on 20 September 2018.

Signed on behalf of the Board

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

L.P.A. Rolfes　　TMF Management B.V.

The notes on pages 12 to 47 form an integral part of the condensed financial statements.

CONDENSED STATEMENT OF CASH FLOWS
Six months ended 30 June 2018

	Note	Six months ended 30 June 2018 €'000 (unaudited)	Six months ended 30 June 2017 €'000 (unaudited)
NET CASH FLOWS FROM OPERATING ACTIVITIES	15	3,413	632
INVESTING ACTIVITIES			
Repayment of loan and interest from another Morgan Stanley Group undertaking		1,163,538	-
Issue of loan to another Morgan Stanley Group undertaking		(1,125,281)	-
NET CASH FLOWS FROM INVESTING ACTIVITIES		38,257	-
FINANCING ACTIVITIES			
Yield paid on convertible preferred equity certificates		(54,313)	-
Financing received from another Morgan Stanley Group undertaking		16,056	-
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(38,257)	-
NET INCREASE IN CASH AND CASH EQUIVALENTS		3,413	632
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		432	716
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		3,845	1,348

The notes on pages 12 to 47 form an integral part of the condensed financial statements.

1. BASIS OF PREPARATION

a. Accounting policies

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

In preparing these condensed financial statements, the Company has applied consistently the accounting policies and methods of computation used in the Company's 2017 annual financial statements, except for those included in note 2 'Summary of new or amended accounting policies'.

New standards and interpretations adopted during the period

The following standard relevant to the Company's operations was adopted during the period.

IFRS 9 '*Financial instruments*' ("IFRS 9") was issued by the IASB in November 2009, reissued in October 2010, amended in November 2013, and revised and reissued by the IASB in July 2014. IFRS 9 is applicable retrospectively, except where otherwise prescribed by transitional provisions of the standard, and is effective for annual periods beginning on or after 1 January 2018. The standard was endorsed by the EU in November 2016. The Company early adopted in isolation the requirements relating to the presentation of fair value movements due to changes in credit risk on financial liabilities designated at fair value through profit or loss ("FVPL"), and has adopted the remaining requirements of IFRS 9 from 1 January 2018.

A further amendment to IFRS 9, relating to the accounting treatment of financial instruments with prepayment features including negative compensation, was issued by the IASB in October 2017. The amendment is applicable retrospectively, except where otherwise prescribed by transitional provisions of the amendment, and is effective for annual periods beginning on or after 1 January 2019. The amendment was endorsed by the EU in March 2018. The Company has early adopted this amendment from 1 January 2018.

The main aspects of IFRS 9 which impact the Company are its requirements relating to:

- Classification and measurement of financial assets

  The classification and measurement of financial assets will depend on how these are managed (the Company's business model) and their contractual cash flow characteristics. Measurement will be at amortised cost or FVPL.

- Impairment of financial assets

  The impairment requirements are based on ECL and apply to financial assets measured at amortised cost.

As part of the implementation of IFRS 9, the Company has completed an evaluation of its business models and a review of the contractual terms of financial assets.

As a result of this evaluation, certain financial assets have moved from designated at FVPL under IAS 39 '*Financial instruments: Recognition and Measurement*' ("IAS 39") to mandatorily at FVPL under IFRS 9. There is no impact of this on retained earnings as at 1 January 2018. No financial liabilities have changed classification.

As a result of the implementation of the ECL impairment approach the Company's retained earnings have decreased by €8,000 in line with the transitional provisions of IFRS 9.

Under the transitional provisions of IFRS 9, the Company's opening balance sheet at the date of initial application (1 January 2018) has been restated, with no restatement of comparative periods. However, the Company has updated the presentation of its primary statements on transition to IFRS 9 to provide more relevant information to the users of the condensed financial statements. The comparative period has been re-presented to align to the new format in the condensed financial statements.

Note 2 provides the new accounting policies under IFRS 9 applicable from 1 January 2018.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2018

1. BASIS OF PREPARATION (CONTINUED)

a. Accounting policies (continued)

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 '*Financial Instruments: Disclosures*' ("IFRS 7") was updated by the IASB and the Company adopted the updated IFRS 7, for all reporting periods from 1 January 2018. The updated requirements include transition disclosures shown in note 3, in addition to qualitative and quantitative information about the ECL as set out in note 16.

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

New standards and interpretations not yet adopted during the period

At the date of authorisation of these condensed financial statements, the IASB has issued standards, amendments to standards and interpretations relevant to the Company's operations but not yet mandatory.

For further details on these amendments to standards and interpretations which are relevant to the Company's operations see note 2 of the Company's 2017 annual financial statements, and the accounting update below. Except where otherwise stated, the Company does not expect the adoption of these amendments to standards and interpretations to have a material impact on the Company's financial statements.

'*Amendments to References to the Conceptual Framework in IFRS Standards*' was issued by the IASB in March 2018 for application in annual periods beginning on or after 1 January 2020. The Company is currently assessing the impact of the amendments on its financial statements.

b. Critical judgements in applying the Company's accounting policies

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

c. Key sources of estimation uncertainty

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

For further details on the fair value of certain assets and liabilities, see accounting policy note 3(d) of the Company's 2017 annual financial statements and note 18. Further details on the impairment of financial assets are included in note 2.

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

2. SUMMARY OF NEW OR AMENDED ACCOUNTING POLICIES

The accounting policies below in relation to financial instruments are those which are amended as a result of IFRS 9, and apply only from 1 January 2018. All other accounting policies for the current period, and all policies for the prior period, are consistent with those in note 3 of the Company's 2017 annual financial statements.

a. Financial instruments

i) Trading financial instruments mandatorily at fair value through profit and loss

Trading financial instruments, including all derivatives, are initially recorded on trade date at fair value (see note 3(d) of the Company's 2017 annual financial statements). All subsequent changes in fair value, foreign exchange differences, interest and dividends are reflected in the statement of comprehensive income in 'Net trading income'.

Transaction costs are excluded from the initial fair value measurement of the financial instrument. These costs are recognised in the statement of comprehensive income in 'Other expense'.

ii) Non-trading financial assets mandatorily at fair value through profit or loss

Non-trading financial assets mandatorily at FVPL are generally recognised on settlement date at fair value (see note 3(d) of the Company's 2017 annual financial statements), since they are neither regular way nor are they derivatives. From the date the terms are agreed (trade date), until the financial asset is funded (settlement date), the Company recognises any unrealised fair value changes in the financial asset as non-trading financial assets mandatorily at FVPL. On settlement date, the fair value of consideration given is recognised as a non-trading financial asset mandatorily at FVPL. All subsequent changes in fair value, foreign exchange differences and interest are reflected in the statement of comprehensive income in 'Net income on other financial instruments held at fair value'.

Transaction costs are excluded from the initial fair value measurement of the financial assets. These costs are recognised in the statement of comprehensive income in 'Other expense'.

Non-trading financial assets mandatorily at FVPL include prepaid equity securities contracts.

iii) Financial instruments designated at fair value through profit or loss

The Company has designated certain financial assets at FVPL when the designation at fair value eliminates or significantly reduces an accounting mismatch which would otherwise arise. The Company has also designated certain financial liabilities at FVPL where the financial liabilities are managed, evaluated and reported internally on a fair value basis.

From the date the transaction in a financial instrument designated at FVPL is entered into (trade date) until settlement date, the Company recognises any unrealised fair value changes in the contract as financial instruments designated at FVPL in the statement of financial position. On settlement date, the fair value of consideration given or received is recognised as a financial instrument designated at FVPL (see note 3(d) of the Company's annual financial statements).

All subsequent changes in fair value, foreign exchange differences, interest and dividends are reflected in the statement of comprehensive income in 'Net income on other financial instruments held at fair value' other than amounts attributable to changes in the credit risk ("DVA") on financial liabilities at fair value through profit or loss which is recognised in the Debt valuation adjustment reserve where those changes do not create or enlarge an accounting mismatch.

Transaction costs are excluded from the initial fair value measurement of the financial instrument. These costs are recognised as incurred in the income statement in 'Other expense'.

Financial assets designated at FVPL include loans and financial liabilities designated at FVPL include Structured Notes.

2. SUMMARY OF NEW OR AMENDED ACCOUNTING POLICIES (CONTINUED)

a. Financial instruments (continued)

iii) Financial assets and financial liabilities at amortised cost

Financial assets are recognised at amortised cost when the Company's business model objective is to collect the contractual cash flows of the assets and where these cash flows are solely payments of principal and interest ("SPPI") on the principal amount outstanding until maturity. Such assets are recognised when the Company becomes a party to the contractual provisions of the instrument. The instruments are initially measured at fair value (see note 3(d) of the Company's 2017 annual financial statements) and subsequently measured at amortised cost less ECL allowance. Interest is recognised in the statement of comprehensive income in 'Interest income', using the effective interest rate ("EIR") method (see note 3(c) of the Company's 2017 annual financial statements). Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. Transaction costs that are directly attributable to the acquisition of the financial asset are added to the fair value on initial recognition. ECL and reversals thereof on financial assets at amortised cost are recognised in the statement of comprehensive income in 'Net impairment loss on financial instruments'.

Financial assets classified at amortised cost include cash and short-term deposits and certain trade and other receivables. Financial liabilities classified at amortised cost include CPECs and trade and other payables.

b. Impairment of financial instruments

The Company recognises loss allowances for ECL on financial assets measured at amortised cost.

Measurement of ECL

For financial assets, ECLs are the present value of cash shortfalls (i.e. the difference between contractual and expected cash flows) over the expected life of the financial instrument, discounted at the asset's EIR.

Where a financial asset is credit-impaired at the reporting date, the ECL is measured as the difference between the asset's gross carrying amount and the present value of future cash flows, discounted at the original EIR.

The Company applies a three stage approach to measuring ECLs based on the change in credit risk since initial recognition:

- Stage 1: if the credit risk of the financial instrument at the reporting date has not increased significantly since initial recognition, then the loss allowance is calculated as the lifetime cash shortfalls that will result if a default occurs in the next 12 months, weighted by the probability of that default occurring ("12 months expected losses").
- Stage 2: if there has been a significant increase in credit risk ("SICR") since initial recognition, the loss allowance is calculated as the ECL over the remaining life of the financial instrument. If it is subsequently determined that there has no longer been a SICR since initial recognition, then the loss allowance reverts to reflecting 12 month expected losses.
- Stage 3: if there has been a SICR since initial recognition and the financial instrument is deemed credit-impaired (see below for definition of credit-impaired), the loss allowance is calculated as the ECL over the remaining life of the financial instrument. If it is subsequently determined that there has no longer been a SICR since initial recognition, then the loss allowance reverts to reflecting 12 month expected losses.

Notwithstanding the above, for trade receivables, a lifetime ECL is always calculated, without considering whether a SICR has occurred.

The Company's accounting policy is to not use the 'low' credit risk practical expedient. As a result, the Company monitors all financial instruments that are subject to impairment for SICR.

2. SUMMARY OF NEW OR AMENDED ACCOUNTING POLICIES (CONTINUED)

b. Impairment of financial instruments (continued)

In general, ECLs are measured so that they reflect:

a) A probability-weighted range of possible outcomes

b) The time value of money

c) A mix of available information relating to past, current and future economic conditions.

When measuring ECLs, the Company considers multiple scenarios, except where practical expedients are used to determine ECLs. Practical expedients are used where they are consistent with the principles described above. ECLs on certain trade receivables are calculated using a “matrix” approach which reflects the previous history of credit losses on these financial assets, applying different provision levels based on the age of the receivable. Alternatively where there is a history of no credit losses which is expected to persist into the future for structural or other reasons, such as collateral or other credit enhancement, it is determined that the ECL for a financial instrument is de minimis (i.e. highly immaterial) and it may not be necessary to recognise an ECL.

The Company measures ECL on an individual basis and has no purchased or originated credit-impaired financial assets.

More information on measurement of ECLs is provided in note 16.

Presentation of ECL

ECL is recognised in the statement of comprehensive income within ‘Net impairment loss on financial instruments’. ECLs on financial assets measured at amortised cost are presented as an ECL allowance. The allowance reduces the net carrying amount on the face of the statement of financial position.

Credit-impaired financial instruments

In assessing the impairment of financial instruments under the ECL model, the Company defines credit-impaired financial instruments in accordance with the Credit Risk Management Department’s policies and procedures. A financial instrument is credit-impaired when, based on current information and events, it is probable that the Company will be unable to collect all scheduled payments of principal or interest when due according to the contractual terms of the agreement.

Definition of Default

In assessing the impairment of financial instruments under the ECL model, the Company defines default in accordance with the Credit Risk Management Department’s policies and procedures. This considers whether the borrower is unlikely to pay its credit obligations to the Company in full and takes into account qualitative indicators, such as breaches of covenants. The definition of default also includes a presumption, for obligors, that a financial asset which is more than 90 days past due (“DPD”) has defaulted.

Write-offs

Financial assets that are written off could still be subject to enforcement activities for recoveries of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is reflected directly in the statement of comprehensive income within ‘Net impairment loss on financial instruments’. Any subsequent recoveries are credited to ‘Net impairment loss on financial instruments’ within the statement of comprehensive income.

3. TRANSITION TO IFRS 9

As discussed above the Company adopted a new standard from 1 January 2018, IFRS 9, which has resulted in a cumulative adjustment to retained earnings at the date of adoption of €8,000, reflected in the condensed statement of changes in equity.

The following disclosures set out the impact of adopting IFRS 9 on the condensed statement of financial position and retained earnings, including the effect of replacing IAS 39's incurred credit loss models with the ECL framework under IFRS 9.

a. IFRS 9: Classification of financial instruments on the date of initial application

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets and financial liabilities as at 1 January 2018 in accordance with the Company's updated accounting policies on the classification of financial instruments under IFRS 9 as set out in note 2.

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 €'000	New carrying amount under IFRS 9 €'000
Financial assets					
Cash and short term deposits		Loans and receivables	Financial assets at amortised cost	432	432
Trading financial assets		FVPL	FVPL (trading)	592,979	592,979
Loans and advances	a	FVPL (designated)	FVPL (designated)	6,797,365	6,797,365
Trade and other receivables	b	FVPL (designated)	FVPL (non-trading)	268,210	268,210
Trade and other receivables		Loans and receivables	Financial assets at amortised cost	1,818,028	1,818,020
Total financial assets				9,477,014	9,477,006
Financial liabilities					
Trading financial liabilities		FVPL	FVPL	319,651	319,651
Convertible preferred equity certificates		Financial liabilities at amortised cost	Financial liabilities at amortised cost	1,125,281	1,125,281
Trade and other payables		Financial liabilities at amortised cost	Financial liabilities at amortised cost	656,509	656,509
Debt and other borrowings		FVPL (designated)	FVPL (designated)	7,340,601	7,340,601
Total financial liabilities				9,442,042	9,442,042

The application of these policies resulted in the reclassifications set out in the table above and explained below.

a. Certain loans were classified as financial assets designated at FVPL under IAS 39 as they were managed, evaluated and reported internally on a fair value basis. On transition to IFRS 9, there have been no changes to classification. These continue to be designated at FVPL in order to eliminate or significantly reduce an accounting mismatch which would otherwise arise.
b. Prepaid equity securities contracts were designated at FVPL under IAS 39. On transition to IFRS 9, prepaid equity securities contracts assets are mandatorily at FVPL as they are held within a business model in which they are managed and their performance is evaluated on a fair value basis.

3. TRANSITION TO IFRS 9 (CONTINUED)

a. IFRS 9: Classification of financial instruments on the date of initial application (continued)

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018 by showing where there has been a presentation reclassification and/or a carrying amount remeasurement.

	IAS 39 carrying amount 31 December 2017 €'000	Reclassification €'000	Remeasurement €'000	IFRS 9 carrying amount 1 January 2018 €'000	Retained earnings effect 1 January 2018 €'000
Financial assets					
Amortised cost:					
Cash and short term deposits	432	-	-	432	-
Trade and other receivables	1,818,028	-	(8)	1,818,020	8
Total amortised cost	1,818,460	-	(8)	1,818,452	8
Financial assets at FVPL (trading)	592,979	-	-	592,979	-
FVPL (non-trading):					
Trade and other receivables:					
From FVPL (designated)	-	268,210	-	268,210	-
Total FVPL (non-trading)	-	268,210	-	268,210	-
FVPL (designated):					
Loans and advances	6,797,365	-	-	6,797,365	-
Trade and other receivables:					
To FVPL (non-trading)	268,210	(268,210)	-	-	-
Total FVPL (designated)	7,065,575	(268,210)	-	6,797,365	-
Financial liabilities					
Amortised cost:					
Convertible preferred equity certificates	1,125,281	-	-	1,125,281	-
Trade and other payables	656,509	-	-	656,509	-
Total amortised cost	1,781,790	-	-	1,781,790	-
FVPL (trading)	319,651	-	-	319,651	-
FVPL (designated)	7,340,601	-	-	7,340,601	-

b. IFRS 9: Expected credit losses

The Company had no impairment provisions under IAS 39 at 31 December 2017. The opening ECL allowance determined in accordance with IFRS 9 as at 1 January was €8,000 on intercompany receivables measured at amortised cost and presented within 'Trade and other receivables' within the condensed statement of financial position. The related impact on retained earnings was a decrease of €8,000.

4. NET INCOME ON OTHER FINANCIAL INSTRUMENTS HELD AT FAIR VALUE

	Six months ended 30 June 2018 €'000	Six months ended 30 June 2017 €'000
Net (losses)/gains on:		
Non-trading financial assets at FVPL:		
Trade and other receivables:		
Prepaid equity securities contracts	(26,113)	-
Financial assets designated at FVPL:		
Loans and advances:		
Loans	(20,405)	79,812
Trade and other receivables:		
Prepaid equity securities contracts	-	22,955
Financial liabilities designated at FVPL:		
Debt and other borrowings:		
Issued Structured Notes	109,377	(462,021)
	62,859	(359,254)

5. OTHER REVENUE

	Six months ended 30 June 2018 €'000	Six months ended 30 June 2017 €'000
Management charges to other Morgan Stanley Group undertakings	671	3,027
Net foreign exchange gains	427	-
	1,098	3,027

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

6. INTEREST INCOME AND INTEREST EXPENSE

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

No other gains or losses have been recognised in respect of financial assets measured at amortised cost other than as disclosed as 'Interest income', foreign exchange differences disclosed in 'Other revenue' (note 5) or 'Other expense' (note 7) and impairment losses disclosed in 'Net impairment loss on financial instruments'.

No other gains or losses have been recognised in respect of financial liabilities at amortised cost other than as disclosed as 'Interest expense' and foreign exchange differences disclosed in 'Other revenue' (note 5) or 'Other expense' (note 7).

'Interest expense' includes the yield payable on CPECs (see note 10).

7. OTHER EXPENSE

	Six months ended 30 June 2018 €'000	Six months ended 30 June 2017 €'000
Net foreign exchange losses	-	2,477
Management charges to other Morgan Stanley Group undertakings	1,337	-
Other	25	33
	1,362	2,510

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

8. INCOME TAX EXPENSE

	Six months ended 30 June 2018 €'000	Six months ended 30 June 2017 €'000
Current tax expense		
Current period	168	946
Income tax expense	168	946

Reconciliation of effective tax rate

The current period income tax expense is the same as (30 June 2017: same as) that resulting from applying the average standard rate of corporation tax in The Netherlands of 25.0% (30 June 2017: 25.0%) as shown below:

	Six months ended 30 June 2018 €'000	Six months ended 30 June 2017 €'000
Profit before income tax	671	3,783
Income tax using the average standard rate of corporation tax in The Netherlands of 25.0% (30 June 2017: 25.0%)	168	946
Total income tax expense in the condensed statement of comprehensive income	168	946

9. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY

The following table analyses financial assets and financial liabilities as at 30 June 2018 presented in the condensed statement of financial position by IFRS 9 classification.

30 June 2018	FVPL (mandatorily) €'000	FVPL (designated) €'000	Amortised cost €'000	Total €'000
Cash and short-term deposits	-	-	3,845	3,845
Trading financial assets:				
Derivatives	438,199	-	-	438,199
Loans and advances:				
Loans	-	6,545,016	-	6,545,016
Trade and other receivables:				
Trade receivables	-	-	135,707	135,707
Other receivables	-	-	1,430,942	1,430,942
Prepaid equity securities contracts	86,022	-	-	86,022
Total financial assets	524,221	6,545,016	1,570,494	8,639,731
Trading financial liabilities:				
Derivatives	411,958	-	-	411,958
Convertible preferred equity certificates	-	-	1,125,281	1,125,281
Trade and other payables:				
Trade payables	-	-	337,983	337,982
Other payables	-	-	7,244	7,245
Debt and other borrowings:				
Issued Structured Notes	-	6,724,360	-	6,724,360
Total financial liabilities	411,958	6,724,360	1,470,508	8,606,826

31 December 2017	FVPL (held for trading) €'000	FVPL (designated) €'000	Loans and receivables €'000	Financial liabilities at amortised cost €'000	Total €'000
Cash and short-term deposits	-	-	432	-	432
Trading financial assets:					
Derivatives	592,979	-	-	-	592,979
Loans and advances:					
Loans	-	6,797,365	-	-	6,797,365
Trade and other receivables:					
Trade receivables	-	-	25,724	-	25,724
Other receivables	-	-	1,792,304	-	1,792,304
Prepaid equity securities contracts	-	268,210	-	-	268,210
Total financial assets	592,979	7,065,575	1,818,460	-	9,477,014
Trading financial liabilities:					
Derivatives	319,651	-	-	-	319,651
Convertible preferred equity certificates	-	-	-	1,125,281	1,125,281
Trade and other payables:					
Trade payables	-	-	-	600,127	600,127
Other payables	-	-	-	56,382	56,382
Debt and other borrowings:					
Issued Structured Notes	-	7,340,601	-	-	7,340,601
Total financial liabilities	319,651	7,340,601	-	1,781,790	9,442,042

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

Financial assets and financial liabilities designated at FVPL

Financial instruments designated at FVPL consists primarily of the following financial liabilities and financial assets:

	30 June 2018		31 December 2017	
	Assets	Liabilities	Assets	Liabilities
	€'000	€'000	€'000	€'000
Debt and other borrowings:				
Issued Structured Notes	-	6,724,360	-	7,340,601
Trade and other receivables:				
Prepaid equity securities contracts	-	-	268,210	-
Loans and advances:				
Loans	6,545,016	-	6,797,365	-
	6,545,016	6,724,360	7,065,575	7,340,601

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

Prepaid equity securities contracts: These contracts involve derivatives for which an initial payment is paid at inception. The contracts, along with the loans designated at fair value through profit or loss and the derivative contracts classified as held for trading, are part of the hedging strategy for the obligations arising pursuant to the issuance of the Structured Notes. Until 31 December 2017, these prepaid equity securities contracts were designated at FVPL as the risks to which the Company is a contractual party are managed on a fair value basis as part of the Company's trading portfolio and the risk is reported to key management personnel on this basis. From 1 January 2018, prepaid equity securities contracts are mandatorily at FVPL as they are held in a business model in which they are managed and their performance is evaluated on a fair value basis.

Loans: These are loans to other Morgan Stanley Group undertakings that, along with the prepaid equity securities contracts and the derivative contracts classified as mandatorily at FVPL, are part of the hedging strategy for the obligations arising pursuant to the issuance of the Structured Notes. Until 31 December 2017, these loans were designated at FVPL as they were managed, evaluated and reported internally on a fair value basis. From 1 January 2018 they continue to be designated at FVPL to eliminate or significantly reduce an accounting mismatch which would otherwise arise.

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

Financial assets and financial liabilities designated at FVPL (continued)

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

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

There has been no DVA recognised in other comprehensive income.

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

	Gain or (loss) recognised in the condensed statement of comprehensive income		Cumulative gain or (loss) recognised in the condensed statement of comprehensive income	
	Six months ended 30 June 2018 €'000	Six months ended 30 June 2017[1] €'000	30 June 2018 €'000	31 December 2017 €'000
Issued Structured Notes	78,809	(460)	(29,188)	(107,997)
Loans	(78,809)	1,079	29,188	107,997
	-	619	-	-

[1] The net gain of €619,000 for the period ended 30 June 2017 and an offsetting net loss reflected in the fair value of the related prepaid equity securities contracts are recognised in the condensed statement of comprehensive income.

The carrying amount of financial liabilities designated at fair value was €2,937,000 lower than the contractual amount due at maturity (31 December 2017: €19,120,000 lower).

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

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

Financial assets and financial liabilities designated at FVPL (continued)

30 June 2018	Single name equities €'000	Equity indices €'000	Equity portfolio €'000	Other[1] €'000	Total €'000
Certificates and warrants	698,741	8,330	78,511	59,333	844,915
Notes	1,045,770	2,433,820	1,441,055	958,800	5,879,445
Total debt and other borrowings	1,744,511	2,442,150	1,519,566	1,018,133	6,724,360

31 December 2017	Single name equities €'000	Equity indices €'000	Equity portfolio €'000	Other[1] €'000	Total €'000
Certificates and warrants	1,820,496	13,016	363,591	-	2,197,103
Notes	643,469	2,573,278	988,971	937,780	5,143,498
Total debt and other borrowings	2,463,965	2,586,294	1,352,562	937,780	7,340,601

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

The majority of the Company's financial liabilities designated at FVPL provide exposure to an underlying single name equity, an equity index or portfolio of equities. The prepaid equity securities contracts, derivative contracts and loans held at FVPL that the Company enters into in order to hedge the Structured Notes are valued as detailed in note 3(d) and note 16(a) of the Company's 2017 annual financial statements, and have similar valuation inputs to the liabilities they hedge.

10. CONVERTIBLE PREFERRED EQUITY CERTIFICATES

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

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

On 27 February 2018, the maturity date of the CPECs was amended from 150 years to 49 years from the date of issuance. The CPECs may be redeemed earlier at the option of the Company or on liquidation of the Company.

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

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

On 29 March 2018, the Company paid the accrued yield of €54,313,000 to the holders of the CPECs. An accrued yield for the period ended 30 June 2018 of €6,143,000 has been recognised in the condensed statement of comprehensive income in 'Interest expense' (30 June 2017: €3,744,000). The liability to the holders of the CPECs at 30 June 2018, recognised within 'Trade and other payables,' is €3,221,000 (31 December 2017: €51,391,000).

11. TRADING FINANCIAL ASSETS AND LIABILITIES

Trading assets and trading liabilities are summarised as follows:

	30 June 2018		31 December 2017	
	Assets	Liabilities	Assets	Liabilities
	€'000	€'000	€'000	€'000
Derivatives	438,199	411,958	592,979	319,651

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12. TRADE AND OTHER RECEIVABLES

	30 June 2018 €'000	31 December 2017 €'000
Trade and other receivables (amortised cost)		
Trade receivables:		
Amounts due from other Morgan Stanley Group undertakings	135,707	-
Other receivables:		
Amounts due from other Morgan Stanley Group undertakings	1,430,954	-
Less: ECL allowance	(12)	-
	1,430,942	-
Total trade and other receivables (amortised cost)	1,566,649	-
Trade and other receivables (non-trading at FVPL)		
Prepaid equity securities contracts	86,022	-
Loans and receivables		
Trade receivables:		
Amounts due from other Morgan Stanley Group undertakings	-	25,724
Other receivables:		
Amounts due from other Morgan Stanley Group undertakings	-	1,792,304
	-	1,818,028
Financial assets designated at FVPL		
Prepaid equity securities contracts	-	268,210
Trade and other receivables	1,652,671	2,086,238

13. TRADE AND OTHER PAYABLES

	30 June 2018 €'000	31 December 2017 €'000
Trade and other payables (amortised cost)		
Trade payables:		
Amounts due to other Morgan Stanley Group undertakings	337,983	600,127
Other payables:		
Amounts due to other Morgan Stanley Group undertakings	7,244	56,382
	345,227	656,509

14. SEGMENT REPORTING

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

Business segments

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

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

Geographical segments

The Company operates in three geographic regions as listed below:

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

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

	EMEA		Americas		Asia		Total	
	30 June 2018 €'000	30 June 2017 €'000	30 June 2018 €'000	30 June 2017 €'000	30 June 2018 €'000	30 June 2017 €'000	30 June 2018 €'000	30 June 2017 €'000
External revenues net of interest	1,863	5,648	86	204	88	441	2,037	6,293
Profit before income tax	497	3,138	86	204	88	441	671	3,783

	EMEA		Americas		Asia		Total	
	30 June 2018 €'000	31 December 2017 €'000	30 June 2018 €'000	31 December 2017 €'000	30 June 2018 €'000	31 December 2017 €'000	30 June 2018 €'000	31 December 2017 €'000
Total assets	4,946,393	6,184,767	2,524,452	2,134,732	1,176,259	1,162,326	8,647,104	9,481,825

Of the Company's external revenue, 100% (30 June 2017: 100%) arises from transactions with other Morgan Stanley Group undertakings.

15. ADDITIONAL CASH FLOW INFORMATION

15.1. Cash and cash equivalents

For the purposes of the condensed statement of cash flows, cash and cash equivalents comprise the following balances, which have less than three months maturity from the date of acquisition:

	30 June 2018 €'000	30 June 2017 €'000
Cash and short-term deposits	3,845	1,348
	3,845	1,348

15.2. Reconciliation of cash flows from operating activities

	Six months ended 30 June 2018 €'000	Six months ended 30 June 2017 €'000
Profit for the period	503	2,837
Adjustments for:		
Impairment loss on financial instruments	4	-
Interest income	(6,583)	(7,899)
Interest expense	5,644	4,633
Income tax expense	168	946
Operating cash flows before changes in operating assets and liabilities	(264)	517
Changes in operating assets		
Decrease/ (increase) in trading financial assets	154,780	(124,187)
Decrease/ (increase) in loans and advances	252,349	(466,624)
Decrease/ (increase) in trade and other receivables	385,778	(20,494)
	792,907	(611,305)
Changes in operating liabilities		
Increase/ (decrease) in trading financial liabilities	92,307	(93,846)
(Decrease)/ increase in trade and other payables	(262,613)	204,358
(Decrease)/ increase in debt and other borrowings	(616,241)	507,015
	(786,547)	617,527
Interest received	47	42
Interest paid	-	(281)
Income taxes paid	(2,730)	(5,868)
Net cash flows from operating activities	3,413	632

16. FINANCIAL RISK MANAGEMENT

Risk management procedures

The Company's risk management procedures are consistent with those disclosed in the Company's 2017 annual financial statements. This disclosure is limited to quantitative data for each risk category, other than credit risk which includes qualitative information on the Company's ECL measurement implemented from 1 January 2018 on transition to IFRS 9, and should be read in conjunction with the risk management procedures detailed in note 14 of the Company's 2017 annual financial statements.

Credit risk

Exposure to credit risk

The maximum exposure to credit risk ("gross credit exposure") of the Company at the reporting date is the carrying amount of the financial assets held in the condensed statement of financial position. Where the Company enters into credit enhancements to manage the credit exposure on these financial instruments, including receiving cash as collateral and master netting agreements, the financial effect of the credit enhancements is also disclosed below. The net credit exposure represents the credit exposure remaining after the effect of the credit enhancements.

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

Exposure to credit risk by product

Class	30 June 2018		
	Gross credit exposure (1)	Credit enhancements	Net credit exposure (2)
	€'000	€'000	€'000
Subject to ECL:			
Cash and short-term deposits	3,845	-	3,845
Trade and other receivables	1,566,649	-	1,566,649
Not subject to ECL(3):			
Trading financial assets	438,199	(405,492)	32,707
Loans and advances	6,545,016	-	6,545,016
Trade and other receivables:			
Prepaid equity securities contracts	86,022	(86,022)	-
	8,639,731	(491,514)	8,148,217

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

(2) Of the residual net credit exposure, intercompany cross product netting arrangements are in place which would allow for an additional €177,000 to be offset in the event of default by certain Morgan Stanley counterparties.

(3) Financial assets measured at FVPL are not subject to ECL.

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Exposure to credit risk by product (continued)

Maximum exposure to credit risk for 31 December 2017 is presented below, reflecting the condensed statement of financial position categories used in 2017:

Class	**31 December 2017**		
	Gross credit exposure *(1)*	**Credit enhancements**	**Net credit exposure** *(2)*
	€'000	**€'000**	**€'000**
Cash and short-term deposits	432	-	432
Trade and other receivables	2,086,238	(268,210)	1,818,028
Loans and advances	6,797,365	-	6,797,365
Trading financial assets:			
Derivatives	592,979	(565,399)	27,580
	9,477,014	(833,609)	8,643,405

(1) The carrying amount recognised in the condensed statement of financial position best represents the Company's maximum exposure to credit risk.
(2) Of the residual net credit exposure, intercompany cross product netting arrangements are in place which would allow for an additional €nil to be offset in the event of default by certain Morgan Stanley counterparties.

ECL measurement

a. Assessment of SICR

As explained in note 2, in order to assess whether an instrument is subject to a 12 month ECL or to a lifetime ECL, the Company determines whether there has been a SICR since initial recognition.

When making this assessment, the Company considers both quantitative and qualitative information and analysis based on the Company's historical experience and expert credit risk assessment, including forward-looking information.

Credit risk is considered to have increased significantly if the probability of default ("PD") has significantly deteriorated at the reporting date relative to the PD of the facility at the date of initial recognition. The PD is derived from internal credit rating grades (based on available information about the borrower) and multiple forward-looking macroeconomic scenarios which are probability weighted.

The assessment of whether a change in PD is "significant" is based both on a consideration of the relative change in PD and on qualitative indicators of the credit risk of the facility, which indicate whether a loan is performing or in difficulty. In addition, as a backstop, the Company considers that SICR has occurred in all cases when an asset is more than 30 DPD.

b. Calculation of ECL

ECL are calculated using three main components:

- PD: for accounting purposes, the 12 month and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and over the remaining lifetime of the financial instrument respectively, based on conditions existing at the balance sheet date and future economic conditions.

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

ECL measurement (continued)

- Loss given default ("LGD"): the LGD represents expected loss conditional on default, taking into account the mitigating effect of collateral, including the expected value of the collateral when realised and the time value of money.
- Exposure at default ("EAD"): this represents the expected EAD, taking into account the expected repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of the facility over that period.

These parameters are generally derived from internally developed statistical models, incorporating historical, current and forward-looking macro-economic data.

The 12 month ECL is equal to the sum over the next 12 months of quarterly PD multiplied by LGD and EAD, with such expected losses being discounted at the effective interest rate. Lifetime ECL is calculated using the discounted present value of total quarterly PDs multiplied by LGD and EAD, over the full remaining life of the facility.

c. Incorporation of forward looking information

The Company uses internal macro-economic research and country risk expert judgement to support the calculation of ECL. The macro-economic scenarios are reviewed quarterly.

There have been no changes made to estimation techniques or significant assumptions for estimating impairment, during the period.

Exposure to credit risk by internal rating grades

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

a. Recognised financial instruments subject to ECL

The following table provides an analysis of the credit risk exposure by ECL stage per class of recognised financial instrument subject to ECL, based on the following internal credit rating grades:

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

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

30 June 2018	**ECL staging**	
	Stage 1 12-month ECL €'000	**Stage 2 Lifetime ECL €'000**
External financial institutions:		
Cash:		
Credit grade		
Investment grade	3,845	-
	3,845	-
Other Morgan Stanley Group undertaking:		
Trade and other receivables:		
Credit grade		
Investment grade gross carrying amount	-	1,566,661
Loss allowance	-	(12)
Carrying amount	-	1,566,649

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Exposure to credit risk by internal rating grades (continued)

There are no trade receivables at stage 1, as the Company's accounting policy is to measure lifetime credit losses on trade receivables under the simplified approach. The Company has no financial assets at stage 3.

At 30 June 2018 there were no financial assets past due but not impaired or individually impaired (31 December 2017: nil).

b. Recognised financial instruments not subject to ECL

The following table sets out the credit quality of financial assets measured at FVPL.

Maximum exposure to credit risk by credit rating[(1)]

	Gross credit exposure	
	30 June	31 December
Credit rating	**2018**	**2017**
	€'000	**€'000**
Other Morgan Stanley Group undertakings		
A	327,028	7,108,534
BBB	6,742,209	550,020
Total	7,069,237	7,658,554

(1) Internal credit rating derived using methodologies generally consistent with those used by external agencies.

Liquidity risk

Maturity analysis

In the following maturity analysis of financial assets and financial liabilities, derivative contracts and other financial instruments held at FVPL are disclosed according to their earliest contractual maturity; all such amounts are presented at their fair value, consistent with how these financial instruments are managed. All other amounts represent undiscounted cash flows receivable and payable by the Company arising from its financial assets and financial liabilities to earliest contractual maturities as at 30 June 2018 and 31 December 2017. Receipts of financial assets and repayments of financial liabilities that are subject to immediate notice are treated as if notice were given immediately and are classified as on demand. This presentation is considered by the Company to appropriately reflect the liquidity risk arising from these financial assets and financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial assets and financial liabilities is managed by the Company.

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Maturity analysis (continued)

30 June 2018	On demand €'000	Less than one year €'000	Equal to or more than one year but less than two years €'000	Equal to or more than two years but less than five years €'000	Equal to or more than five years €'000	Total €'000
Financial assets						
Cash and short term deposits	3,845	-	-	-	-	3,845
Trading financial assets:						
Derivatives	162,756	101,050	37,956	70,856	65,581	438,199
Loans and advances:						
Loans	518,975	1,792,132	735,054	1,927,163	1,571,692	6,545,016
Trade and other receivables:						
Trade receivables	135,707	-	-	-	-	135,707
Other receivables	1,430,942	-	-	-	-	1,430,942
Prepaid equity securities contracts	23,744	59,333	2,945	-	-	86,022
Total financial assets	2,275,969	1,952,515	775,955	1,998,019	1,637,273	8,639,731
Financial liabilities						
Trading financial liabilities:						
Derivatives	107,510	109,566	39,238	66,374	89,270	411,958
Convertible preferred equity certificates	1,125,281	-	-	-	-	1,125,281
Trade and other payables:						
Trade payables	337,983	-	-	-	-	337,983
Other payables	7,244	-	-	-	-	7,244
Debt and other borrowings:						
Issued Structured Notes	665,046	1,842,949	736,717	1,931,645	1,548,003	6,724,360
Total financial liabilities	2,243,064	1,952,515	775,955	1,998,019	1,637,273	8,606,826

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Maturity analysis (continued)

31 December 2017	On demand €'000	Less than one year €'000	Equal to or more than one year but less than two years €'000	Equal to or more than two years but less than five years €'000	Equal to or more than five years €'000	Total €'000
Financial assets						
Cash and short term deposits	432	-	-	-	-	432
Trading financial assets:						
Derivatives	318,742	67,235	53,895	89,405	63,702	592,979
Loans and advances:						
Loans	1,853,180	1,171,057	554,268	1,748,583	1,470,277	6,797,365
Trade and other receivables:						
Trade receivables	25,724	-	-	-	-	25,724
Other receivables	1,792,304	-	-	-	-	1,792,304
Prepaid equity securities contracts	42,688	113,034	-	112,488	-	268,210
Total financial assets	4,033,070	1,351,326	608,163	1,950,476	1,533,979	9,477,014
Financial liabilities						
Trading financial liabilities:						
Derivatives	169,944	37,513	12,506	39,951	59,737	319,651
Convertible preferred equity certificates	1,125,281	-	-	-	-	1,125,281
Trade payables and other payables:						
Trade receivables	600,127	-	-	-	-	600,127
Other receivables	56,382	-	-	-	-	56,382
Debt and other borrowings:						
Issued Structured Notes	2,046,364	1,313,813	595,657	1,910,525	1,474,242	7,340,601
Total financial liabilities	3,998,098	1,351,326	608,163	1,950,476	1,533,979	9,442,042

Market risk

Equity price sensitivity analysis

The sensitivity analysis below is determined based on the exposure to equity price risk at 30 June 2018 and 31 December 2017 respectively.

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

	Impact on Total Comprehensive Income Gains/(losses)	
	30 June 2018 €'000	**31 December 2017 €'000**
Trading financial instruments	(663,834)	(707,239)
Trade and other receivables – at FVPL	(8,602)	(26,821)
Debt and other borrowings	672,436	734,060
	-	-

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (continued)

Equity price sensitivity analysis (continued)

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

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

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

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

17. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING

In the condensed statement of financial position, financial assets and financial liabilities are only offset and presented on a net basis where there is a current legally enforceable right to set off the recognised amounts and an intention to either settle on a net basis or to realise the asset and the liability simultaneously. In the absence of such conditions, financial assets and financial liabilities are presented on a gross basis.

The following tables present information about the offsetting of financial instruments and related collateral amounts. The effect of master netting arrangements, collateral agreements and other credit enhancements on the Company's exposure to credit risk is disclosed in note 16. The information below is limited to quantitative information and should be read in conjunction with note 15 of the Company's 2017 annual financial statements.

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

	Gross and net amounts presented in the statement of financial position (1)	Amounts not offset in the condensed statement of financial position (2) (4)		
		Financial instruments	Cash collateral (3)	Net exposure (5)
	€'000	€'000	€'000	€'000
30 June 2018				
Assets				
Trading financial assets:				
Derivatives	438,199	(2,853)	(402,639)	32,707
Trade and other receivables:				
Prepaid equity securities contracts	86,022	-	(86,022)	-
TOTAL	524,221	(2,853)	(488,661)	32,707
Liabilities				
Trading financial liabilities:				
Derivatives	411,958	(2,853)	(334,045)	75,060
Debt and other borrowings:				
Issued Structured Notes	6,724,360	-	-	6,724,360
TOTAL	7,136,318	(2,853)	(334,045)	6,799,420

(1) Amounts include €32,383,000 of trading financial assets – derivatives, €nil of trade and other receivables – prepaid equity securities contracts, €71,835,000 of trading financial liabilities – derivatives and €6,385,890,000 of debt and other borrowings – issued Structured Notes which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.

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

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

(4) In addition to the balances disclosed in the table above, certain 'Trade and other receivables' and 'Trade and other payables' of €135,936,000 not presented net within the condensed statement of financial position have legally enforceable master netting agreements in place and can be offset in the ordinary course of business and/or in the event of default.

(5) Of the residual net exposure, intercompany cross-product legally enforceable netting arrangements are in place which would allow for an additional €177,000 to be offset in the ordinary course of business and/ or in the event of default.

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

	Gross and net amounts presented in the statement of financial position (1)	Amounts not offset in the condensed statement of financial position (2) (4)		
		Financial instruments	Cash collateral (3)	Net exposure (5)
	€'000	€'000	€'000	€'000
31 December 2017				
Assets				
Trading financial assets:				
Derivatives	592,979	(11,447)	(553,952)	27,580
Trade and other receivables:				
Prepaid equity securities contracts	268,210	-	(268,210)	-
TOTAL	861,189	(11,447)	(822,162)	27,580
Liabilities				
Trading financial liabilities:				
Derivatives	319,651	(11,447)	(251,558)	56.646
Debt and other borrowings:				
Issued Structured Notes	7,340,601	-	-	7,340,601
TOTAL	7,660,252	(11,447)	(251,558)	7,397,247

(1) Amounts include €27,580,000 of trading financial assets – derivatives, €nil of trade and other receivables – prepaid equity securities contracts, €34,108,000 of trading financial liabilities – derivatives and €6,229,321,000 of debt and other borrowings – issued Structured Notes which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.

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

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

(4) In addition to the balances disclosed in the table above, certain 'Trade and other receivables' and 'Trade and other payables' of €22,280,000 not presented net within the condensed statement of financial position have legally enforceable master netting agreements in place and can be offset in the ordinary course of business and/ or in the event of default.

(5) Of the residual net exposure, intercompany cross-product legally enforceable netting arrangements are in place which would allow for an additional €nil to be offset in the ordinary course of business and/ or in the event of default.

18. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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

The following tables present the carrying value of the Company's financial assets and financial liabilities recognised at fair value on a recurring basis, classified according to the fair value hierarchy. The information below is limited to quantitative information and should be read in conjunction with note 16 of the Company's 2017 annual financial statements.

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

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

30 June 2018	**Quoted prices in active market (Level 1) €'000**	**Valuation techniques using observable inputs (Level 2) €'000**	**Valuation techniques with significant unobservable inputs (Level 3) €'000**	**Total €'000**
Trading financial assets:				
Derivatives				
Interest rate contracts	-	7,725	20,728	28,453
Equity contracts	-	388,522	19,473	407,995
Foreign exchange contracts	-	3	-	3
Commodity contracts	-	99	1,649	1,748
Total trading financial assets	-	396,349	41,850	438,199
Trade and other receivables:				
Prepaid equity securities contracts	-	20,425	65,597	86,022
Total trade and other receivables	-	20,425	65,597	86,022
Loans and advances:				
Loans	-	6,545,016	-	6,545,016
Total loans and advances	-	6,545,016	-	6,545,016
Total financial assets measured at fair value	-	6,961,790	107,447	7,069,237
Trading financial liabilities:				
Derivatives				
Interest rate contracts	-	62,762	17,848	80,610
Equity contracts	-	277,355	50,775	328,130
Foreign exchange contracts	-	1,705	-	1,705
Commodity contracts	-	-	1,512	1,512
Total trading financial liabilities	-	341,822	70,135	411,957
Debt and other borrowings:				
Certificates and warrants	-	785,582	59,333	844,915
Notes	-	5,512,920	366,525	5,879,445
Total debt and other borrowings	-	6,298,502	425,858	6,724,360
Total financial liabilities measured at fair value	-	6,640,324	495,993	7,136,317

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

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

31 December 2017

	Quoted prices in active market (Level 1) €'000	Valuation techniques using observable inputs (Level 2) €'000	Valuation techniques with significant unobservable inputs (Level 3) €'000	Total €'000
Trading financial assets:				
Derivatives				
Interest rate contracts	-	3,168	22,370	25,538
Equity contracts	-	551,198	13,759	564,957
Foreign exchange contracts	-	76	1,607	1,683
Commodities contracts	-	539	262	801
Total trading financial assets		554,981	37,998	592,979
Loans and advances:				
Loans	-	6,797,365	-	6,797,365
Trade and other receivables:				
Prepaid equity securities contracts	-	268,210	-	268,210
Total financial assets measured at fair value	-	7,620,556	37,998	7,658,554
Trading financial liabilities:				
Derivatives				
Interest rate contracts	-	38,009	6,757	44,766
Equity contracts	-	243,537	23,429	266,966
Foreign exchange contracts	-	3,400	1,533	4,933
Commodities contracts	-	1,050	1,936	2,986
Total trading financial liabilities		285,996	33,655	319,651
Debt and other borrowings:				
Certificates and warrants	-	2,197,103	-	2,197,103
Notes	-	4,779,994	363,504	5,143,498
Total debt and other borrowings	-	6,977,097	363,504	7,340,601
Total financial liabilities measured at fair value	-	7,263,093	397,159	7,660,252

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

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

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

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

The following tables present the changes in the fair value of the Company's Level 3 financial assets and financial liabilities for the period ended 30 June 2018 and year ended 31 December 2017. Level 3 instruments may be hedged with instruments classified in Level 2. As a result, the realised and unrealised gains/ (losses) for assets and liabilities within the Level 3 category presented in the following tables do not reflect the related realised and unrealised gains/ (losses) on hedging instruments that have been classified by the Company within the Level 2 category.

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

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

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

30 June 2018

	Balance at 1 January 2018 €'000	Total gains or (losses) recognised in condensed statement of comprehensive income (1) €'000	Purchases €'000	Issuances €'000	Settlements €'000	Net transfers in and/ or out of Level 3 (2) €'000	Balance at 30 June 2018 €'000	Unrealised gains or (losses) for Level 3 assets /(liabilities) outstanding as at 30 June 2018 (3) €'000
Trading financial assets:								
Net derivative contracts (4)	4,343	(36,246)	-	-	44	3,575	(28,285)	(35,825)
Trade and other receivables:								
Prepaid equity securities contracts	-	(691)	60,081	-	-	6,207	65,597	(691)
Total financial assets measured at fair value	4,343	(36,937)	60,081	-	44	9,782	37,312	(36,516)
Debt and other borrowings:								
Issued Structured Notes	(363,504)	24,957	-	(178,294)	20,660	70,323	(425,858)	24,331
Total financial liabilities measured at fair value	(363,504)	24,957	-	(178,294)	20,660	70,323	(425,858)	24,331

(1) The total gains or (losses) are recognised in the condensed statement of comprehensive income as detailed in the financial instruments accounting policy in the Company's 2017 annual financial statements.

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

(3) Amounts represent unrealised gains or (losses) for the period ended 30 June 2018 related to assets and liabilities still outstanding at 30 June 2018. The unrealised gains or (losses) are recognised in the condensed statement of comprehensive income as detailed in the financial instruments accounting policy in the Company's 2017 annual financial statements.

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

There were no material transfers from Level 2 to Level 3 of the fair value hierarchy during the period (31 December 2017: €2,273,000 of net derivative contracts and €45,311,000 of issued Structured Notes).

During the period the Company reclassified approximately €124,590,000 of issued Structured Notes (31 December 2017: €157,242,000) from Level 3 to Level 2. The reclassifications were due to the availability of market quotations such that significant inputs are now considered observable. There were no other material transfers from Level 3 to Level 2 of the fair value hierarchy (31 December 2017: €2,383,000 of net derivative contracts).

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

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

31 December 2017

	Balance at 1 January 2017 €'000	Total gains or (losses) recognised in condensed statement of comprehensive income (1) €'000	Purchases €'000	Issuances €'000	Settlements €'000	Net transfers in and/ or out of Level 3 (2) €'000	Balance at 31 December 2017 €'000	Unrealised gains or (losses) for Level 3 assets /(liabilities) outstanding as at 31 December 2017 (3) €'000
Trading financial assets:								
Net derivative contracts(4)	16,213	(6,654)	-	-	(5,326)	110	4,343	(2,996)
Total financial assets measured at fair value	**16,213**	**6,654**	**-**	**-**	**(5,326)**	**110**	**4,343**	**(2,996)**
Debt and other borrowings:								
Issued Structured Notes	(298,875)	(9,596)	-	(234,018)	67,054	111,931	(363,504)	(4,725)
Total financial liabilities measured at fair value	**(298,875)**	**(9,596)**	**-**	**(234,018)**	**67,054**	**111,931**	**(363,504)**	**(4,725)**

(1) The total gains or (losses) are recognised in the condensed statement of comprehensive income as detailed in the financial instruments accounting policy in the Company's 2017 annual financial statements.

(2) For financial assets and financial liabilities that were transferred into and 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 year ended 31 December 2017 related to assets and liabilities still outstanding at 31 December 2017. The unrealised gains or (losses) are recognised in the condensed statement of comprehensive income as detailed in the financial instruments accounting policy in the Company's 2017 annual financial statements.

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

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

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

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

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

   The following table provides information on the valuation techniques, significant unobservable inputs and their ranges and averages for each major category of assets and liabilities measured at fair value on a recurring basis with a significant Level 3 balance.

   The level of aggregation and breadth of products cause the range of inputs to be wide and not evenly distributed across the inventory. Further, the range of unobservable inputs may differ across firms in the financial services industry because of diversity in the types of products included in each firm's inventory. 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).

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

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

30 June 2018	Fair value €'000	Predominant valuation techniques/ Significant unobservable inputs	Range [2] (Averages)[3]
ASSETS			
Trade and other receivables:			
- Prepaid equity securities contracts	65,597	Option model	
		At the money volatility	5% (5%)
LIABILITIES			
Trading financial liabilities:			
- Net derivative contracts: [1]			
- Interest rate	2,880	Option model	
		Interest rate - Foreign exchange correlation	31% to 32% (32%)
		Interest rate - Interest rate correlation	57% to 85% (71%)
		NAV	
		NAV	100% (100%)
- Equity	(31,302)	Option model	
		At the money volatility	5% to 41% (20%)
		Volatility skew	-2% to 0% (0%)
		Equity – Equity correlation	36% to 94% (70%)
		Equity – Foreign exchange correlation	-51% to 50% (-33%)
- Commodities	137	Option model	
		Commodity volatility	14% to 20% (18%)
Debt and other borrowings:			
- Issued Structured Notes	(425,858)	Option model	
		At the money volatility	5% to 41% (22%)
		Volatility skew	-2% to 0% (0%)
		Equity – Equity correlation	50% to 96% (80%)
		Equity – Foreign exchange correlation	-80% to 30% (5%)
		Interest rate - Foreign exchange correlation	31% to 32% (32%)
		Interest rate - Interest rate correlation	57% to 85% (71%)
		Commodity volatility	14% to 20% (18%)
		NAV	
		NAV	100% (100%)

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

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

(3) Amounts represent weighted averages which are calculated by weighting each input by the fair value of the respective financial instruments except for derivative instruments where inputs are weighted by risk.

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

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

31 December 2017	Fair value €'000	Predominant valuation techniques/ Significant unobservable inputs	Range [2] (Averages)[3]
ASSETS			
Trading financial assets:			
- Net derivative contracts: [1]			
- Interest rate	15,613	Option model	
		Interest rate - Foreign exchange correlation	18% to 38% (25%)
		NAV	
		NAV	100% (100%)
- Equity	(9,670)	Option model	
		At the money volatility	4% to 42% (18%)
		Volatility skew	-2% to 0% (0%)
		Equity – Equity correlation	35% to 89% (60%)
		Equity – Foreign exchange correlation	-57% to 30% (-40%)
- Commodities	(1,674)	Option model	
		Commodity volatility	15% to 18% (17%)
LIABILITIES			
Debt and other borrowings:			
- Issued Structured Notes	(363,504)	Option model	
		At the money volatility	6% to 42% (21%)
		Volatility skew	-2% to 0% (-1%)
		Equity – Equity correlation	41% to 88% (53%)
		Equity – Foreign exchange correlation	-60% to -17% (-39%)
		Interest rate - Foreign exchange correlation	18% to 38% (25%)
		Commodity volatility	15% to 18% (17%)
		NAV	
		NAV	100% (100%)

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

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

(3) Amounts represent weighted averages which are calculated by weighting each input by the fair value of the respective financial instruments except for derivative instruments where inputs are weighted by risk.

A description of significant unobservable inputs included in the tables above for all major categories of assets and liabilities is included within note 16 of the Company's 2017 annual financial statements.

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

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

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

The following tables present the sensitivity of the fair value of Level 3 financial assets and financial liabilities as at 30 June 2018 and 31 December 2017 to reasonably possible alternative assumptions, providing quantitative information on the potential variability of the fair value measurement. The information below is limited to quantitative information and should be read in conjunction with note 17 of the Company's 2017 annual financial statements.

30 June 2018		**Effect of reasonably possible alternative assumptions**	
	Fair value €'000	**Increase in fair value €'000**	**Decrease in fair value €'000**
Trade and other receivables:			
Prepaid equity securities contracts	65,597	93	(93)
Trading financial liabilities:			
Net derivatives contracts(1)	(28,285)	(4,237)	(503)
Debt and other borrowings:			
Issued Structured Notes	(425,858)	(3,543)	2,641

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

31 December 2017		**Effect of reasonably possible alternative assumptions**	
	Fair value €'000	**Increase in fair value €'000**	**Decrease in fair value €'000**
Trading financial assets:			
Net derivatives contracts(1)	4,343	(859)	(291)
Debt and other borrowings:			
Issued Structured Notes	(363,504)	(3,257)	4,315

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

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

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

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

19. ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

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

Regarding the CPECs, its carrying value including the accrued yield in 'Trade and other payables', as detailed in note 10, is considered in aggregate as an approximation of its fair value.

REVIEW REPORT TO THE SHAREHOLDERS OF MORGAN STANLEY B.V.

Introduction
We have reviewed the accompanying interim financial report of Morgan Stanley B.V., Amsterdam, which comprises the condensed statement of financial position as at 30 June 2018, condensed statement of comprehensive income, condensed statement of changes in equity, and condensed statement of cash flows for the period of six months ended 30 June 2018, and the notes. Management is responsible for the preparation and presentation of this Company's condensed interim financial report in accordance with IAS 34, '*Interim Financial Reporting*' as adopted by the European Union. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

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

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial report as at 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34, '*Interim Financial Reporting*', as adopted by the European Union.

Amsterdam,
Deloitte Accountants B.V.

M. van Luijk

Deloitte Accountants B.V. is registered with the Trade Register of the Chamber of Commerce and Industry in Rotterdam number 24362853.

Member of
Deloitte Touche Tohmatsu Limited