

Registered number: 34161590

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

MORGAN STANLEY B.V.

Interim financial report

30 June 2019

MORGAN STANLEY B.V.

CONTENTS	PAGE
Interim management report	1
Directors' responsibility statement	6
Condensed statement of comprehensive income	7
Condensed statement of changes in equity	8
Condensed statement of financial position	9
Condensed statement of cash flows	10
Notes to the condensed financial statements	11
Review report to the shareholders of Morgan Stanley B.V.	36

MORGAN STANLEY B.V.

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 2019.

RESULTS AND DIVIDENDS

The profit for the six months ended 30 June 2019, after tax, was €310,000 (30 June 2018: €503,000).

During the six months ended 30 June 2019, no dividends were paid or proposed (30 June 2018: €nil).

PRINCIPAL ACTIVITY

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

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

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

FUTURE OUTLOOK

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

BUSINESS REVIEW

Global market and economic conditions

Global economic growth slowed from 3.7% for 2018 to 3.0% in the first half of 2019. The loss of growth momentum was broad-based across both developed and emerging markets. In developed markets, growth softened in the second quarter of 2019 after a brief moderate rebound in the first quarter. In emerging markets, growth stayed sluggish throughout the first half of 2019. Trade tensions remained the key overhang on corporate sentiment, which weighed on capital spending and overall economic activity. In terms of policy, the Federal Reserve kept interest rates unchanged in the first half of 2019, but financial conditions in the United States of America ("US") eased due to the Federal Reserve's dovish tilt earlier in the year. In July 2019, the Federal Reserve cut interest rates by 25bp. In Europe, the European Central Bank ("ECB") kept policy rates unchanged in the first half of 2019 and announced the launch of new Targeted Longer-Term Refinancing Operations later in the year in March with full details of the operations announced in June 2019. In July 2019, the ECB signalled that it would cut rates further and possibly restart quantitative easing. Policymakers in China have implemented fiscal easing measures and accelerated government bond issuance due to continued downside pressures on growth. Elsewhere in the world, other major central banks have adopted a more dovish policy stance, and select central banks, such as the Reserve Bank of Australia, Reserve Bank of India, Bank of Korea, Bank Indonesia and Central Bank of Brazil, have moved to cut interest rates.

United Kingdom withdrawal from the European Union

On 23 June 2016, the United Kingdom (the "UK") electorate voted to leave the European Union (the "EU"). On 29 March 2017, the UK invoked Article 50 of the Lisbon Treaty which triggered a two-year period, subject to extension (which would need the unanimous approval of the EU Member States), during which the UK government negotiated a form of withdrawal agreement with the EU.

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

United Kingdom withdrawal from the European Union (continued)

On 22 March 2019, the UK and the other EU Member States agreed to an extension of the two-year period to 22 May 2019, (if the UK Parliament approved the withdrawal agreement by 29 March 2019) or 12 April 2019 (if it did not). On 11 April 2019, the UK and the other EU Member States agreed to a further extension to 31 October 2019. Absent any further changes to this time schedule, the UK will leave the EU on 31 October 2019.

The Morgan Stanley Group is continuing to prepare its European operations regardless of whether or not a withdrawal or transition agreement is reached. However, the Company's principal activity and risks are expected to remain unchanged.

Overview of 2019 financial results

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

The condensed statement of comprehensive income for the six months ended 30 June 2019 is set out on page 7. The profit before income tax for the six months ended 30 June 2019 of €413,000 primarily comprises management charges recognised in 'Other revenue' compared to €671,000 recognised for the six months ended 30 June 2018.

The Company has recognised in 'Net trading income/ (expense)' a gain of €654,669,000 (30 June 2018: loss of €62,859,000), with a corresponding net loss of €654,669,000 recognised in 'Net (expense)/ income on other financial instruments held at fair value' (30 June 2018: gain of €62,859,000). This is due to fair value changes attributable to market movements on the equities underlying Structured Notes hedged by derivatives.

The condensed statement of financial position for the Company is set out on page 9. The Company's total assets at 30 June 2019 are €9,971,688,000, an increase of €477,149,000 or 5% when compared to 31 December 2018. Total liabilities of €9,930,703,000 represent an increase of €476,839,000 or 5% when compared to total liabilities at 31 December 2018. These movements are primarily attributable to the value of issued Structured Notes and the related hedging instruments held at 30 June 2019. Structured Notes reflected in 'Debt and other borrowings' have increased since 31 December 2018 as a result of new issuances and fair value movements in the period partially offset by maturities. The increase in the value of issued Structured Notes has resulted in a net increase in the value of the related hedging instruments.

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

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

Risk management

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

Note 19 to the Company's annual financial statements for the year ended 31 December 2018 ("2018 annual financial statements") provides more detailed qualitative disclosures on the Company's exposure to financial risks. Note 13 to the condensed financial statements provides more detailed quantitative disclosures.

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

Market risk

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

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

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

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

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

Credit risk

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

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

Country risk exposure

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

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Country risk exposure (continued)

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

For further information on how the Company identifies, monitors and manages country risk exposure refer to pages 3 and 4 of the Directors' report of the Company's 2018 annual financial statements.

Liquidity risk

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

For further discussion on the Company's liquidity risk refer to page 4 of the Directors' report in the Company's 2018 annual financial statements.

Operational risk

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

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

For further discussion on the Company's operational risk refer to pages 4, 5 and 6 of the Directors' report in the Company's 2018 annual financial statements.

Legal, regulatory and compliance risk

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

For further discussion on the Company's legal, regulatory and compliance risk, refer to pages 6 and 7 of the Directors' report in the Company's 2018 annual financial statements.

MORGAN STANLEY B.V.

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Going concern

Retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy. Additionally, the Company has access to further Morgan Stanley Group capital and liquidity as required.

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

DIRECTORS

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

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

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

EVENTS AFTER THE REPORTING DATE

There have been no significant events since the reporting date.

AUDIT COMMITTEE

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

Approved by the Board and signed on its behalf by:

Date: 24 September 2019

H. Herrmann

S. Ibanez

P.J.G. de Reus

L.P.A. Rolfes

TMF Management B.V.

MORGAN STANLEY B.V.

DIRECTORS' RESPONSIBILITY STATEMENT

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

- the condensed financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 '*Interim Financial Reporting*' ("IAS 34") as adopted by the EU and Title 9 of Book 2 of the Dutch Civil Code on the basis of the Company's international connections and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the interim management report includes a fair review of the important events that have occurred during the six months ended 30 June 2019 and the impact on the condensed financial statements and provides a description of the principal risks and uncertainties that the Company faces for the remaining six months of the financial year.

Approved by the Board and signed on its behalf by:

Date: 24 September 2019

H. Herrmann

S. Ibanez

P.J.G. de Reus

L.P.A. Rolfes

TMF Management B.V.

MORGAN STANLEY B.V.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME
Six months ended 30 June 2019

	Note	Six months ended 30 June 2019 €'000 (unaudited)	Six months ended 30 June 2018 €'000 (unaudited)
Net trading income/ (expense) on financial assets		220,829	(54,414)
Net trading income/ (expense) on financial liabilities		433,840	(8,445)
Net trading income/ (expense)		654,669	(62,859)
Net income/ (expense) on other financial assets held at fair value		154,996	(46,518)
Net (expense)/ income on other financial liabilities held at fair value		(809,665)	109,377
Net (expense)/ income on other financial instruments held at fair value	2	(654,669)	62,859
Other revenue	3	413	1,098
Total non-interest revenues		413	1,098
Interest income		6,352	6,583
Interest expense		(5,488)	(5,644)
Net interest income	4	864	939
Net revenues		1,277	2,037
Non-interest expense:			
Other expense	5	(864)	(1,366)
PROFIT BEFORE INCOME TAX		413	671
Income tax	6	(103)	(168)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		310	503

All operations were continuing in the current and prior period.

The notes on pages 11 to 35 form an integral part of the condensed financial statements.

MORGAN STANLEY B.V.**CONDENSED STATEMENT OF CHANGES IN EQUITY**
Six months ended 30 June 2019

	Share capital €'000	Retained earnings €'000	Total equity €'000
Balance at 1 January 2018 (audited)	15,018	24,765	39,783
Impact of adoption of new accounting standards	-	(8)	(8)
Profit and total comprehensive income for the period	-	503	503
Balance at 30 June 2018 (unaudited)	<u>15,018</u>	<u>25,260</u>	<u>40,278</u>
Balance at 1 January 2019 (audited)	15,018	25,657	40,675
Profit and total comprehensive income for the period	-	310	310
Balance at 30 June 2019 (unaudited)	<u>15,018</u>	<u>25,967</u>	<u>40,985</u>

The notes on pages 11 to 35 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 2019****(Including Proposed Appropriation of Results)**

	Note	30 June 2019 €'000 (unaudited)	31 December 2018 €'000 (audited)
ASSETS			
Cash and short-term deposits		2,997	903
Trading financial assets	7	485,245	271,266
Loans and advances	7	8,041,037	7,783,632
Trade and other receivables	10	1,439,476	1,434,349
Current tax assets		2,933	4,389
TOTAL ASSETS		9,971,688	9,494,539
LIABILITIES AND EQUITY			
Trading financial liabilities	7	295,786	752,153
Convertible preferred equity certificates	8	1,125,281	1,125,281
Trade and other payables	11	224,807	188,378
Debt and other borrowings	7	8,284,829	7,388,052
TOTAL LIABILITIES		9,930,703	9,453,864
EQUITY			
Share capital		15,018	15,018
Retained earnings		25,967	25,657
Equity attributable to owners of the Company		40,985	40,675
TOTAL EQUITY		40,985	40,675
TOTAL LIABILITIES AND EQUITY		9,971,688	9,494,539

These condensed financial statements were approved by the Board and authorised for issue on 24 September 2019.

Signed on behalf of the Board

H. Herrmann

S. Ibanez

P.J.G. de Reus

L.P.A. Rolfes

TMF Management B.V.

The notes on pages 11 to 35 form an integral part of the condensed financial statements.

MORGAN STANLEY B.V.**CONDENSED STATEMENT OF CASH FLOWS**
Six months ended 30 June 2019

	Six months ended 30 June 2019 €'000 (unaudited)	Six months ended 30 June 2018 €'000 (unaudited)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>2,094</u>	<u>3,413</u>
INVESTING ACTIVITIES		
Repayment of interest from another Morgan Stanley Group undertaking	12,193	38,257
Repayment of loan from another Morgan Stanley Group undertaking	-	1,125,281
Issue of loan to another Morgan Stanley Group undertaking	-	(1,125,281)
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>12,193</u>	<u>38,257</u>
FINANCING ACTIVITIES		
Yield paid on convertible preferred equity certificates	(11,545)	(54,313)
Financing (paid to) / received from another Morgan Stanley Group undertaking	(648)	16,056
NET CASH FLOWS USED IN FINANCING ACTIVITIES	<u>(12,193)</u>	<u>(38,257)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,094	3,413
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>903</u>	<u>432</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u><u>2,997</u></u>	<u><u>3,845</u></u>

The notes on pages 11 to 35 form an integral part of the condensed financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2019

1. BASIS OF PREPARATION

a. Accounting policies

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

In preparing these condensed financial statements, the Company has applied consistently the accounting policies and methods of computation used in the Company’s 2018 annual financial statements.

New standards and interpretations adopted during the period

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

As part of the 2015-2017 Annual Improvements Cycle published in December 2017, the IASB made amendments to IAS 12 ‘*Income Taxes*’ for application in accounting periods beginning on or after 1 January 2019. The amendments were endorsed by the EU in March 2019.

IFRIC 23 ‘*Uncertainty over Income Tax Treatments*’ was issued by the IASB in June 2017 for application in accounting periods beginning on or after 1 January 2019. The interpretation was endorsed by the EU in October 2018.

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

New standards and interpretations not yet adopted during the period

At the date of authorisation of these condensed financial statements, the following amendments to standards relevant to the Company’s operations were issued by the IASB but not mandatory for accounting periods beginning 1 January 2019. Except where otherwise stated, the Company does not expect the adoption of these amendments to standards and interpretations to have a material impact on the Company’s condensed financial statements.

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

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

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

c. Key sources of estimation uncertainty

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

The critical sources of estimation uncertainty relate to the valuation of Level 3 financial instruments. For further detail refer to accounting policy note 3(d) of the Company’s 2018 annual financial statements and note 15.

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

MORGAN STANLEY B.V.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS Six months ended 30 June 2019

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

	Six months ended 30 June 2019 €'000	Six months ended 30 June 2018 €'000
Net (expense)/ income on:		
Non-trading financial assets at fair value through profit or loss ("FVPL"):		
Trade and other receivables:		
Prepaid equity securities contracts	3,328	(26,113)
Financial assets designated at FVPL:		
Loans and advances:		
Loans	151,668	(20,405)
Financial liabilities designated at FVPL:		
Debt and other borrowings:		
Issued Structured Notes	(809,665)	109,377
	<u>(654,669)</u>	<u>62,859</u>

3. OTHER REVENUE

	Six months ended 30 June 2019 €'000	Six months ended 30 June 2018 €'000
Management charges to other Morgan Stanley Group undertakings	413	671
Net foreign exchange gains	-	427
	<u>413</u>	<u>1,098</u>

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

4. INTEREST INCOME AND INTEREST EXPENSE

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

No other gains or losses have been recognised in respect of financial assets measured at amortised cost other than as disclosed as 'Interest income', foreign exchange differences disclosed in 'Other revenue' (note 3) or 'Other expense' (note 5) and impairment losses recognised in 'Other expense' (note 5).

No other gains or losses have been recognised in respect of financial liabilities at amortised cost other than as disclosed as 'Interest expense' and foreign exchange differences disclosed in 'Other revenue' (note 3) or 'Other expense' (note 5).

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

MORGAN STANLEY B.V.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS Six months ended 30 June 2019

5. OTHER EXPENSE

	Six months ended 30 June 2019 €'000	Six months ended 30 June 2018 €'000
Net foreign exchange losses	357	-
Management charges from other Morgan Stanley Group undertakings	431	1,337
Other	76	29
	<u>864</u>	<u>1,366</u>

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

6. INCOME TAX EXPENSE

	Six months ended 30 June 2019 €'000	Six months ended 30 June 2018 €'000
Current tax expense		
Current period	103	168
Income tax expense	<u>103</u>	<u>168</u>

Reconciliation of effective tax rate

The current period income tax expense is the same as (30 June 2018: same as) that resulting from applying the average standard rate of corporation tax in The Netherlands of 25.0% (30 June 2018: 25.0%) as shown below:

	Six months ended 30 June 2019 €'000	Six months ended 30 June 2018 €'000
Profit before income tax	413	671
Income tax using the average standard rate of corporation tax in The Netherlands of 25.0% (30 June 2018: 25.0%)	103	168
Total income tax expense in the condensed statement of comprehensive income	<u>103</u>	<u>168</u>

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

Management are aware of the Dutch legislative proposals announced in 2018 as part of the tax budget for the 2019 fiscal year and are considering the impact on the Company. Any changes affecting the Company are expected to be effective from 1 January 2020.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2019

7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY

The following table analyses financial assets and financial liabilities as at 30 June 2019 presented in the condensed statement of financial position by classification.

30 June 2019	FVPL (mandatorily)	FVPL (designated)	Amortised cost	Total
€'000				
Cash and short-term deposits	-	-	2,997	2,997
Trading financial assets:				
Derivatives	485,245	-	-	485,245
Loans and advances:				
Loans	-	8,041,037	-	8,041,037
Trade and other receivables:				
Trade receivables	-	-	35,763	35,763
Other receivables	-	-	1,378,617	1,378,617
Prepaid equity securities contracts	25,096	-	-	25,096
Total financial assets	510,341	8,041,037	1,417,377	9,968,755
Trading financial liabilities:				
Derivatives	295,786	-	-	295,786
Convertible preferred equity certificates	-	-	1,125,281	1,125,281
Trade and other payables:				
Trade payables	-	-	216,506	216,506
Other payables	-	-	8,301	8,301
Debt and other borrowings:				
Issued Structured Notes	-	8,284,829	-	8,284,829
Total financial liabilities	295,786	8,284,829	1,350,088	9,930,703
31 December 2018	FVPL (mandatorily)	FVPL (designated)	Amortised cost	Total
€'000				
Cash and short-term deposits	-	-	903	903
Trading financial assets:				
Derivatives	271,266	-	-	271,266
Loans and advances:				
Loans	-	7,783,632	-	7,783,632
Trade and other receivables:				
Trade receivables	-	-	186,506	186,506
Other receivables	-	-	1,165,760	1,165,760
Prepaid equity securities contracts	82,083	-	-	82,083
Total financial assets	353,349	7,783,632	1,353,169	9,490,150
Trading financial liabilities:				
Derivatives	752,153	-	-	752,153
Convertible preferred equity certificates	-	-	1,125,281	1,125,281
Trade and other payables:				
Trade payables	-	-	20,229	20,229
Other payables	-	-	168,149	168,149
Debt and other borrowings:				
Issued Structured Notes	-	7,388,052	-	7,388,052
Total financial liabilities	752,153	7,388,052	1,313,659	9,453,864

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2019

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

Financial assets and financial liabilities designated at FVPL

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

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

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

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

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2019

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

Financial assets and financial liabilities designated at FVPL (continued)

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

	Gain or (loss) recognised in the condensed statement of comprehensive income		Cumulative gain or (loss) recognised in the condensed statement of comprehensive income	
	Six months ended 30 June 2019	Six months ended 30 June 2018	30 June 2019	31 December 2018
	€'000	€'000	€'000	€'000
Issued Structured Notes	(75,708)	78,809	(49,320)	26,388
Loans	75,708	(78,809)	49,320	(26,388)
	-	-	-	-

The carrying amount of financial liabilities designated at fair value was €34,495,000 lower than the contractual amount due at maturity (31 December 2018: €62,928,000 lower).

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

30 June 2019 €'000	Single name equities	Equity indices	Equity portfolio	Other ⁽¹⁾	Total
Certificates and warrants	365,231	7,224	73,483	-	445,938
Notes	1,927,858	2,602,723	2,225,369	1,082,941	7,838,891
Total debt and other borrowings	2,293,089	2,609,947	2,298,852	1,082,941	8,284,829

31 December 2018 €'000	Single name equities	Equity indices	Equity portfolio	Other ⁽¹⁾	Total
Certificates and warrants	558,158	15,955	66,856	60,902	701,871
Notes	1,736,737	2,421,409	1,542,499	985,536	6,686,181
Total debt and other borrowings	2,294,895	2,437,364	1,609,355	1,046,438	7,388,052

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

The majority of the Company's financial liabilities designated at FVPL provide exposure to an underlying single name equity, an equity index or portfolio of equities. The prepaid equity securities contracts, derivative contracts and loans held at FVPL that the Company enters into in order to hedge the Structured Notes are valued as detailed in note 3(d) and note 21(a) of the Company's 2018 annual financial statements, and have similar valuation inputs to the liabilities they hedge.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2019

8. CONVERTIBLE PREFERRED EQUITY CERTIFICATES

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

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

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

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

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

On 29 March 2019, the Company paid the accrued yield of €11,545,000 to the holders of the CPECs. An accrued yield for the period ended 30 June 2019 of €5,625,000 has been recognised in the condensed statement of comprehensive income in 'Interest expense' (30 June 2018: €6,143,000). The liability to the holders of the CPECs at 30 June 2019, recognised within 'Trade and other payables,' is €3,749,000 (31 December 2018: €9,669,000).

9. DEBT AND OTHER BORROWINGS

	30 June 2019 €'000	31 December 2018 €'000
Issued Structured Notes	<u>8,284,829</u>	<u>7,388,052</u>
Debt and other borrowings (designated at FVPL)	<u><u>8,284,829</u></u>	<u><u>7,388,052</u></u>

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

MORGAN STANLEY B.V.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS Six months ended 30 June 2019

10. TRADE AND OTHER RECEIVABLES

	30 June 2019 €'000	31 December 2018 €'000
Trade and other receivables (amortised cost)		
Trade receivables:		
Amounts due from other Morgan Stanley Group undertakings	35,763	186,506
Other receivables:		
Amounts due from other Morgan Stanley Group undertakings	1,378,619	1,165,764
Less: Expected Credit Loss ("ECL") allowance	<u>(2)</u>	<u>(4)</u>
	1,378,617	1,165,760
Total trade and other receivables (amortised cost)	<u>1,414,380</u>	<u>1,352,266</u>
Trade and other receivables (non-trading at FVPL)		
Prepaid equity securities contracts	25,096	82,083
	<u>1,439,476</u>	<u>1,434,349</u>

11. TRADE AND OTHER PAYABLES

	30 June 2019 €'000	31 December 2018 €'000
Trade and other payables (amortised cost)		
Trade payables:		
Amounts due to other Morgan Stanley Group undertakings	216,506	20,229
Other payables:		
Amounts due to other Morgan Stanley Group undertakings	<u>8,301</u>	<u>168,149</u>
	<u>224,807</u>	<u>188,378</u>

MORGAN STANLEY B.V.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS Six months ended 30 June 2019

12. SEGMENT REPORTING

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

Business segments

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

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

Geographical segments

The Company operates in three geographic regions as listed below:

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

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

	EMEA		Americas		Asia		Total	
	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June
	2019	2018	2019	2018	2019	2018	2019	2018
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
External revenues net of interest	1,088	1,863	138	86	51	88	1,277	2,037
Profit before income tax	224	497	138	86	51	88	413	671

	EMEA		Americas		Asia		Total	
	30 June	31 December						
	2019	2018	2019	2018	2019	2018	2019	2018
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Total assets	4,873,659	4,892,850	3,693,220	3,470,628	1,404,809	1,131,061	9,971,688	9,494,539

Of the Company's external revenue, 100% (30 June 2018: 100%) arises from transactions with other Morgan Stanley Group undertakings.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2019
13. FINANCIAL RISK MANAGEMENT
Risk management procedures

The Company's risk management procedures are consistent with those disclosed in the Company's 2018 annual financial statements. This disclosure is limited to quantitative data for each risk category and should be read in conjunction with the risk management procedures detailed in note 19 of the Company's 2018 annual financial statements.

Credit risk
Exposure to credit risk

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

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

Exposure to credit risk by product

Class	30 June 2019			31 December 2018		
	Gross credit exposure ⁽¹⁾	Credit enhancements	Net credit exposure ⁽²⁾	Gross credit exposure ⁽¹⁾	Credit enhancements	Net credit exposure ⁽²⁾
€'000						
Subject to ECL:						
Cash and short-term deposits	2,997	-	2,997	903	-	903
Trade and other receivables ⁽⁴⁾	1,414,380	-	1,414,380	1,352,266	-	1,352,266
Not subject to ECL⁽³⁾:						
Trading financial assets ⁽⁴⁾	485,245	(357,522)	127,723	271,266	(238,097)	33,169
Loans and advances	8,041,037	-	8,041,037	7,783,632	-	7,783,632
Trade and other receivables ⁽⁴⁾ :						
Prepaid equity securities contracts	25,096	(25,096)	-	82,083	(82,083)	-
	9,968,755	(382,618)	9,586,137	9,490,150	(320,180)	9,169,970

(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 €16,192,000 (2018: €nil) to be offset in the event of default by certain Morgan Stanley counterparties.

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

(4) At 30 June 2019, net cash collateral received of €206,983,000 was recognised in trade and other payables in the condensed statement of financial position against derivatives classified as trading financial assets/liabilities and prepaid equity securities contract. At 31 December 2018, trade and other receivables included net cash collateral pledged of €172,489,000. Cash collateral is determined and settled on a net basis.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2019

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Exposure to credit risk by internal rating grades

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

Until 31 December 2018, unless credit-impaired, the Company had reported all trade receivables as stage 2 for the purpose of the disclosure below, reflecting the Company's accounting policy to measure lifetime credit losses on trade receivables under the simplified approach. From 1 January 2019, the Company continues to apply the simplified approach but, notwithstanding the recognition of lifetime credit losses under the simplified approach, has revised the presentation of these balances such that trade receivables are now reported as stage 1 where they are not credit-impaired.

The Company believes that this presentation, which is more consistent with industry practice for such disclosures, better reflects the credit risk associated with such assets, notwithstanding the fact that a lifetime approach is used for their ECL measurement and provides more relevant information. This change has also been applied to the prior period disclosure below. There is no impact on the reported level of ECLs as a consequence of this presentational change.

Investment grade: internal grades AAA - BBB

Non-investment grade: internal grades BB - CCC

Default: internal grades D

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

MORGAN STANLEY B.V.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2019

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Exposure to credit risk by internal rating grades (continued)

At 30 June 2019 €'000	AA	A	BBB	Total Invest- ment Grade / Gross Carrying Amount	Loss Allowance	Carrying Amount
Subject to ECL⁽¹⁾:						
Cash and short term deposits	47	2,950	-	2,997	-	2,997
Trade and other receivables ⁽²⁾	-	1,163,952	250,430	1,414,382	(2)	1,414,380
Total subject to ECL	47	1,166,902	250,430	1,417,379	(2)	1,417,377
Not subject to ECL:						
Trading financial assets - derivatives	-	291,189	194,056	485,245	-	485,245
Loans and advances	-	-	8,041,037	8,041,037	-	8,041,037
Trade and other receivables: Prepaid equity securities contracts	-	25,096	-	25,096	-	25,096
Total not subject to ECL	-	316,285	8,235,093	8,551,378	-	8,551,378
At 31 December 2018						
€'000						
Subject to ECL⁽¹⁾:						
Cash and short term deposits	-	903	-	903	-	903
Trade and other receivables ⁽²⁾	-	1,318,463	33,807	1,352,270	(4)	1,352,266
Total subject to ECL	-	1,319,366	33,807	1,353,173	(4)	1,353,169
Not subject to ECL:						
Trading financial assets - derivatives	-	158,782	112,484	271,266	-	271,266
Loans and advances	-	-	7,783,632	7,783,632	-	7,783,632
Trade and other receivables: Prepaid equity securities contracts	-	82,083	-	82,083	-	82,083
Total not subject to ECL	-	240,865	7,896,116	8,136,981	-	8,136,981

(1) All exposures are stage 1 unless otherwise shown.

(2) The Company has no financial assets at stage 3. At 30 June 2019 there were no financial assets past due but not impaired or individually impaired (31 December 2018: nil).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2019

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

Maturity analysis

In the following maturity analysis of financial assets and financial liabilities, derivative contracts and other financial instruments held at FVPL are disclosed according to their earliest contractual maturity; all such amounts are presented at their fair value, consistent with how these financial instruments are managed. All other amounts represent undiscounted cash flows receivable and payable by the Company arising from its financial assets and financial liabilities to earliest contractual maturities as at 30 June 2019 and 31 December 2018. Receipts of financial assets and repayments of financial liabilities that are subject to immediate notice are treated as if notice were given immediately and are classified as on demand. This presentation is considered by the Company to appropriately reflect the liquidity risk arising from these financial assets and financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial assets and financial liabilities is managed by the Company.

	On demand	Less than one year	Equal to or more than one year but less than two years	Equal to or more than two years but less than five years	Equal to or more than five years	Total
30 June 2019						
€'000						
Financial assets						
Cash and short term deposits	2,997	-	-	-	-	2,997
Trading financial assets:						
Derivatives	65,652	185,012	29,617	121,766	83,198	485,245
Loans and advances:						
Loans	332,124	2,887,387	997,588	1,916,615	1,907,323	8,041,037
Trade and other receivables:						
Trade receivables	35,763	-	-	-	-	35,763
Other receivables	1,378,617	-	-	-	-	1,378,617
Prepaid equity securities contracts	25,096	-	-	-	-	25,096
Total financial assets	<u>1,840,249</u>	<u>3,072,399</u>	<u>1,027,205</u>	<u>2,038,381</u>	<u>1,990,521</u>	<u>9,968,755</u>
Financial liabilities						
Trading financial liabilities:						
Derivatives	30,729	113,613	45,124	51,743	54,577	295,786
Convertible preferred equity certificates	1,125,281	-	-	-	-	1,125,281
Trade and other payables:						
Trade payables	216,506	-	-	-	-	216,506
Other payables	8,301	-	-	-	-	8,301
Debt and other borrowings:						
Issued Structured Notes	421,380	2,958,786	982,081	1,986,638	1,935,944	8,284,829
Total financial liabilities	<u>1,802,197</u>	<u>3,072,399</u>	<u>1,027,205</u>	<u>2,038,381</u>	<u>1,990,521</u>	<u>9,930,703</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2019

13. FINANCIAL RISK MANAGEMENT (CONTINUED)**Liquidity risk (continued)***Maturity analysis (continued)*

31 December 2018	On demand	Less than one year	Equal to or more than one year but less than two years	Equal to or more than two years but less than five years	Equal to or more than five years	Total
€'000						
Financial assets						
Cash and short term deposits	903	-	-	-	-	903
Trading financial assets:						
Derivatives	85,766	80,671	18,328	46,112	40,389	271,266
Loans and advances:						
Loans	574,322	2,612,638	769,402	1,933,928	1,893,342	7,783,632
Trade and other receivables:						
Trade receivables	186,506	-	-	-	-	186,506
Other receivables	1,165,760	-	-	-	-	1,165,760
Prepaid equity securities contracts	82,083	-	-	-	-	82,083
Total financial assets	2,095,340	2,693,309	787,730	1,980,040	1,933,731	9,490,150
Financial liabilities						
Trading financial liabilities:						
Derivatives	72,785	291,118	68,697	164,610	154,943	752,153
Convertible preferred equity certificates	1,125,281	-	-	-	-	1,125,281
Trade payables and other payables:						
Trade receivables	20,229	-	-	-	-	20,229
Other receivables	168,149	-	-	-	-	168,149
Debt and other borrowings:						
Issued Structured Notes	672,610	2,402,191	719,033	1,815,430	1,778,788	7,388,052
Total financial liabilities	2,059,054	2,693,309	787,730	1,980,040	1,933,731	9,453,864

Market risk*Equity price sensitivity analysis*

The sensitivity analysis below is determined based on the exposure to equity price risk at 30 June 2019 and 31 December 2018 respectively.

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

	Impact on total comprehensive income gains/ (losses)	
	30 June 2019	31 December 2018
	€'000	€'000
Trading financial instruments	(825,974)	(730,598)
Trade and other receivables – at FVPL	(2,509)	(8,208)
Debt and other borrowings	828,483	738,806
	<u>-</u>	<u>-</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2019

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (continued)

Equity price sensitivity analysis (continued)

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

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

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

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

14. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING

In the following table:

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2019
14. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING
(CONTINUED)

	Gross and net amounts presented in the condensed statement of financial position ⁽¹⁾	Amounts not offset in the condensed statement of financial position ^{(2) (4)}		
		Financial instruments	Cash collateral ⁽³⁾	Net exposure ⁽⁵⁾
30 June 2019				
€'000				
Assets				
Trading financial assets:				
Derivatives	485,245	-	(357,522)	127,723
Trade and other receivables:				
Prepaid equity securities contracts	25,096	-	(25,096)	-
TOTAL ASSETS	510,341	-	(382,618)	127,723
Liabilities				
Trading financial liabilities:				
Derivatives	295,786	-	(217,008)	78,778
Debt and other borrowings:				
Issued Structured Notes	8,284,829	-	-	8,284,829
TOTAL LIABILITIES	8,580,615	-	(217,008)	8,363,607
31 December 2018				
€'000				
Assets				
Trading financial assets:				
Derivatives	271,266	(1,384)	(236,713)	33,169
Trade and other receivables:				
Prepaid equity securities contracts	82,083	-	(82,083)	-
TOTAL ASSETS	353,349	(1,384)	(318,796)	33,169
Liabilities				
Trading financial liabilities:				
Derivatives	752,153	(1,384)	(482,751)	268,018
Debt and other borrowings:				
Issued Structured Notes	7,388,052	-	-	7,388,052
TOTAL ASSETS	8,140,205	(1,384)	(482,751)	7,656,070

(1) Amounts include €127,723,000 (31 December 2018: €28,483,000) of trading financial assets – derivatives, €nil (31 December 2018: €nil) of trade and other receivables – prepaid equity securities contracts, €78,860,000 (31 December 2018: €238,501,000) of trading financial liabilities – derivatives and €8,063,693,000 (31 December 2018: €6,973,725,000) of debt and other borrowings – issued Structured Notes which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.

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

(3) Cash collateral used to mitigate credit risk on exposures arising under derivatives contracts and prepaid equity securities contracts is determined and settled on a net basis and has been recognised in the condensed statement of financial position within 'Trade and other payables' in 2019 and 'Trade and other receivables' in 2018.

(4) In addition to the balances disclosed in the table above, certain 'Trade and other receivables' and 'Trade and other payables' of €17,293,000 (31 December 2018: €9,595,000) not presented net within the condensed statement of financial position have legally enforceable master netting agreements in place and can be offset in the ordinary course of business and/or in the event of default.

(5) Of the residual net exposure, intercompany cross-product legally enforceable netting arrangements are in place which would allow for an additional €16,192,000 (31 December 2018: €nil) to be offset in the ordinary course of business and/ or in the event of default.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2019

15. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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

The following tables present the carrying value of the Company's financial assets and financial liabilities recognised at fair value on a recurring basis, classified according to the fair value hierarchy. The information below is limited to quantitative information and should be read in conjunction with note 21 of the Company's 2018 annual financial statements.

30 June 2019

	Quoted prices in active market (Level 1)	Valuation techniques using observable inputs (Level 2)	Valuation techniques with significant unobservable inputs (Level 3)	Total
€'000				
Trading financial assets:				
Derivatives				
Interest rate contracts	-	5,257	20,978	26,235
Equity contracts	-	439,998	17,959	457,957
Commodity contracts	-	-	1,053	1,053
Total trading financial assets	-	445,255	39,990	485,245
Trade and other receivables:				
Prepaid equity securities contracts	-	21,548	3,548	25,096
Loans and advances:				
Loans	-	8,041,037	-	8,041,037
Total financial assets measured at fair value	-	8,507,840	43,538	8,551,378
Trading financial liabilities:				
Derivatives				
Interest rate contracts	-	14,138	18,337	32,475
Equity contracts	-	213,101	47,566	260,667
Foreign exchange contracts	-	2,124	-	2,124
Commodity contracts	-	2	518	520
Total trading financial liabilities	-	229,365	66,421	295,786
Debt and other borrowings:				
Certificates and warrants	-	442,520	3,418	445,938
Notes	-	7,481,489	357,402	7,838,891
Total debt and other borrowings	-	7,924,009	360,820	8,284,829
Total financial liabilities measured at fair value	-	8,153,374	427,241	8,580,615

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2019

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

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

31 December 2018

	Quoted prices in active market (Level 1)	Valuation techniques using observable inputs (Level 2)	Valuation techniques with significant unobservable inputs (Level 3)	Total
€'000				
Trading financial assets:				
Derivatives				
Interest rate contracts	-	989	15,533	16,522
Equity contracts	-	231,965	21,586	253,551
Foreign exchange contracts	-	1	-	1
Commodity contracts	-	241	951	1,192
Total trading financial assets	-	233,196	38,070	271,266
Trade and other receivables:				
Prepaid equity securities contracts	-	18,331	63,752	82,083
Loans and advances:				
Loans	-	7,783,632	-	7,783,632
Total financial assets measured at fair value	-	8,035,159	101,822	8,136,981
Trading financial liabilities:				
Derivatives				
Interest rate contracts	-	37,953	21,501	59,454
Equity contracts	-	570,523	115,826	686,349
Foreign exchange contracts	-	1,540	-	1,540
Commodity contracts	-	359	4,451	4,810
Total trading financial liabilities	-	610,375	141,778	752,153
Debt and other borrowings:				
Certificates and warrants	-	630,988	70,883	701,871
Notes	-	6,227,559	458,622	6,686,181
Total debt and other borrowings	-	6,858,547	529,505	7,388,052
Total financial liabilities measured at fair value	-	7,468,922	671,283	8,140,205

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2019

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

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

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

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

The following tables present the changes in the fair value of the Company's Level 3 financial assets and financial liabilities for the period ended 30 June 2019 and year ended 31 December 2018. Level 3 instruments may be hedged with instruments classified in Level 2. As a result, the realised and unrealised gains/ (losses) for assets and liabilities within the Level 3 category presented in the following tables do not reflect the related realised and unrealised gains/ (losses) on hedging instruments that have been classified by the Company within the Level 2 category.

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2019
15. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)
c. Changes in Level 3 financial assets and liabilities recognised at fair value on a recurring basis (continued)

30 June 2019	Balance at 1 January 2019	Total gains or (losses) recognised in condensed statement of comprehensive income ⁽¹⁾	Purchases	Issuances	Settlements	Net transfers in and/or out of Level 3 ⁽²⁾	Balance at 30 June 2019	Unrealised gains or (losses) for Level 3 assets/(liabilities) outstanding as at 30 June 2019 ⁽³⁾
€'000								
Trade and other receivables:								
Prepaid equity securities contracts	63,752	411	-	542	(61,157)	-	3,548	155
Total financial assets measured at fair value	<u>63,752</u>	<u>411</u>	<u>-</u>	<u>542</u>	<u>(61,157)</u>	<u>-</u>	<u>3,548</u>	<u>155</u>
Trading financial liabilities:								
Net derivative contracts ⁽⁴⁾	(103,708)	62,428	-	-	(10,485)	25,334	(26,431)	49,059
Debt and other borrowings:								
Issued Structured Notes	(529,505)	(45,297)	-	(78,727)	148,060	144,649	(360,820)	(31,398)
Total financial liabilities measured at fair value	<u>(633,213)</u>	<u>17,131</u>	<u>-</u>	<u>(78,727)</u>	<u>137,575</u>	<u>169,983</u>	<u>(387,251)</u>	<u>17,661</u>

(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 2018 annual financial statements.

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

(3) Amounts represent unrealised gains or (losses) for the period ended 30 June 2019 related to assets and liabilities still outstanding at 30 June 2019. 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 2018 annual financial statements.

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

During the period, the Company reclassified approximately €4,291,000 of net derivative contracts (31 December 2018: €2,001,000), €nil of prepaid equity securities (31 December 2018: €3,258,000) and €18,671,000 of issued Structured Notes (31 December 2018: €90,159,000) from Level 2 to Level 3. The reclassifications were due to a reduction in the volume of recently executed transactions or a lack of available broker quotes for these instruments, such that certain significant inputs became unobservable.

During the period the Company reclassified approximately €29,625,000 (31 December 2018: \$nil) of net derivative contracts and €163,320,000 of issued Structured Notes (31 December 2018: €124,590,000) from Level 3 to Level 2. The reclassifications were due to the availability of market data for these or comparable instruments, or available broker quotes, or consensus data such that certain significant inputs become observable.

MORGAN STANLEY B.V.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2019

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

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

31 December 2018

	Balance at 1 January 2018	Total gains or (losses) recognised in condensed statement of comprehensive income ⁽¹⁾	Purchases	Issuances	Settlements	Net transfers in and/or out of Level 3 ⁽²⁾	Balance at 31 December 2018	Unrealised gains or (losses) for Level 3 assets/(liabilities) outstanding as at 31 December 2018 ⁽³⁾
€'000								
Trading financial assets:								
Net derivative contracts ⁽⁴⁾	4,343	(106,536)	-	-	904	(2,419)	(103,708)	(102,072)
Trade and other receivables:								
Prepaid equity securities contracts	-	(665)	61,159	-	-	3,258	63,752	(665)
Total financial assets measured at fair value	4,343	(107,201)	61,159	-	904	839	(39,956)	(102,737)
Debt and other borrowings:								
Issued Structured Notes	(363,504)	77,189	-	(298,878)	34,919	20,769	(529,505)	76,837
Total financial liabilities measured at fair value	(363,504)	77,189	-	(298,878)	34,919	20,769	(529,505)	76,837

(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 2018 annual financial statements.

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

(3) Amounts represent unrealised gains or (losses) for the period ended 31 December 2018 related to assets and liabilities still outstanding at 31 December 2018. The unrealised gains or (losses) are recognised in the condensed statement of comprehensive income as detailed in the financial instruments accounting policy in the Company's 2018 annual financial statements.

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2019

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

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

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

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

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

The level of aggregation and breadth of products cause the range of inputs to be wide and not evenly distributed across the inventory. Further, the range of unobservable inputs may differ across firms in the financial services industry because of diversity in the types of products included in each firm's inventory. There are no predictable relationships between multiple significant unobservable inputs attributable to a given valuation technique. A single amount is disclosed when there is no significant difference between the minimum, maximum and average (weighted average or similar average/median).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2019

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

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

30 June 2019	Fair value €'000	Predominant valuation techniques/ Significant unobservable inputs	Range ⁽²⁾ (Averages) ⁽³⁾
ASSETS			
Trade and other receivables:			
- Prepaid equity securities contracts	3,548	Option model At the money volatility	7% (7%)
LIABILITIES			
Trading financial liabilities:			
- Net derivative contracts: ⁽¹⁾			
- Interest rate	2,641	Option model Interest rate - Foreign exchange correlation Interest rate - Interest rate correlation	55% to 57% (mean 56%, medium 56%) 46% to 88% (mean 70%, medium 73%)
- Equity	(29,607)	NAV NAV Option model At the money volatility Volatility skew Equity – Equity correlation Equity – Foreign exchange correlation	100% (100%) 12% to 45% (23%) -2% to 0% (0%) 36% to 93% (75%) -72% to 30% (-22%)
- Commodities	535	Option model Commodity volatility	-15% to 15% (4%)
Debt and other borrowings:			
- Issued Structured Notes	(360,820)	Option model At the money volatility Volatility skew Equity – Equity correlation Equity – Foreign exchange correlation Interest rate - Foreign exchange correlation Interest rate - Interest rate correlation	12% to 43% (22%) -2% to 0% (0%) 38% to 94% (68%) -51% to 30% (-25%) 55% to 57% (mean 56%, medium 56%) 57% to 85% (mean 70%, medium 73%)
		NAV NAV	100% (100%)

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

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

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2019

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

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

31 December 2018	Fair value €'000	Predominant valuation techniques/ Significant unobservable inputs	Range ⁽²⁾ (Averages) ⁽³⁾
ASSETS			
Trade and other receivables:			
- Prepaid equity securities contracts	63,752	Option model At the money volatility	4% (4%)
LIABILITIES			
Trading financial liabilities:			
- Net derivative contracts: ⁽¹⁾			
- Interest rate	(5,968)	Option model Interest rate - Foreign exchange correlation Interest rate - Interest rate correlation	-5% to 37% (mean 21%, median 29%) 41% to 97% (mean 71%, median 73%)
- Equity	(94,240)	Net Asset Value NAV Option model At the money volatility Volatility skew Equity – Equity correlation Equity – Foreign exchange correlation	100% (100%) 5% to 43% (22%) 2% to 0% (-1%) 36% to 98% (77%) 63% to 25% (-31%)
- Commodities	(3,500)	Option model Commodity volatility	-15% to 15% (4%)
Debt and other borrowings:			
- Issued Structured Notes	(529,505)	Option model At the money volatility Volatility skew Equity – Equity correlation Equity – Foreign exchange correlation Interest rate - Foreign exchange correlation Interest rate - Interest rate correlation NAV NAV	4% to 43% (23%) -2% to 0% (-1%) 38% to 98% (78%) -51% to 50% (-30%) -5% to 37% (mean 21%, median 29%) 41% to 97% (mean 71%, median 29%) 100% (100%)

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

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

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

A description of significant unobservable inputs included in the tables above for all major categories of assets and liabilities is included within note 21 of the Company's 2018 annual financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2019

15. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)**d. Valuation of Level 3 financial assets and liabilities recognised at fair value on a recurring basis (continued)**

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

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

	30 June 2019 ⁽³⁾		31 December 2018 ⁽³⁾	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
€'000				
Trade and other receivables:				
Prepaid equity securities contracts	1	(1)	30	(12)
Trading financial liabilities:				
Net derivatives contracts ^{(1) (2)}	348	(2,851)	7,751	(10,821)
Debt and other borrowings:				
Issued Structured Notes	7,479	(10,745)	8,484	(7,711)
	<u>7,828</u>	<u>(13,597)</u>	<u>16,265</u>	<u>(18,544)</u>

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

(2) The decrease in the potential impact of favourable and unfavourable changes compared to the 31 December 2018 is primarily driven by a decrease in the carrying value of net financial liabilities classified as Level 3 in the fair value hierarchy, as well as decreased uncertainty in the equity markets in 2019.

(3) The difference between the total favourable and total unfavourable changes is primarily a result of net derivative contracts that are hedges to structured notes which can be classified as either Level 2 or Level 3 in the fair value hierarchy.

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

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

16. ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

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

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

Review report

To the shareholder of Morgan Stanley B.V.

Introduction

We have reviewed the accompanying interim financial report of Morgan Stanley B.V., Amsterdam, which comprises the statement of condensed financial position as at 30 June 2019, the condensed statements of comprehensive income, condensed changes in equity, and cash flows for the period of 6 months ended 30 June 2019, and the notes. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope

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

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 2019 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Amsterdam, 24 September 2019

Deloitte Accountants B.V.

Signed on the original: J. Penon