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MORGAN STANLEY B.V.

Interim financial report

30 June 2014

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 2014.

RESULTS AND DIVIDENDS

The profit for the six months ended 30 June 2014, after tax, was €2,326,000 (30 June 2013: €2,254,000).

During the six months ended 30 June 2014, no dividends were paid or proposed (30 June 2013: €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's ultimate parent undertaking and controlling entity is Morgan Stanley, which, together with the Company and Morgan Stanley's other subsidiary undertakings, form the "Morgan Stanley Group".

FUTURE OUTLOOK

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

BUSINESS REVIEW

During the six month period ended 30 June 2014, global market and economic conditions remained on an overall upward trend since the end of 2013. The United States ("US") economy continued to show signs of growth during the six month period ended 30 June 2014, despite a decline in real gross domestic product in the first quarter of the year. The U.S. employment situation continued to improve as evidenced by the decline in the unemployment rate. Inflation remained at historically low levels. The Eurozone economy continued its moderate recovery from a deep recession, but monetary and credit growth remained subdued. By contrast, the United Kingdom ("UK") had a stronger-than-expected recovery and the second quarter of 2014 marked its strongest calendar quarter in four years. Japan experienced stronger growth despite a drop in consumer spending resulting from a rise in the sales tax. In China, the government continued reforms to change the structure of the Chinese economy with the objective to maintain its current high growth rate. Elsewhere, emerging markets have experienced considerable volatility resulting in part from the Federal Reserve's reduction of quantitative easing.

Major European equity market indices were generally higher at the end of the six month period ended 30 June 2014 compared with the start of the period with Euro-area gross domestic product continuing to grow modestly during 2014. To further stimulate economic activity, the European Central Bank lowered its benchmark interest rate from 0.25% to a record low 0.15% during the six month period ended 30 June 2014, despite persistently low inflation. The Euro-area unemployment rate decreased to 11.5% at 30 June 2014, from 11.8% at 31 December 2013. At 30 June 2014, the Bank of England's ("BOE") benchmark interest rate was 0.5%, which was unchanged from 31 December 2013. The BOE also remained committed to an asset purchase program of £375 billon, also unchanged from 31 December 2013.

The condensed statement of comprehensive income for the six months ended 30 June 2014 is set out on page 8. The Company made a profit before income tax of €3,101,000 in the six months ended 30 June 2014, an increase of €96,000 from the six months ended 30 June 2013 due to the higher level of Structured Notes in issuance during the current period on which management charges are received. Management charges are reflected in 'Other income' in the condensed statement of comprehensive income.

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

Net gains on financial instruments classified as held for trading and net losses on financial instruments designated at fair value through profit or loss offset to €nil, which is consistent with the Company's function and the prior period. The Company hedges its Structured Notes with derivatives classified as held for trading along with loans designated at fair value and prepaid equity securities contracts. Net losses on financial instruments designated at fair value through profit or loss of €428,918,000 represents fair value movements for the period on the issued Structured Notes, prepaid equity securities contracts and loans designated at fair value (30 June 2013: €17,643,000). This loss has arisen as a result of unfavourable fair value movements on the assets underlying certain Structured Notes issued that are hedged by derivatives classified as held for trading, on which a corresponding gain of €428,918,000 has been recognised (30 June 2013: €17,643,000).

Interest expense and interest income primarily relate to the yield payable on Convertible Preferred Equity Certificates ("CPECs"), and interest receivable on the loan of the cash consideration from the CPECs issuance to another Morgan Stanley Group undertaking.

The condensed statement of financial position for the Company is set out on page 10. The Company's total assets at 30 June 2014 are €10,367,333,000, an increase of €2,196,723,000 or 27% when compared to 31 December 2013. Total liabilities of €10,339,930,000 represent an increase of €2,194,397,000 or 27%, when compared to total liabilities at 31 December 2013. These movements are primarily attributed to the value of issued Structured Notes held at 30 June 2014, which has increased by €1,323,454,000 since 31 December 2013. This increase represents new issuances and fair value movements, offset by maturities in the period. The increase in the value of issued Structured Notes has resulted in a net increase in the valuation of the related hedging instruments, whereby financial assets designated at fair value through profit or loss have increased by €1,696,916,000 offset by a decrease in net financial instruments classified as held for trading of €422,476,000.

Trade payables have increased by €548,506,000 to €603,113,000. This is primarily due to the Company receiving collateral in relation to derivative contracts from another Morgan Stanley Group undertaking.

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 both Morgan Stanley's and the Company's business activity and is managed within the context of the broader Morgan Stanley Group's business activities. The Morgan Stanley Group seeks to identify, assess, monitor and manage each of the various types of risk involved in its activities on a global basis, in accordance with defined policies and procedures and in consideration of the individual legal entities. The Company's own risk management policies and procedures are consistent with those of the Morgan Stanley Group.

Note 6 to the condensed financial statements provides more detailed qualitative and quantitative disclosures about the Company's management of and exposure to financial risks.

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

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 that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as liquidity, will result in losses for a position or portfolio.

The Morgan Stanley Group manages the market risk associated with its trading activities on a global basis, at both a trading division and an individual product level, which includes consideration of market risk for each individual legal entity.

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

Credit risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its obligations to the Company.

Credit risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to appropriate key management personnel of the Company.

The Morgan Stanley Group manages credit risk exposure on a global consolidated basis and in consideration of individual legal entities. Its 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.

Liquidity and funding risk

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

The primary goal of the Morgan Stanley Group's liquidity risk management framework is to ensure that the Morgan Stanley Group, including the Company, have access to adequate funding across a wide range of market conditions. The framework is designed to enable the Morgan Stanley Group to fulfil its financial obligations and support the execution of the Company's business strategies.

Morgan Stanley continues to actively manage its capital and liquidity position to ensure adequate resources are available to support the activities of the Morgan Stanley Group, including the Company, to enable the Morgan Stanley Group to withstand market stresses, and to meet regulatory stress testing requirements proposed by regulators globally.

Operational risk

Operational risk refers to the risk of loss, or of damage to the Company's or the Morgan Stanley Group's reputation, resulting from inadequate or failed processes, people and systems or from external events (e.g. fraud, legal and compliance risks or damage to physical assets). Legal and regulatory risk is included in the scope of operational risk and is discussed below under "Legal and regulatory risk".

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Operational risk (continued)

The Company's business is highly dependent on its ability to process, on a daily basis, a large number of transactions across numerous and diverse markets in many currencies. In addition, new products or services may be introduced or change processes, resulting in new operational risk that may not be fully appreciated or identified. In general, the transactions processed are increasingly complex. The Company relies on the ability of the Morgan Stanley Group's employees, its internal systems, and systems at technology centres operated by unaffiliated third parties to process a high volume of transactions.

The Company also faces the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries it uses to facilitate securities transactions. In the event of a breakdown or improper operation of the Company's or a third party's systems or improper or unauthorised action by third parties or the Morgan Stanley Group's employees, the Company could suffer financial loss, an impairment to its liquidity, a disruption of its businesses, regulatory sanctions or damage to its reputation. In addition, the interconnectivity of multiple financial institutions with central agencies, exchanges and clearing houses, and the increased importance of these entities, increases the risk that an operational failure at one institution or entity may cause an industry-wide operational failure that could materially impact the Company's ability to conduct business.

The Company's operations rely on the secure processing, storage and transmission of confidential and other information in its computer systems and the systems of third parties with which the Company does business with or that facilitate its business activities, such as vendors. Like other financial services firms, the Company and its third party providers have been and continue to be subject to unauthorised access, mishandling or misuse, computer viruses or malware cyber-attacks, denial of service attacks and other events. Events such as these could have a security impact on the Company's systems and jeopardise the Company's or the Company's clients' or counterparties' personal, confidential, proprietary or other information processed and stored in, and transmitted through, the Company's and our third party providers' computer systems. Furthermore, such events could cause interruptions or malfunctions in the Company's, the Company's clients', the Company's counterparties' or third parties' operations, which could result in reputational damage, client dissatisfaction, litigation or regulatory fines or penalties not covered by insurance maintained by the Company, and adversely affect the business, financial condition or results of operations.

The Morgan Stanley Group has established an operational risk management process that operates on a global and regional basis to identify, measure, monitor and control risk. Effective operational risk management is essential to reducing the impact of operational risk incidents and mitigating legal, regulatory, and reputational risks.

Legal and regulatory risk

Legal and regulatory risk includes the risk of exposure to fines, penalties, judgements, damages and/ or settlements in connection with regulatory or legal actions as a result of non-compliance with applicable legal or regulatory requirements and standards or litigation. Legal risk also includes contractual and commercial risk such as the risk that a counterparty's performance obligations will be unenforceable. The Morgan Stanley Group is generally subject to extensive regulation in the different jurisdictions in which it conducts its business. In the current environment of rapid and possibly transformational regulatory change, the Morgan Stanley Group also views regulatory change as a component of legal risk.

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Legal and regulatory risk (continued)

The Morgan Stanley Group has established procedures based on legal and regulatory requirements on a worldwide basis that are designed to foster compliance with applicable statutory and regulatory requirements. The Morgan Stanley Group, principally through the Legal and Compliance Division, also has established procedures that are designed to require that the Morgan Stanley Group's policies relating to business conduct, ethics and practices are complied with. In connection with its businesses, the Morgan Stanley Group has and continuously develops various procedures addressing issues such as regulatory capital requirements, sales and trading practices, new products, information barriers, potential conflicts of interest, structured transactions, use and safekeeping of customer funds and securities, lending and credit granting, anti-money laundering, privacy and recordkeeping. In addition, the Morgan Stanley Group has established procedures to mitigate the risk that a counterparty's performance obligations will be unenforceable, including consideration of counterparty legal authority and capacity, adequacy of legal documentation, the permissibility of a transaction under applicable law and whether applicable bankruptcy or insolvency laws limit or alter contractual remedies. The legal and regulatory focus on the financial services industry presents a continuing business challenge for the Morgan Stanley Group.

Significant changes in the way that major financial services institutions are regulated are occurring in the UK, Europe, the US and worldwide. The reforms being discussed and, in some cases, already implemented, include several that contemplate comprehensive restructuring of the regulation of the financial services industry. Such measures will likely lead to stricter regulation of financial institutions generally, and heightened prudential requirements for systemically important firms in particular. Such measures could include reforms of the over-the-counter ("OTC") derivatives markets, such as mandated exchange trading and clearing, position limits, margin, capital and registration requirements. Changes in tax legislation in the UK and worldwide, such as increased taxation of financial transactions, liabilities and employees compensation, are also possible.

Going concern

Business risks associated with the uncertain market and economic conditions are being monitored and managed by the Morgan Stanley Group and the Company. Retaining sufficient liquidity and capital to withstand these market pressures remains central to the Morgan Stanley Group's and the Company's strategy. In particular, the Morgan Stanley Group's capital is deemed sufficient to exceed the minimum capital ratio under the most negative stressed scenario reviewed by the US Federal Reserve. The Morgan Stanley Group regularly performs stress testing to ensure it has sufficient resources at its disposal to absorb losses associated with certain stressed scenarios.

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.

INTERIM MANAGEMENT REPORT

DIRECTORS

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

R H L de Groot
H Herrmann
P J G de Reus
Z Wu
TMF Management B.V.

The Company has taken notice of Dutch legislation effective as of 1 January 2013, 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 Board of 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.

AUDIT COMMITTEE

The Company qualifies as an organisation of public interest pursuant to Dutch and European Union ("EU") law. Morgan Stanley International Limited, a shareholder in the Company, has an audit committee that complies with the applicable corporate governance rules and also functions as the audit committee of the Company; accordingly, the Company has therefore taken the exemption for groups and has not established its own audit committee.

Approved by the Board and signed on its behalf by

27 August 2014

R H L de Groot	H Herrmann	P J G de Reus
Z Wu	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 Netherlands 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 result 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 2014 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

27 August 2014

R H L de Groot	H Herrmann	P J G de Reus
Z Wu	TMF Management B.V.	

CONDENSED STATEMENT OF COMPREHENSIVE INCOME
Six months ended 30 June 2014

	Six months ended 30 June 2014 €'000 (unaudited)	Six months ended 30 June 2013 €'000 (unaudited)
Net gains on financial instruments classified as held for trading	428,918	17,643
Net losses on financial instruments designated at fair value through profit or loss	(428,918)	(17,643)
Interest income	14,784	11,772
Interest expense	(14,784)	(11,772)
Other income	3,101	3,005
PROFIT BEFORE INCOME TAX	3,101	3,005
Income tax expense	(775)	(751)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	2,326	2,254

All operations were continuing in the current and prior period.

The notes on pages 12 to 40 form an integral part of the condensed financial statements.

CONDENSED STATEMENT OF CHANGES IN EQUITY
Six months ended 30 June 2014

	Share capital €'000	Retained earnings €'000	Total equity €'000
Balance at 1 January 2013 (audited)	15,018	5,483	20,501
Profit and total comprehensive income for the period	-	2,254	2,254
Balance at 30 June 2013 (unaudited)	15,018	7,737	22,755
Balance at 1 January 2014 (audited)	15,018	10,059	25,077
Profit and total comprehensive income for the period	-	2,326	2,326
Balance at 30 June 2014 (unaudited)	15,018	12,385	27,403

The notes on pages 12 to 40 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 2014
(Including Proposed Appropriation of Results)

	Note	30 June 2014 €'000 (unaudited)	31 December 2013 €'000 (audited)
ASSETS			
Loans and receivables:			
Cash and short-term deposits		570	1,585
Trade receivables		4,735	2,947
Other receivables		1,807,975	1,195,027
		1,813,280	1,199,559
Financial assets classified as held for trading	3	864,624	979,451
Financial assets designated at fair value through profit or loss	4	7,687,866	5,990,950
Current tax assets		1,563	650
TOTAL ASSETS		10,367,333	8,170,610
LIABILITIES AND EQUITY			
Financial liabilities at amortised cost:			
Convertible preferred equity certificates	2	1,185,341	1,170,579
Trade payables		603,113	54,607
Other payables		22	21
Bank overdraft		25	-
		1,788,501	1,225,207
Financial liabilities classified as held for trading	3	590,973	283,324
Financial liabilities designated at fair value through profit or loss	4	7,960,456	6,637,002
TOTAL LIABILITIES		10,339,930	8,145,533
EQUITY			
Share capital		15,018	15,018
Retained earnings		12,385	10,059
Equity attributable to owners of the Company		27,403	25,077
TOTAL EQUITY		27,403	25,077
TOTAL LIABILITIES AND EQUITY		10,367,333	8,170,610

These condensed financial statements were approved by the Board and authorised for issue on

Signed on behalf of the Board
27 August 2014

R H L de Groot H Herrmann P J G de Reus

Z Wu TMF Management B.V.

The notes on pages 12 to 40 form an integral part of the condensed financial statements.

MORGAN STANLEY B.V.

CONDENSED STATEMENT OF CASH FLOWS
Six months ended 30 June 2014

OPERATING ACTIVITIES	Six months ended 30 June 2014 €'000 (unaudited)	Six months ended 30 June 2013 €'000 (unaudited)
Profit for the period	2,326	2,254
Adjustments for:		
Interest income	(14,784)	(11,772)
Interest expense	14,784	11,772
Income tax expense	775	751
Operating cash flows before changes in operating assets and liabilities	3,101	3,005
Changes in operating assets		
Increase in loans and receivables, excluding cash and short-term deposits	(599,952)	(31,000)
Decrease in financial assets classified as held for trading	114,827	37,496
Increase in financial assets designated at fair value through profit or loss	(1,696,916)	(3,073,864)
	(2,182,041)	(3,067,368)
Changes in operating liabilities		
Increase in financial liabilities at amortised cost	548,507	865
Increase in financial liabilities classified as held for trading	307,649	237,596
Increase in financial liabilities designated at fair value through profit or loss	1,323,454	2,827,085
	2,179,610	3,065,546
Interest paid	(22)	(38)
Income taxes paid	(1,688)	(2,104)
	(1,710)	(2,142)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(1,040)	(959)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,040)	(959)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	1,585	1,255
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	545	296

The notes on pages 12 to 40 form an integral part of the condensed financial statements.

1. BASIS OF PREPARATION

Statement of compliance

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.

Accounting policies

In preparing the condensed financial statements, the Company has applied consistently the accounting policies and methods of computation used in the Company's annual financial statements for the year ended 31 December 2013.

New standards and interpretations adopted during the period

The following amendment to a standard relevant to the Company's operations was adopted during the period. This amendment to a standard did not have a material impact on the Company's condensed financial statements.

An amendment to IAS 32 '*Financial instruments: Presentation – offsetting financial instruments'* was issued by the IASB in December 2011, for retrospective application in annual periods beginning on or after 1 January 2014. The amendment was endorsed by the EU in December 2012.

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

At the date of authorisation of these condensed financial statements, the following standard and amendments to standards relevant to the Company's operations were in issue by the IASB but not yet mandatory. Except where otherwise stated, the Company does not expect that the adoption of the following standards and amendment to standards will have a material impact on the Company's financial statements.

IFRS 9 '*Financial instruments*' ("IFRS 9") was issued by the IASB in November 2009, amended in November 2013, and revised and reissued by the IASB in July 2014. Retrospective application is required by IFRS 9, which is effective for annual periods beginning on or after 1 January 2018. Early adoption, either in full or relating to own credit in isolation, is permitted. Although there are expected to be significant changes to the presentation of financial instruments by the Company, there is not expected to be a significant impact on net assets.

As part of the December 2013 Improvements to IFRSs, the IASB made amendments to the following standards that are relevant to the Company's operations: IFRS 2 '*Share-based payment*', IFRS 8 '*Operating segments'*, IFRS 13 *'Fair value measurement'* and IAS 24 '*Related party disclosures*' (for application in accounting periods beginning on or after 1 July 2014).

Use of estimates and sources of uncertainty

The preparation of the Company's condensed financial statements requires management to make judgements, estimates and assumptions regarding the valuation of certain financial instruments, impairment of assets and other matters that affect the condensed financial statements and related disclosures. The Company believes that the estimates utilised in preparing the condensed financial statements are reasonable, relevant and reliable. Actual results could differ from these estimates.

For further details on judgements used in determining fair value of certain assets and liabilities, see note 8.

2. CONVERTIBLE PREFERRED EQUITY CERTIFICATES

	€'000
At 1 January 2013	1,145,195
Yield payable	25,384
At 1 January 2014	1,170,579
Yield payable	14,762
At 30 June 2014	1,185,341

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 cash consideration was subsequently loaned to another Morgan Stanley Group undertaking.

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

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

The maturity date of the CPECs is 150 years from the date of issuance, however, 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.

3. FINANCIAL ASSETS AND FINANCIAL LIABILITIES CLASSIFIED AS HELD FOR TRADING

Financial assets and financial liabilities classified as held for trading are summarised as follows:

	30 June 2014		31 December 2013	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	€'000	**€'000**	**€'000**	**€'000**
Derivatives	864,624	590,973	979,451	283,324

4. FINANCIAL ASSETS AND FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments designated at fair value through profit or loss consist primarily of the following financial liabilities and financial assets:

Issued 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. The Structured Notes are designated at fair value through profit or loss 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. The prepaid equity securities contracts are designated at fair value through profit or loss 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.

Loans: These are loans to other Morgan Stanley Group undertakings that, along with the prepaid equity securities contracts and the derivatives contracts classified as held for trading, are part of the hedging strategy for the obligations arising pursuant to the issuance of the Structured Notes. These loans are designated at fair value through profit or loss 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.

	30 June 2014		31 December 2013	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	€'000	**€'000**	**€'000**	**€'000**
Issued Structured Notes	-	7,960,456	-	6,637,002
Prepaid equity securities contracts	448,487	-	1,805,691	-
Loans	7,239,379	-	4,185,259	-
	7,687,866	7,960,456	5,990,950	6,637,002

4. FINANCIAL ASSETS AND FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

The change in fair value of issued Structured Notes recognised through the condensed statement of comprehensive income attributable to own credit risk is a loss of €18,645,000 (30 June 2013: gain of €11,875,000) and cumulatively is a gain of €70,289,000 (31 December 2013: cumulative gain of €88,934,000). This change is determined as the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risk.

The change in fair value of prepaid equity securities contracts and loans recognised through the condensed statement of comprehensive income attributable to own credit risk is a gain of €8,045,000 (30 June 2013: loss of €15,067,000) and cumulatively is a loss of €66,884,000 (31 December 2013: cumulative loss of €74,929,000).

The change in fair value of financial instruments designated at fair value through profit or loss attributable to own credit risk for the period is offset by a net gain of €10,600,000 (30 June 2013: gain of €3,192,000) and cumulatively is a net loss of €3,405,000 (31 December 2013: cumulative loss of €14,005,000), in changes in the fair value of financial instruments classified as held for trading attributable to own credit risk.

The carrying amount of financial liabilities designated at fair value was €837,738,000 higher than the contractual amount due at maturity (31 December 2013: €258,660,000 higher).

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

30 June 2014	Single name equities €'000	Equity indices €'000	Equity portfolio €'000	Other €'000	Total €'000
Certificates and warrants	3,396,335	17,013	702,133	-	4,115,481
Notes	325,495	2,195,638	899,865	423,977	3,844,975
Total financial liabilities designated at fair value through profit or loss	3,721,830	2,212,651	1,601,998	423,977	7,960,456

31 December 2013	Single name equities €'000	Equity indices €'000	Equity portfolio €'000	Other €'000	Total €'000
Certificates and warrants	1,949,054	125,508	461,638	-	2,536,200
Notes	401,068	2,339,586	959,780	400,368	4,100,802
Total financial liabilities designated at fair value through profit or loss	2,350,122	2,465,094	1,421,418	400,368	6,637,002

The majority of the Company's financial liabilities designated at fair value through the profit or loss provide exposure to an underlying single name equity, an equity index or portfolio of equities. The prepaid equity securities contracts, derivative contracts classified as held for trading and loans that the Company enters into to hedge the Structured Notes are valued as detailed in note 8(a), and have similar valuation inputs to the liabilities they hedge.

5. 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 a combination of client and trading desk location.

	EMEA		Americas		Asia		Total	
	30 June 2014 €'000	30 June 2013 €'000	30 June 2014 €'000	30 June 2013 €'000	30 June 2014 €'000	30 June 2013 €'000	30 June 2014 €'000	30 June 2013 €'000
External revenues net of interest/ profit before income tax	2,552	2,571	320	177	229	257	3,101	3,005

	EMEA		Americas		Asia		Total	
	30 June 2014 €'000	31 December 2013 €'000	30 June 2014 €'000	31 December 2013 €'000	30 June 2014 €'000	31 December 2013 €'000	30 June 2014 €'000	31 December 2013 €'000
Total assets	7,360,234	5,585,109	2,384,538	1,913,726	622,561	671,775	10,367,333	8,170,610

Of the Company's external revenue, 100% (30 June 2013: 100%) arises from transactions with other Morgan Stanley Group undertakings.

6. FINANCIAL RISK MANAGEMENT

Risk management procedures

Risk is an inherent part of both Morgan Stanley's and the Company's business activity and is managed by the Company within the context of the broader Morgan Stanley Group. The Morgan Stanley Group seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities in accordance with defined policies and procedures. The Company's own risk management policies and procedures are consistent with those of the Morgan Stanley Group.

The principal activity of the Company is the issuance of financial instruments and the hedging of the obligations arising pursuant to such issuances. It is the policy and objective of the Company not to be exposed to market risk. On issuance of each financial instrument, the Company enters into hedges of its obligations by purchasing financial instruments from other Morgan Stanley Group undertakings.

Significant risks faced by the Company resulting from its trading activities are set out below.

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.

The Morgan Stanley Group manages credit risk exposure on a global consolidated basis and in consideration of individual legal entities. The credit risk management policies and procedures of the Morgan Stanley Group establish the framework for identifying, measuring, monitoring and controlling credit risk while ensuring transparency of material credit risks, ensuring compliance with established limits and escalating risk concentrations to appropriate senior management. Credit risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to appropriate key management personnel of the Company.

The Company enters into the majority of its financial asset transactions with other Morgan Stanley Group undertakings, and 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 is considered exposed to the credit risk of Morgan Stanley, except where the Company transacts with other Morgan Stanley Group undertakings that have a higher credit rating to that of Morgan Stanley.

The maximum exposure to credit risk ("gross credit exposure") of the Company as at 30 June 2014 and 31 December 2013 is disclosed below, based on the carrying amounts of the financial assets the Company believes are subject to credit risk. Where the Company enters into credit enhancements, including receiving cash as collateral and master netting agreements, to manage the credit exposure on these financial instruments, the financial effect of the credit enhancements is also disclosed below. The net credit exposure represents the credit exposure remaining after the effect of the credit enhancements.

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

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Exposure to credit risk by class:

Class	30 June 2014 Gross credit exposure (1) €'000	30 June 2014 Credit enhancements €'000	30 June 2014 Net credit exposure (2) €'000	31 December 2013 Gross credit exposure (1) €'000	31 December 2013 Credit enhancements €'000	31 December 2013 Net credit exposure (2) €'000
Loans and receivables:						
Cash and short-term deposits	570	-	570	1,585	-	1,585
Trade receivables	4,735	-	4,735	2,947	-	2,947
Other receivables	1,807,975	-	1,807,975	1,195,027	-	1,195,027
Financial assets classified as held for trading:						
Derivatives	864,624	(851,138)	13,486	979,451	-	979,451
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	448,487	(88,871)	359,616	1,805,691	-	1,805,691
Loans	7,239,379	-	7,239,379	4,185,259	-	4,185,259
	10,365,770	(940,009)	9,425,761	8,169,960	-	8,169,960

(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 (31 December 2013: €74,643,000) to be offset in the event of default by certain Morgan Stanley counterparties.

The impact of master netting arrangements and similar agreements on the Company's ability to offset financial assets and financial liabilities is disclosed in note 7.

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

Credit rating	Gross credit exposure 30 June 2014 €'000	Gross credit exposure 31 December 2013 €'000
AA	269	1,471
A	10,365,501	8,168,489
Total	10,365,770	8,169,960

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

At 30 June 2014 there were no financial assets past due but not impaired or individually impaired (31 December 2013: none).

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk

Liquidity and funding 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 and funding risk also encompasses the Company's ability to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern. Liquidity risk is the risk that the Company's financial condition or overall safety and soundness is adversely affected by an inability (or perceived inability) to meet its obligations.

The Morgan Stanley Group's senior management establishes the overall liquidity and funding policies of the Morgan Stanley Group and the liquidity risk management policies and procedures conducted within the Company are consistent with those of the Morgan Stanley Group. The primary goal of the Morgan Stanley Group's liquidity risk management framework is to ensure the Morgan Stanley Group, including the Company, have access to adequate funding across a wide range of market conditions. The framework is designed to enable the Company to fulfil its financing obligations and support the execution of the Company's business strategies.

The Company hedges all of its issued Structured Notes with financial instruments entered into 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 company, Morgan Stanley. Further, the maturity profile of the financial assets matches the maturity profile of the financial liabilities.

Liquidity management policies

The core components of the Morgan Stanley Group's liquidity management framework, which includes consideration of the liquidity risk for each individual legal entity, are the Contingency Funding Plan ("CFP"), Liquidity Stress Tests and the Global Liquidity Reserve, which support the Morgan Stanley Group's target liquidity profile.

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

Liquidity Stress Tests. The Morgan Stanley Group uses Liquidity Stress Tests to model liquidity outflows across multiple scenarios over a range of time horizons.

The assumptions underpinning the Liquidity Stress Tests include, but are not limited to, the following: (i) no government support; (ii) no access to unsecured debt markets; (iii) repayment of all unsecured debt maturing within the stress horizon; (iv) higher haircuts and significantly lower availability of secured funding; (v) additional collateral that would be required by trading counterparties and certain exchanges and clearing organisations related to credit rating downgrades; (vi) additional collateral that would be required due to collateral substitutions, collateral disputes and uncalled collateral; (vii) discretionary unsecured debt buybacks; (viii) drawdowns on unfunded commitments provided to third parties; (ix) client cash withdrawals and reduction in customer short positions that fund long positions; (x) limited access to the foreign exchange swap markets; (xi) return of securities borrowed on an uncollateralised basis; and (xii) maturity roll-off of outstanding letters of credit with no further issuance.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

The Liquidity Stress Tests are produced for Morgan Stanley and the major operating subsidiaries, as well as at major currency levels, to capture specific cash requirements and cash availability at various legal entities. The Liquidity Stress Tests assume that subsidiaries will use their own liquidity first to fund their obligations before drawing liquidity from Morgan Stanley. It is also assumed that Morgan Stanley will support its subsidiaries and will not have access to cash that may be held at certain subsidiaries that are subject to regulatory, legal or tax constraints.

Since the Company hedges the liquidity risk of its financial liabilities with financial assets that match the maturity profile of the financial liabilities, the Company is not considered a major operating subsidiary for the purposes of liquidity risk. However, the Company would have access to the cash or liquidity reserves held by Morgan Stanley in the unlikely event that it was unable to access adequate financing to service its financial liabilities when they become payable.

The CFP and Liquidity Stress Tests are evaluated on an ongoing basis and reported to the Firm Risk Committee, Asset/ Liability Management Committee, and other appropriate risk committees.

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

The Global Liquidity Reserve, to which the Company has access, is held within Morgan Stanley and the Morgan Stanley Group's major operating subsidiaries and is composed of diversified cash and cash equivalents and highly liquid unencumbered securities.

Eligible unencumbered securities include US government securities, US agency securities, US agency mortgage-backed securities, non-US government securities and other highly liquid investment grade securities.

The ability to monetise assets during a liquidity crisis is critical. The Morgan Stanley Group believes that the assets held in the Global Liquidity Reserve can be monetised within five business days in a stressed environment given the highly liquid and diversified nature of the reserves.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

Funding management policies

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

The Morgan Stanley Group funds its statement of financial position on a global basis through diverse sources, which includes consideration of the funding risk of each legal entity. These sources may include the Morgan Stanley Group's equity capital, long-term debt, securities sold under agreements to repurchase, securities lending, deposits, commercial paper, letters of credit and lines of credit. The Morgan Stanley Group has active financing programmes for both standard and structured products targeting global investors and currencies.

Balance sheet management

In managing both the Morgan Stanley Group's and the Company's funding risk the composition and size of the entire statement of financial position, not just financial liabilities, is monitored and evaluated. A substantial portion of the Morgan Stanley Group's total assets consists of liquid marketable securities and short-term receivables arising from its Institutional Securities business segment's sales and trading activities. The liquid nature of these assets provides the Morgan Stanley Group and the Company with flexibility in managing the size of its statement of financial position.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

Maturity analysis

In the following maturity analysis of financial assets and financial liabilities, derivative contracts, financial assets designated at fair value through profit or loss and financial liabilities designated at fair value through profit or loss 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 the 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 2014 and 31 December 2013. Receipt of financial assets and repayments of financial liabilities that are subject to immediate notice are treated as if notice were given immediately and are classified as on demand. This presentation is considered by the Company to appropriately reflect the liquidity risk arising from these financial assets and financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial assets and financial liabilities is managed by the Company.

30 June 2014	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						
Loans and receivables:						
Cash and short-term deposits	570	-	-	-	-	570
Trade receivables	4,735	-	-	-	-	4,735
Other receivables	1,807,975	-	-	-	-	1,807,975
Financial assets classified as held for trading:						
Derivatives	523,288	38,709	44,891	205,536	52,200	864,624
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	62,902	264,585	58,449	62,551	-	448,487
Loans	3,519,618	454,956	600,253	2,053,990	610,562	7,239,379
Total financial assets	5,919,088	758,250	703,593	2,322,077	662,762	10,365,770
Financial liabilities						
Financial liabilities at amortised cost:						
Convertible preferred equity certificates	1,185,341	-	-	-	-	1,185,341
Trade payables	603,113	-	-	-	-	603,113
Other payables	22	-	-	-	-	22
Bank overdraft	25	-	-	-	-	25
Financial liabilities classified as held for trading:						
Derivatives	396,822	35,324	35,590	79,866	43,371	590,973
Financial liabilities designated at fair value through profit or loss:						
Issued Structured Notes	3,707,925	722,926	668,003	2,242,211	619,391	7,960,456
Total financial liabilities	5,893,248	758,250	703,593	2,322,077	662,762	10,339,930

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

31 December 2013	On demand €'000	Less than 1 year €'000	Equal to or more than 1 year but less than 2 years €'000	Equal to or more than 2 years but less than 5 years €'000	Equal to or more than 5 years €'000	Total €'000
Financial assets						
Loans and receivables:						
Cash and short-term deposits	1,585	-	-	-	-	1,585
Trade receivables	2,947	-	-	-	-	2,947
Other receivables	1,195,027	-	-	-	-	1,195,027
Financial assets classified as held for trading:						
Derivatives	481,555	54,372	41,334	189,957	212,233	979,451
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	1,209,242	341,145	101,652	136,789	16,863	1,805,691
Loans	491,753	392,839	408,396	2,300,082	592,189	4,185,259
Total financial assets	3,382,109	788,356	551,382	2,626,828	821,285	8,169,960
Financial liabilities						
Financial liabilities at amortised cost:						
Convertible preferred equity certificates	1,170,579	-	-	-	-	1,170,579
Trade payables	54,607	-	-	-	-	54,607
Other payables	21	-	-	-	-	21
Financial liabilities classified as held for trading:						
Derivatives	97,852	24,989	33,236	90,064	37,183	283,324
Financial liabilities designated at fair value through profit or loss:						
Issued Structured Notes	2,034,623	763,367	518,146	2,536,764	784,102	6,637,002
Total financial liabilities	3,357,682	788,356	551,382	2,626,828	821,285	8,145,533

Market risk

Market risk is defined by IFRS 7 *'Financial instruments: Disclosures'* as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Sound market risk management is an integral part of the Company's and the Morgan Stanley Group's culture. The Company is responsible for ensuring that market risk exposures are well-managed and prudent and more broadly for ensuring transparency of material market risks, monitoring compliance with established limits, and escalating risk concentrations to appropriate senior management.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (continued)

To execute these responsibilities, the Morgan Stanley Group monitors the market risk of the firm against limits on aggregate risk exposures, performs a variety of risk analyses, routinely reports risk summaries and maintains the Value at Risk ("VaR") and scenario systems. The Company is managed within the Morgan Stanley Group's global framework. The market risk management policies and procedures of the Company include performing risk analyses and reporting any material risks identified to appropriate key management personnel of the Company.

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 market risk on these financial instruments.

7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING

In order to manage credit exposure arising from its business activities, the Company applies various credit risk management policies and procedures, see note 6 for further details. Primarily in connection with derivative contracts, prepaid equity securities contracts and issued Structured Notes, the Company enters into master netting arrangements with its counterparties. These agreements provide the Company with the right, in the ordinary course of business and/ or in the event of a counterparty default (such as bankruptcy or a counterparty's failure to pay or perform), to net a counterparty's rights and obligations under such agreement and, in the event of counterparty default, set off collateral held by the Company against the net amount owed by the counterparty. However, in certain circumstances, the Company may not have such an agreement in place; the relevant insolvency regime (which is based on type of counterparty entity and the jurisdiction of organisation of the counterparty) may not support the enforceability of the agreement; or the Company may not have sought legal advice to support the enforceability of the agreement. In cases where the Company has not determined an agreement to be enforceable, the related amounts are not offset in the tabular disclosures. The enforceability of the master netting agreement is taken into account in the Company's risk management practices and application of counterparty credit limits. The Company also monitors the fair value of the underlying securities as compared with the related receivable or payable, including accrued interest, and, as necessary, requests additional collateral as provided under the applicable agreement to ensure such transactions are adequately collateralised.

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.

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

The following tables present information about the offsetting of financial instruments and related collateral amounts. The effect of master netting agreements and collateral agreements on the Company's exposure to credit risk is disclosed in note 6.

	Gross amounts [1]	Amounts offset in the condensed statement of financial position [2]	Net amounts presented in the condensed statement of financial position	Amounts not offset in the condensed statement of financial position [3] [4] [5] [6] Financial instruments	Cash collateral	Net exposure
	€'000	€'000	€'000	€'000	€'000	€'000
30 June 2014						
Assets						
Financial assets classified as held for trading:						
Derivatives	864,624	-	864,624	(465,027)	(386,111)	13,486
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	491,597	(43,110)	448,487	(88,871)	-	359,616
TOTAL	1,356,221	(43,110)	1,313,111	(553,898)	(386,111)	373,102
Liabilities						
Financial assets classified as held for trading:						
Derivatives	590,973	-	590,973	(465,027)	-	125,946
Financial liabilities designated at fair value through profit or loss:						
Issued Structured notes	8,003,566	(43,110)	7,960,456	(88,871)	-	7,871,585
TOTAL	8,594,539	(43,110)	8,551,429	(553,898)	-	7,997,531

(1) Amounts include €13,486,000 of financial assets classified as held for trading – derivatives, €359,616,000 of financial assets designated at fair value through profit or loss - prepaid equity securities contracts, €12,532,000 of financial liabilities classified as held for trading - derivatives and €5,286,322,000 of financial liabilities designated at fair value through profit or loss - issued Structured Notes which are either not subject to master netting agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.

(2) Amounts are reported on a net basis in the condensed statement of financial position when there is a legally enforceable master netting arrangement that provides for the current right of offset and there is an intention to either settle on a net basis or to realise the asset and liability simultaneously.

(3) Amounts relate to master netting 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.

(4) The cash collateral is recognised in the condensed statement of financial position within trade payables.

(5) Certain trade receivables and payables that are not presented net within the condensed statement of financial position have legally enforceable master netting agreements or similar arrangements in place which would allow for an additional €3,995,000 to be offset in the event of default.

(6) Amounts relate to intercompany cross-product master netting arrangements, which include those amounts where the Morgan Stanley Group undertaking from which the Company purchased the prepaid equity securities contracts is also the holder of the issued Structured Notes. These arrangements have been determined by the Company to be legally enforceable but do not meet all the criteria required for net presentation within the condensed statement of financial position.

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

	Gross Amounts (1) €'000	Amounts offset in the condensed statement of financial position (2) €'000	Net amounts presented in the condensed statement of financial position €'000	Amounts not offset in the condensed statement of financial position(3)(4)(5) Financial instruments €'000	Net exposure (6) €'000
31 December 2013					
Assets					
Financial assets classified as held for trading:					
Derivatives	979,451	-	979,451	(283,324)	696,127
Financial assets designated at fair value through profit or loss:					
Prepaid equity securities contracts	1,837,348	(31,657)	1,805,691	(1,313,717)	491,974
TOTAL	2,816,799	(31,657)	2,785,142	(1,597,041)	1,188,101
Liabilities					
Financial liabilities classified as held for trading:					
Derivatives	283,324	-	283,324	(283,324)	-
Financial liabilities designated at fair value through profit or loss:					
Issued Structured Notes	6,668,659	(31,657)	6,637,002	(1,313,717)	5,323,285
TOTAL	6,951,983	(31,657)	6,920,326	(1,597,041)	5,323,285

(1) Amounts include €55,781,000 of financial assets classified as held for trading – derivatives, €491,974,000 of financial assets designated at fair value through profit or loss - prepaid equity securities contracts and €5,008,237,000 of financial liabilities designated at fair value through profit or loss - issued Structured Notes which are either not subject to master netting agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.

(2) Amounts are reported on a net basis in the condensed statement of financial position when there is a legally enforceable master netting arrangement that provides for the current right of offset and there is an intention to either settle on a net basis or to realise the asset and liability simultaneously.

(3) Amounts relate to master netting 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.

(4) Certain trade receivables and payables that are not presented net within the condensed statement of financial position have legally enforceable master netting agreements or similar arrangements in place which would allow for an additional €2,260,000 to be offset in the event of default.

(5) Amounts relate to intercompany cross-product master netting arrangements, which include those amounts where the Morgan Stanley Group undertaking from which the Company purchased the prepaid equity securities contracts is also the holder of the issued Structured Notes. These arrangements have been determined by the Company to be legally enforceable but do not meet all the criteria required for net presentation within the condensed statement of financial position.

(6) Of the residual net exposure, intercompany cross-product legally enforceable netting arrangements are in place which would allow for an additional €74,643,000 to be offset in the ordinary course of business and/ or in the event of default.

8. 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.

30 June 2014	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
Financial assets classified as held for trading:				
Derivatives	-	788,501	76,123	864,624
Financial assets designated at fair value through profit or loss:				
Prepaid equity securities contracts	-	441,646	6,841	448,487
Loans	-	7,239,379	-	7,239,379
Total financial assets measured at fair value	-	8,469,526	82,964	8,552,490
Financial liabilities classified as held for trading:				
Derivatives	-	575,149	15,824	590,973
Financial liabilities designated at fair value through profit or loss:				
Certificates and warrants	-	4,115,481	-	4,115,481
Notes	-	3,491,457	353,518	3,844,975
Total financial liabilities measured at fair value	-	8,182,087	369,342	8,551,429

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

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

31 December 2013

	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
Financial assets classified as held for trading:				
Derivatives	-	879,030	100,421	979,451
Financial assets designated at fair value through profit or loss:				
Prepaid equity securities contracts	-	1,778,994	26,697	1,805,691
Loans	-	4,185,259	-	4,185,259
Total financial assets measured at fair value	-	6,843,283	127,118	6,970,401
Financial liabilities classified as held for trading:				
Derivatives	-	274,718	8,606	283,324
Financial liabilities designated at fair value through profit or loss:				
Certificates and warrants	-	2,536,200	-	2,536,200
Notes	-	3,679,098	421,704	4,100,802
Total financial liabilities measured at fair value	-	6,490,016	430,310	6,920,326

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

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

The Company's valuation approach and fair value hierarchy categorisation for financial instruments recognised at fair value on a recurring basis is as follows:

Financial assets and financial liabilities classified as held for trading

- *Derivatives*

  OTC derivative contracts. OTC derivative contracts include forward, swap and option contracts related to interest rates, foreign currencies, equity prices or commodity prices.

  Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be either observed or modelled using a series of techniques, and model inputs from comparable benchmarks, including closed-form analytic formulas, such as the Black-Scholes option-pricing model, and simulation models or a combination thereof. Many pricing models do not entail material subjectivity because the methodologies employed do not necessitate significant judgement, and the pricing inputs are observed from actively quoted markets, as is the case for generic interest rate swaps, certain option contracts and certain credit default swaps ("CDSs"). In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry. A substantial majority of OTC derivative products valued using pricing models fall into this category and are categorised in Level 2 of the fair value hierarchy.

  Other derivative products, including complex products that have become illiquid, require more judgement in the implementation of the valuation technique applied due to the complexity of the valuation assumptions and the reduced observability of inputs. In these instances where significant inputs are unobservable, they are categorised in Level 3 of the fair value hierarchy.

Financial assets and financial liabilities designated at fair value through profit or loss

- *Prepaid equity securities contracts and issued Structured Notes*

  The Company issues Structured Notes and trades prepaid equity securities contracts that have coupons or repayment terms linked to the performance of debt or equity securities, indices, currencies or commodities. The fair value of Structured Notes and prepaid equity securities contracts is determined using valuation models for the derivative and debt portions of the notes. These models incorporate observable inputs referencing identical or comparable securities, including prices to which the notes are linked, interest rate yield curves, option volatility and currency, commodity or equity prices. Independent, external and traded prices for the notes are also considered. The impact of own credit spreads is also included based on observed secondary bond market spreads. Most prepaid equity securities contracts are categorised in Level 2 of the fair value hierarchy. In instances where significant inputs are unobservable, they are categorised in Level 3 of the fair value hierarchy. Further detail in relation to the issued Structured Notes is included below.

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

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

- *Issued Structured Notes*

  Notes. Notes give a risk exposure tailored to market views and risk appetite and mainly provide exposure to the underlying single name equity, equity index or portfolio of equities. Typically, the redemption payment of the note is significantly dependent on the value of embedded equity derivatives. In general, call and put options, digital options, straddles and callability features are combined to create a bespoke coupon rate or redemption payoff for each note issuance, with risk exposure to one or more equity underlyings or indices. The Company values the embedded derivatives using market standard models, which are assessed for appropriateness at least annually. Model inputs, such as equity forward rates, equity implied volatility and equity correlations, are marked such that the fair value of the derivatives match prices observable in the inter-dealer markets. In arriving at fair value, the Company uses discount rates appropriate to the funding rates specific to the instrument. In general, this results in overnight rates being used to discount the Company assets and liabilities. In addition, since the notes bear Morgan Stanley's credit risk, the Company considers this when assessing the fair value of the notes, by adjusting the discount rates to reflect the prevailing credit spread at the reporting date.

  The Company has a small number of notes where the cash flows due on the notes is dependent on embedded derivatives linked to the interest rate, foreign exchange or commodity markets. The Company values these notes in the same way as for equity-linked notes, by using market standard models and marking the inputs to match prices observed in the inter-dealer OTC markets. Similarly to equity-linked notes, these issuances bear Morgan Stanley's credit risk, and the valuation is assessed accordingly. Most notes are categorised in Level 2 of the fair value hierarchy. In instances where significant inputs are unobservable, they are categorised in Level 3 of the fair value hierarchy.

  Certificates and warrants. Certificates and warrants provide exposure to the underlying single name equity, equity index or portfolio of equities. They therefore provide risk exposure to the value of the underlying position and to the dividends paid or received. The Company values the underlying position using observable data where available (for instance, exchange closing prices), or alternatively using information from third parties (for example net asset values obtained from fund administrators) or using Morgan Stanley's own valuation assumptions if required. The Company estimates future dividend payments using a variety of available data, including market prices for forwards and futures, analytical review and estimates of future tax rates, incorporating the Company's own assumptions where required. The certificates and warrants can typically be redeemed at short notice and so the certificates and warrants provide minimal exposure to the credit risk of Morgan Stanley. The certificates and warrants are categorised in Level 2 of the fair value hierarchy.

- *Loans*

  The fair value of loans to other Morgan Stanley Group undertakings is estimated based on the present value of expected future cash flows using its best estimate of interest rate yield curves. The loans are categorised in Level 2 of the fair value hierarchy.

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.

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

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

The following tables present the changes in the fair value of the Company's Level 3 financial assets and financial liabilities for the period ended 30 June 2014 and year ended 31 December 2013. 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 tables below 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.

Additionally, both observable and unobservable inputs may be used to determine the fair value of positions that the Company has classified within the Level 3 category. As a result, the unrealised gains/ (losses) during the period for assets and liabilities within the Level 3 category presented in the tables below may include changes in fair value during the period that were attributable to both observable (e.g. changes in market interest rates) and unobservable (e.g. changes in unobservable long-dated volatilities) inputs.

The Morgan Stanley Group operates a number of intra-group policies to ensure that, where possible, revenues and related costs are matched. Where the trading positions included in the below table are risk managed using financial instruments held by other Morgan Stanley Group undertakings, these policies potentially result in the recognition of offsetting gains or losses in the Company.

8. 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 2014

	Balance at 1 January 2014 €'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 2014 €'000	Unrealised gains or (losses) for level 3 assets /(liabilities) outstanding as at 30 June 2014 [(3)] €'000
Financial assets classified as held for trading:								
Net derivative contracts: [(4)]								
Equity	91,815	5,135	-	-	(73,929)	37,278	60,299	7,280
Financial assets designated at fair value through profit or loss:								
Prepaid equity securities contracts	26,697	586	-	-	(17,374)	(3,068)	6,841	599
Total financial assets measured at fair value	118,512	5,721	-	-	(91,303)	34,210	67,140	7,879
Financial liabilities designated at fair value through profit or loss:								
Notes	(421,704)	(13,005)	-	(85,073)	80,123	86,141	(353,518)	(14,815)
Total financial liabilities measured at fair value	(421,704)	(13,005)	-	(85,073)	80,123	86,141	(353,518)	(14,815)

(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 annual financial statements for the year ended 31 December 2013.

(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 2014 related to assets and liabilities still outstanding at 30 June 2014. 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 annual financial statements for the year ended 31 December 2013.

(4) Net derivative contracts represent Financial assets classified as held for trading – derivative contracts net of Financial liabilities classified as held for trading – derivative contracts.

8. 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)

During the period ended 30 June 2014, the Company reclassified approximately €7,089,000 of net derivative contracts, €nil of prepaid equity securities contracts and €14,866,000 of issued Structured Notes from Level 2 to Level 3.

The reclassifications were due to a reduction in the volume of recently executed transactions or a lack of available broker quotes for these instruments, such that certain significant inputs became unobservable.

During the period ended 30 June 2014, the Company reclassified approximately €30,189,000 of net derivative contracts, €3,068,000 of prepaid equity securities contracts and €101,007,000 of issued Structured Notes from Level 3 to Level 2. The reclassifications were due to the availability of market quotations for these or comparable instruments, or available broker quotes, or consensus data such that certain significant inputs became observable.

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Six months ended 30 June 2014

8. 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 2013

	Balance at 1 January 2013 €'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 2013 €'000	Unrealised gains or (losses) for level 3 assets /(liabilities) outstanding as at 31 December 2013 (3) €'000
Financial assets classified as held for trading:								
Net derivative contracts: (4)								
Equity	94,656	33,363	-	-	(40,850)	4,646	91,815	3,486
Financial assets designated at fair value through profit or loss:								
Prepaid equity securities contracts	43,440	3,811	8,052	-	(30,021)	1,415	26,697	2,285
Total financial assets measured at fair value	138,096	37,174	8,052	-	(70,871)	6,061	118,512	5,771
Financial liabilities designated at fair value through profit or loss:								
Notes	(841,531)	(24,496)	-	(234,652)	146,163	532,812	(421,704)	(18,264)
Total financial liabilities measured at fair value	(841,531)	(24,496)	-	(234,652)	146,163	532,812	(421,704)	(18,264)

(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 annual financial statements for the year ended 31 December 2013.

(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 year ended 31 December 2013 related to assets and liabilities still outstanding at 31 December 2013. 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 annual financial statements for the year ended 31 December 2013.

(4) Net derivative contracts represent Financial assets classified as held for trading – derivative contracts net of Financial liabilities classified as held for trading – derivative contracts.

8. 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)

During the year ended 31 December 2013, the Company reclassified approximately €736,000 of net derivative contracts, €2,366,000 of prepaid equity securities contracts and €19,527,000 of issued Structured Notes from Level 2 to Level 3. The reclassifications were due to a reduction in the volume of recently executed transactions or a lack of available broker quotes for these instruments, such that certain significant inputs became unobservable.

During the year ended 31 December 2013, the Company reclassified approximately €5,382,000 of net derivative contracts, €951,000 of prepaid equity securities contracts and €552,339,000 of issued Structured Notes from Level 3 to Level 2. The reclassifications were due to the availability of market quotations for these or comparable instruments, or available broker quotes, or consensus data such that certain significant inputs became observable.

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

The disclosures below 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 table below 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. The following disclosures also include qualitative information on the sensitivity of the fair value measurements to changes in the significant unobservable inputs.

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

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

30 June 2014	Fair value €'000	Valuation technique(s)	Significant unobservable input(s)/ Sensitivity of the fair value to changes in the unobservable inputs	Range [(2)]	Averages [(3)]
ASSETS					
Financial assets classified as held for trading:					
Net derivative contracts: [(1)]					
Equity [(4)]	60,299	Option model	At the money volatility / (B) (C)	16% to 32%	22%
			Volatility skew / (B) (C)	-1% to 0%	0%
		Net asset value ("NAV")	NAV value / (A) (C)	100%	100%
Financial assets designated at fair value through profit or loss:					
Prepaid equity securities contracts	6,841	Option model	At the money volatility / (A) (C)	12% to 53%	19%
			Volatility skew / (A) (C)	-2% to 0%	-1%
LIABILITIES					
Financial liabilities designated at fair value through profit or loss:					
Notes	(353,518)	Option model	At the money volatility / (B) (C)	7% to 53%	23%
			Volatility skew / (B) (C)	-2% to 0%	0%
			Equity - Equity correlation / (B) (C)	40% to 90%	65%
			Equity - Foreign exchange correlation / (B) (C)	-86% to 45%	-10%
		NAV	NAV value / (A) (C)	100%	100%

(1) Net derivative contracts represent financial assets classified as held for trading – derivative contracts net of financial liabilities classified as held for trading – derivative contracts.

(2) The ranges of significant unobservable inputs are represented in percentages or basis points ("bps"). A basis point equals 1/100th of 1%; for example, 1,004 basis points would equal 10.04%.

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

(4) Includes derivative contracts with multiple risks (i.e. hybrid products)

Sensitivity of the fair value to changes in the unobservable inputs:

(A) Significant increase/ (decrease) in the unobservable input in isolation would result in a significantly higher/ (lower) fair value measurement.
(B) Significant increase/ (decrease) in the unobservable input in isolation would result in a significantly lower/ (higher) fair value measurement.
(C) There are no predictable relationships between the significant unobservable inputs.

8. 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 2013	Fair value €'000	Valuation technique(s)	Significant unobservable input(s)/ Sensitivity of the fair value to changes in the unobservable inputs	Range [2]	Averages [3]
ASSETS					
Financial assets classified as held for trading:					
Net derivative contracts: [1]					
Equity [4]	91,815	Option model	At the money volatility / (B) (C)	19% to 31%	23%
			Volatility skew / (B) (C)	-1% to 0%	-1%
			Equity - Equity correlation / (A) (C)	45% to 96%	73%
			Equity - Foreign exchange correlation / (B) (C)	-75% to 45%	-31%
		NAV	NAV value / (A) (C)	€0 - €88	€46
Financial assets designated at fair value through profit or loss:					
Prepaid equity securities contracts	26,697	Option model	At the money volatility / (A) (C)	16% to 25%	20%
			Volatility skew / (A) (C)	-1% to 0%	-1%
			Equity - Equity correlation / (B) (C)	24% to 95%	65%
		CDS model	Funding spread / (B) (C)	96bps to 147bps	129bps
LIABILITIES					
Financial liabilities designated at fair value through profit or loss:					
Notes	(421,704)	Option model	At the money volatility / (B) (C)	15% to 42%	21%
			Volatility skew / (B) (C)	-2% to 0%	-1%
			Equity - Equity correlation / (B) (C)	46% to 96%	74%
			Equity - Foreign exchange correlation / (B) (C)	-70% to 30%	-31%
		NAV	NAV value / (A) (C)	€0 - €88	€46

(1) Net derivative contracts represent financial assets classified as held for trading – derivative contracts net of financial liabilities classified as held for trading – derivative contracts.

(2) The ranges of significant unobservable inputs are represented in percentages or bps. A basis point equals 1/100th of 1%; for example, 1,004 basis points would equal 10.04%.

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

(4) Includes derivative contracts with multiple risks (i.e. hybrid products)

Sensitivity of the fair value to changes in the unobservable inputs:

(A) Significant increase/ (decrease) in the unobservable input in isolation would result in a significantly higher/ (lower) fair value measurement.
(B) Significant increase/ (decrease) in the unobservable input in isolation would result in a significantly lower/ (higher) fair value measurement.
(C) There are no predictable relationships between the significant unobservable inputs.

8. 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)

The following provides a description of significant unobservable inputs included in the table above for all major categories of assets and liabilities:

- *Correlation* – a pricing input where the payoff is driven by more than one underlying risk. Correlation is a measure of the relationship between the movements of two variables (i.e. how the change in one variable influences a change in the other variable). The correlation ranges may be wide since any two underlying inputs may be highly correlated (either positively or negatively) or weakly correlated.
- *Volatility* – the measure of the variability in possible returns for an instrument given how much that instrument changes in value over time. Volatility is a pricing input for options and, generally, the lower the volatility, the less risky the option. The level of volatility used in the valuation of a particular option depends on a number of factors, including the nature of the risk underlying that option (e.g. the volatility of a particular underlying equity security may be significantly different from that of a particular underlying commodity index), the tenor and the strike price of the option.
- *Volatility skew* – the measure of the difference in implied volatility for options with identical underliers and expiry dates but with different strikes. The implied volatility for an option with a strike price that is above or below the current price of an underlying asset will typically deviate from the implied volatility for an option with a strike price equal to the current price of that same underlying asset.
- *Funding spread* – the difference between the interbank funding rate and a specific bank funding rate. Embedded within this spread is the cost of the optionality for the client to put back certificates at any time to be repaid at par.

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

All financial instruments are valued in accordance with the techniques outlined in the fair value hierarchy. Some of these techniques, including those used to value instruments categorised in Level 3 of the fair value hierarchy, are dependent on unobservable parameters and the fair value for these financial instruments has been determined using parameters appropriate for the valuation methodology based on prevailing market evidence. It is recognised that the unobservable parameters could have a range of reasonably possible alternative values.

In estimating the change in fair value, to provide information about the variability of the fair value measurement, the unobservable parameters were varied to the extremes of the ranges of reasonably possible alternatives using statistical techniques, such as dispersion in comparable observable external inputs for similar asset classes, historic data or judgement if a statistical technique is not appropriate. Where a financial instrument has more than one unobservable parameter, the sensitivity analysis reflects the greatest reasonably possible increase or decrease to fair value by varying the assumptions individually. It is unlikely that all unobservable parameters would be concurrently at the extreme range of possible alternative assumptions and therefore the sensitivity shown below is likely to be greater than the actual uncertainty relating to the financial instruments.

The following tables present the sensitivity of the fair value of Level 3 financial assets and financial liabilities as at 30 June 2014 and 31 December 2013 to reasonably possible alternative assumptions, providing quantitative information on the potential variability of the fair value measurement.

8. 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)

The following tables present the sensitivity of the fair value of Level 3 financial assets and financial liabilities as at 30 June 2014 and 31 December 2013 to reasonably possible alternative assumptions, providing quantitative information on the potential variability of the fair value measurement.

30 June 2014	Fair value €'000	Effect of reasonably possible alternative assumptions: Increase in fair value €'000	Decrease in fair value €'000
Financial assets classified as held for trading:			
Net derivative contracts:(1)			
Equity	60,299	4,650	(4,650)
Financial assets designated at fair value through profit or loss:			
Prepaid equity securities contracts	6,841	215	(218)
Financial liabilities designated at fair value through profit or loss:			
Notes	(353,518)	(4,865)	4,868

(1) Net derivative contracts represent financial assets classified as held for trading – derivative contracts net of financial liabilities classified as held for trading – derivative contracts.

31 December 2013	Fair value €'000	Effect of reasonably possible alternative assumptions: Increase in fair value €'000	Decrease in fair value €'000
Financial assets classified as held for trading:			
Net derivative contracts:(1)			
Equity	91,815	1,548	(1,991)
Financial assets designated at fair value through profit or loss:			
Prepaid equity securities contracts	26,697	322	(368)
Financial liabilities designated at fair value through profit or loss:			
Notes	(421,704)	(1,870)	2,359

8. 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.

9. 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.

10. RELATED PARTY DISCLOSURES

Transactions with related parties

Trading and risk management

The Company issues Structured Notes and hedges the obligations arising from the issuance by entering into prepaid equity securities contracts, derivative contracts and loans designated at fair value through profit or loss with other Morgan Stanley Group undertakings. All such transactions are entered into on an arm's length basis. The total amounts receivable and payable on issued Structured Notes, prepaid equity securities contracts, derivative contracts and loans designated at fair value through profit or loss were as follows:

	30 June 2014 €'000	31 December 2013 €'000
Amounts due from the Company's indirect parent undertakings on unsettled securities and derivative transactions	-	13,379
Amounts due from other Morgan Stanley Group undertakings	8,557,225	6,959,969
	8,557,225	6,973,348
Amounts due to the Company's indirect parent undertakings on unsettled securities and derivative transactions	4,282	9,291
Amounts due to other Morgan Stanley Group undertakings	4,370,902	2,097,213
	4,375,184	2,106,504

The Company has received collateral of €596,772,000 (31 December 2013: €nil) from other Morgan Stanley Group undertakings to mitigate credit risk on exposures arising under derivatives contracts between the Company and other Morgan Stanley Group undertakings.

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

Introduction

We have reviewed the accompanying condensed interim financial information of Morgan Stanley B.V., Amsterdam, which comprises the condensed statement of financial position as at 30 June 2014, the 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 2014, 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 condensed interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as at 30 June 2014 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Amsterdam, 27 August 2014
Deloitte Accountants B.V.

W.H.E. van Ommeren

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

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