

Morgan Stanley

Morgan Stanley Europe SE
Interim Financial Statements as at 30 June 2022

Commercial Register Frankfurt am Main HRB 109880

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(1) Please note that the English version of the Interim Financial Statements as at 30 June 2022 is a convenience translation. Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, issued the Independent Auditors' Report only for the German version of the Interim Financial Statements as at 30 June 2022. Therefore, the German version prevails.

INTERIM FINANCIAL STATEMENTS

- I. Balance Sheet as at
30 June 2022
- II. Income Statement for
the period from
1 January to
30 June 2022
- III. Cash Flow Statement for
the period from
1 January to
30 June 2022
- IV. Notes

Assets in € millions	Notes	30 Jun 2022	31 Dec 2021
Cash reserve	4		
a) Balances with central banks thereof: with Deutsche Bundesbank €5,128 million (31 Dec 2021: €0 million)		5,128	0
Amounts due from credit institutions	5		
a) Due on demand		2,370	7,580
Amounts due from customers	5		
thereof: loans granted to local authorities €102 million (31 Dec 2021: €114 million)		16,476	14,055
Trading assets	8	37,395	17,521
Investments in affiliated companies	9	603	603
thereof: credit institutions €603 million (31 Dec 2021: €603 million)			
Intangible assets	9		
a) Goodwill		66	70
Property, plant and equipment	9	22	27
Other assets	10	581	603
Prepaid expenses and deferred charges		2	1
Total assets		62,643	40,460

Liabilities and equity in € millions	Notes	30 Jun 2022	31 Dec 2021
Amounts due to credit institutions	5		
a) Due on demand		3,104	3,411
b) With an agreed maturity/term		<u>500</u>	0
		3,604	3,411
Amounts due to customers	5		
a) Other liabilities			
aa) Due on demand		19,375	14,843
ab) With an agreed maturity/term		<u>0</u>	8
		19,375	14,851
Trading liabilities	8	33,240	16,926
Other liabilities	10	427	266
Deferred income		6	7
Provisions	12		
a) Provisions for pensions and similar obligations		17	15
b) Provisions for taxation		20	16
c) Other provisions		<u>87</u>	104
		124	135
Fund for general banking risks	8	1	1
thereof: special item according to Section 340e (4) HGB €1 million (31 Dec 2021: €1 million)			
Subordinated liabilities	13	1,002	1,002
Instruments of additional regulatory core capital	14	1,000	600
Equity capital (shareholder's fund)	15		
a) Subscribed capital		1,051	451
b) Capital reserve		2,786	2,786
c) Revenue reserves		24	2
d) Retained earnings		<u>3</u>	22
		3,864	3,261
Total liabilities and equity		62,643	40,460

€ in millions	Notes		30 Jun 2022	30 Jun 2021
Interest income from credit and money market transactions	16	(21)		(28)
thereof: negative interest income €67 million (30 Jun 2021: €35 million)				
Interest expenses	16	<u>24</u>		<u>(12)</u>
thereof: negative interest expenses €81 million (30 Jun 2021: €36 million)				
			(45)	(16)
Commission income	17	223		289
Commission expenses	17	<u>41</u>		<u>35</u>
			182	254
Net income of the trading portfolio	18		119	(10)
Other operating income	19		8	8
General administrative expenses				
a) Personnel expenses				
aa) Wages and salaries		104		87
ab) Social security and other pension costs and benefits		<u>17</u>		<u>14</u>
thereof: Pension scheme €6 million (30 Jun 2021: €5 million)				
			121	101
b) Other administrative expenses		<u>80</u>		<u>54</u>
			201	155
Depreciation, amortisation and write-downs of intangible assets, and property, plant and equipment	9		7	5
Other operating expenses	19		35	25
Income from ordinary activities			21	51
Income taxes	20		18	21
Net profit for the year			3	30
Net profit			3	30

€ in millions	Notes	30 Jun 2022	30 Jun 2021
Net income		3	30
Non-cash items included in net income and reconciliation to cash flow from operating activities			
+/- Depreciation on intangible assets and property, plant and equipment	9	7	5
+/- Increase in / reversal of provisions		(9)	5
+/- Interest expense / income	16	45	16
+/- Income tax expense / income		18	21
+/- Other adjustments		0	0
= Subtotal		64	77
Changes in assets and liabilities from operating activities			
-/+ Amounts due from credit institutions		5,211	3,265
-/+ Amounts due from customers		(2,402)	(12,342)
-/+ Trading assets		(19,866)	(3,849)
-/+ Other assets from operating activities		20	220
+/- Amounts due to credit institutions		192	(161)
+/- Amounts due to customers		4,514	12,487
+/- Trading liabilities		16,309	355
+/- Other liabilities from operating activities		140	(117)
+ Interest received		98	35
- Interest paid		(128)	(34)
- Income taxes paid		(18)	(7)
Cash flow from operating activities		4,134	(71)
- Payments for the acquisition of intangible assets and property, plant and equipment	9	(1)	0
+/- Payments for the merger of companies		0	63
+ Payments for the sale of business units		0	13
Cash flow from investing activities		(1)	76
+ Payments from contributions to equity from the shareholder	15	600	0
+ Payments from the issuance of instruments of additional regulatory core capital	14	400	0
- Interest paid for instruments of additional regulatory core capital		0	0
- Interest paid for subordinated liabilities		(5)	(5)
Cash flow from financing activities		995	(5)
= Change in cash and cash equivalents		5,128	0
+ Cash and cash equivalents at the beginning of the period		0	0
Cash and cash equivalents at the end of the period		5,128	0

General Information

1. Corporate information

Morgan Stanley Europe SE (the “Company” or “MSESE”) is a stock corporation under European Law (European Company (Societas Europaea)) based in Frankfurt am Main. The Company is registered in the Commercial Register B of the Local Court in Frankfurt am Main under number HRB 109880.

Morgan Stanley Europe Holding SE, Frankfurt am Main, (“MSEHSE”) is the sole shareholder of MSESE. MSESE is the sole shareholder of Morgan Stanley Bank AG, Frankfurt am Main, (“MSBAG”). The Company, together with its subsidiary MSBAG, form the MSESE Group.

MSESE established its business operations as a securities trading bank pursuant to Section 1 (3d) Sentence 5 of the German Banking Act (Kreditwesengesetz or “KWG”) on 1 March 2019. With entry into force of the Regulation (EU) 2019/2033 on the prudential requirements of investment firms and with the implementation of the Directive (EU) 2019/2034 on the prudential supervision of investment firms with the Securities Institutions Act (Wertpapierinstitutsgesetz or “WpIG”) on 26 June 2021, MSESE has been reclassified as a Credit Requirements Regulation (“CRR”) Credit institution.

The principal business activity of MSESE is the operation of banking activities and the provision of financial services through the business units Institutional Equities Division, Fixed Income Division, Investment Banking Division and Real Assets to a client base mainly domiciled in the European Economic Area.

In order to support the further expansion of business activities, the subscribed capital was increased by €600 million through the issuance of registered no-par value shares of €1 each on 4 April 2022. Furthermore, instruments of additional regulatory core capital of €400 million were issued on 12 April 2022.

2. Basis of accounting

The interim financial statements as at 30 June 2022 are prepared voluntarily as part of the planned issuances of securities, structured notes and are based on the regulations of the German Commercial Code (Handelsgesetzbuch or “HGB”), the German Ordinance on Accounting Policies for Banks and Financial Service Providers (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute or “RechKredV”) as well as the German Stock Corporation Act (Aktengesetz or “AktG”) and taking into account the requirements for the German Accounting Standards (Deutsche Rechnungslegungs Standards or “DRS”) 16. If not otherwise stated, amounts are stated as € in millions.

The company which prepares the consolidated financial statements for the smallest consolidation scope is MSEHSE. The company which prepares the consolidated financial statements for the largest consolidation scope is Morgan Stanley, New York, United States of America (“U.S.”). The consolidated financial statements of Morgan Stanley are published at SEC (Securities and Exchange Commission) in New York, U.S., under Central Index Key Number 0000895421. Both consolidated financial statements are available with the Company.

MSESE does not prepare interim financial statements at the MSESE Group-level.

3. Accounting policies

Receivables

Amounts due to credit institutions and customers are accounted for at acquisition cost, including accrued interests, and are reduced by necessary valuation allowances.

Loan loss provision

MSESE recognises loan loss provisions for inherent credit risks for amounts due from credit institutions and customers in the form of general loan loss provision.

A parameter-based Expected Credit Loss (ECL) calculation based on IDW RS BFA 7, which is consistent with IFRS 9, is used for this purpose. The loss is therefore determined using the following parameters: probability of default (PD), loss given default (LGD) and the exposure at default (EAD). In calculating loan loss provisions, macro-economic influences are taken into account in addition to borrower-related risk factors.

The amount of loan loss provisions for individual counterparty risks is determined by the difference between the carrying amount of the receivable and the present value calculated using the discounted cash flow method. This is determined from the expected future cash inflows taking into account recoverable collaterals on these receivables.

Trading portfolio

Financial instruments held in the trading portfolio are measured at fair value less a risk discount in accordance with Section 340e (3) HGB. In accordance with Section 255 (4) HGB, the fair value corresponds to the market price and are measured at the bid and ask price.

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between knowledgeable, willing and unrelated counterparties at the measurement date.

Fair value is determined on the basis of the observability of the input factors within a three-level hierarchy. Observable input factors include those that would be used by market participants in the valuation of the financial instrument on the basis of market data. These are obtained from sources that are independent of MSESE. Unobservable input factors reflect the assumptions that market participants would use in the valuation of the financial instrument on the basis of the best information available.

The fair value hierarchy is broken down into three levels based on the observability of inputs, with Level 1 being the highest and Level 3 being the lowest level:

- Level 1: Quoted prices in an active market for identical assets or liabilities

- Level 2: Valuation techniques using observable inputs
- Level 3: Valuation techniques with significant unobservable inputs

Where necessary, valuation adjustments will be made. Factors taken into account include liquidity risk (price range between bid and ask price), counterparty default risk, model uncertainty and concentration risks.

The availability of observable input varies by product due to a variety of factors including the type of product, whether the product is new and not yet established in the market, market liquidity and other product-specific characteristics. To the extent that valuation is based on models or input factors that are less observable or unobservable, the measurement of fair value incorporates an element of judgement.

In order to capture any remaining realisation risks, the result of the valuation at fair value is reduced by a risk discount, which is deducted from trading portfolio assets. The risk discount is calculated using of the regulatory value-at-risk based on a 99% confidence level over a holding period of 10 days.

In addition to the risk discount, at each year end 10% of the net income from the trading portfolio (after risk discount) is allocated to the fund for general banking risks in accordance with Section 340e (4) HGB. The allocation is made until this special item has reached an amount of 50% of the 5-year average of the net income of the trading portfolio after risk discount. The special item may only be reversed to offset a net expense of the trading portfolio or if it exceeds the 50% limit.

MSESE deposits cash collateral and securities collateral in respect of its derivatives in the form of initial margin and variation margin. Variation margin paid or received is recognised as other assets or other liabilities.

Derivatives in the trading portfolio are offset against the associated cash variation margin if, supported by a legally enforceable agreement containing a credit support annex (CSA), the exchange of cash collateral takes place on a daily basis taking into account the fair value of the

derivative financial instruments. For each counterparty, the amount offset includes the positive and negative market values of derivatives as well as the cash variation margin paid or received.

The conversion to new reference rates for derivatives in connection with the Interbank Offered Rate ("IBOR") reform resulted in compensation payments which are accounted through profit or loss.

Valuation units

Physically settling commodity futures (underlying transactions) are combined with offsetting hedging transactions to form micro-valuation units in accordance with Section 254 HGB. There is a match in amount and maturity between the underlying and hedging transactions. The Company applies the freezing method, whereby the changes in value resulting from the hedged risk are not reported on the balance sheet. In order to assess the effectiveness of a valuation unit, the method of matching of critical terms is used. Any unrealised losses from negative changes in fair value relating to the same type of risk are not recognised during the period of the hedge, unless a net loss arises (negative ineffectiveness), in which case these are recognised as a provision for imminent losses. Any unrealised gains are not recognised.

Securities lending and repurchase agreements

Securities repurchase agreements are reported in accordance with the principles of Section 340b HGB. Securities lent and securities sold under repurchase agreements continue to be recognised by MSESE in accordance with their economic ownership, while securities borrowed and securities bought under repurchase agreements are not recognised on the balance sheet. Receivables and liabilities arising from repurchase agreements and securities lending transactions that meet the requirements for offset under Section 10 RechKredV are reported net.

Investments in affiliated companies

Investments in affiliated companies are carried at amortised cost. If an impairment of an investment is expected to be permanent, the carrying amount is written down to the lower fair value.

Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are reported at acquisition cost and, if subject to amortisation, reduced by scheduled depreciation. The underlying useful lives are based on the respective economic useful life. Write-downs are made for any impairment that is likely to be permanent. Goodwill reported within intangible assets is amortised over its estimated useful life of 10 years in accordance with Section 253 (3) sentence 4 HGB. Low-value assets are fully depreciated in the year of acquisition.

Other assets

Other assets are measured at acquisition costs (nominal value) considering the strict lower-of-cost-or-market principle.

Liabilities

Liabilities are recognised at their settlement amount, including accrued interest, in accordance with Section 253 (1) sentence 2 HGB.

Prepaid expenses and deferred charges

Prepaid expenses and deferred charges are released to income on a straight-line basis over their term.

Provisions

Provisions for contingent liabilities are recognised at the settlement amount according to reasonable business judgement. If the remaining term of the provision for contingent liabilities is longer than one year, the provision is discounted. MSESE applies the discount rate which is announced by the Deutsche Bundesbank in accordance with the Regulation on the Discounting of Provisions.

Provisions for pensions and similar obligations are calculated using the projected-unit-credit method. The valuation includes actuarial

assumptions on demographic developments, increases in salaries and pensions as well as inflation rates. Demographic assumptions are based on the "Richttafeln Heubeck 2018G" tables. The discount rate is based on the average market interest rate of the last 10 years with an assumed remaining term of 15 years as published by Deutsche Bundesbank according to Section 253 (2) HGB.

According to Section 246 (2) HGB, the pension obligations are offset against the fair value plan assets. The respective expenses and income are also netted. The Company has outsourced the reinsurance policies covering the general pension plan to a contractual trust arrangement ("CTA").

A potential provisioning requirement for interest rate risks is examined within the loss-free valuation of interest related financial instruments. Therefore, the Company uses the present/book value method. The valuation resulted in no need for the formation of provisions for onerous contracts.

Instruments for additional regulatory core capital

The issued instruments for additional regulatory core capital qualify as liabilities and are stated at their settlement or nominal amount. Interest expense is accrued on the basis of expected payments.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognised for temporary differences between the accounting and tax values for goodwill, provisions for pensions and similar obligations and interest carry forwards. Deferred tax liabilities are netted against deferred tax assets and the remaining deferred tax assets were not recognised in the balance sheet in accordance with the accounting option set out in Section 274 (1) sentence 2 HGB.

Currency conversion

Currency conversion is carried out in accordance with the principles of Section 256a and Section 340h HGB. Assets and liabilities denominated in a foreign currency are translated into Euro using uniform group exchange rates as of the reporting date. Resulting gains and losses are recognised in the income statement. Foreign exchange rate fluctuations from trading assets and liabilities are reported in the net income of the trading portfolio. Due to the special coverage in the same currency, resulting gains and losses from currency translation are recognised netted in the income statement.

Notes to the Balance Sheet

4. Cash reserve

The cash reserve of €5,128 million (31 Dec 2021: €0 million) is deposited at Deutsche Bundesbank where MSESE opened a current account during the financial half year. Previously, deposits were held with MSBAG.

5. Maturity structure

The following tables present the maturity structure of amounts due from credit institutions and customers:

€ in millions	30 Jun 2022	31 Dec 2021
Amounts due from credit institutions		
due on demand	2,370	7,580
Total	2,370	7,580

€ in millions	30 Jun 2022	31 Dec 2021
Amounts due from customers		
due on demand	15,976	13,044
with a remaining maturity of:		
up to three months	0	261
three months to one year	500	750
Total	16,476	14,055

The following tables present the maturity structure of amounts due to credit institutions and customers:

€ in millions	30 Jun 2022	31 Dec 2021
Amounts due to credit institutions		
due on demand	3,104	3,411
with a remaining maturity of:		
three months to one year	500	0
Total	3,604	3,411

€ in millions	30 Jun 2022	31 Dec 2021
Amounts due to customers		
due on demand	19,375	14,843
with a remaining maturity of:		
up to three months	0	8
Total	19,375	14,851

6. Relationship with affiliated companies

The following table presents amounts due to and from affiliated companies:

€ in millions	30 Jun 2022	31 Dec 2021
Amounts due from credit institutions	279	7,269
Amounts due from customers	9,904	9,946
Amounts due to credit institutions	154	111
Amounts due to customers	12,267	9,381
Subordinated liabilities	1,002	1,002
Instruments of additional regulatory core capital	1,000	600

7. Repurchase agreements

The carrying amount of assets recognised on the balance sheet and sold under repurchase agreements, lent or pledged as collateral is €1,932 million (31 Dec 2021: €1,182 million).

8. Trading assets and liabilities

The institutional specific criteria used to classify financial instruments to trading assets and trading liabilities remained unchanged in the reporting period. Trading assets significantly increased in the period by €19,874 million to €37,396 million and trading liabilities increased by €16,314 million to €33,240 million as a result of higher trading volumes and increased market volatility.

The trading positions are mainly with clients in the European Economic Area and include only to a very limited extent direct exposures to companies in Russia and no exposures to companies in Ukraine.

MSESE has allocated an amount of €1 million from the net income of the trading portfolio to the fund for general banking risks as of 31 December 2021. Due to the specifications of IDW RS BFA 2, no contributions to the fund for general banking risks were made in the first half of the financial year since the contribution is only made annually when the year end financial statements are prepared.

The following table provides a breakdown of the trading portfolio:

€ in millions	30 Jun 2022	
	Trading assets	Trading liabilities
Derivative financial instruments	23,353	21,261
Receivables / Liabilities	11,834	11,979
Bonds and other fixed-income securities	1,932	0
Shares and other non-fixed-income securities	299	0
Risk discount Value-at-Risk	(22)	0
Total	37,396	33,240

Derivatives include the offset of positive fair values of €130,452 million with negative fair values of €129,664 million with the associated cash collateral received (variation margin) of €15,840 million and cash collateral paid (variation margin) of €15,052 million. The nominal amount of derivative financial instruments presented by type is as follows:

€ in millions	30 Jun 2022
	Nominal amount
Interest-related transactions	3,689,994
Exchange-rate-related transactions	827,190
Equity-related transactions	120,867
Credit derivatives	63,684
Other transactions	27,248
Total	4,728,983

The basic assumptions used to determine the fair value using recognised valuation techniques are described in note 3 "Accounting policies".

The following table presents the fair value of derivative financial instruments by type:

€ in millions	30 Jun 2022	
	Assets	Liabilities
Interest-related transactions	8,124	6,550
Exchange-rate-related transactions	10,358	8,394
Equity-related transactions	1,370	1,660
Credit derivatives	589	631
Other transactions	2,912	4,026
Total	23,353	21,261

9. Changes in fixed assets

The following table shows changes in fixed assets:

€ in millions	Intangible assets	Property, plant and equipment	Investments in affiliated companies
Acquisition / production cost 01 Jan 2022	79	42	603
Additions	0	2	0
Disposals	0	4	0
Acquisition / production cost 30 Jun 2022	79	40	603
Accumulated depreciation 01 Jan 2022	9	15	0
Depreciation	4	3	0
Accumulated depreciation 30 Jun 2022	13	18	0
Carrying amount as at 31 Dec 2021	70	27	603
Carrying amount as at 30 Jun 2022	66	22	603

Intangible assets consist of goodwill of €66 million (31 Dec 2021: €70 million).

Property, plant and equipment include leasehold improvements of €14 million (31 Dec 2021: €16 million) and office equipment of €3 million (31 Dec 2021: €4 million).

Investments in affiliated companies at 30 June 2022 relate exclusively to shares in MSBAG. The net profit of MSBAG as at 31 December 2021 amounts to €46 million (31 Dec 2020: €11 million). By resolution of the supervisory board on 27 April 2022, the net profit was added to the revenue reserves of MSBAG which amount to €660 million.

10. Other assets and liabilities

Other assets of €581 million (31 Dec 2021: €603 million) and other liabilities of €427 million (31 Dec 2021: €266 million) mainly consist of collateral received and paid for derivatives of €499 million (31 Dec 2021: €598 million) and €279 million (31 Dec 2021: €118 million), respectively. The increase is a result of higher trading volumes and increased market volatility.

11. Foreign currency exposures

The following table presents the Company's assets and liabilities denominated in foreign currencies:

€ in millions	30 Jun 2022	31 Dec 2021
Assets	18,266	13,771
Liabilities	18,415	12,992

12. Provisions

Provisions of €17 million (31 Dec 2021: €15 million) were made for pensions and similar obligations.

The main actuarial assumptions used are shown in the following table:

Actuarial assumptions	30 Jun 2022	31 Dec 2021
Discount rate	1.8%	1.9%
Income dynamics	2.5%	2.5%
Pension dynamics	2.5%	2.3%

The valuation difference between the 10-year average interest rate of 1.9% and the 7-year average interest rate of 1.4% at year end is subject to a distribution ban in accordance with Section 253 (6) HGB and amounted to €5 million as at 31 December 2021.

Other provisions of €87 million (31 Dec 2021: €104 million) mainly include provisions for personnel expenses which are an additional component of employee compensation. These consist of variable, deferred and share-based compensations measured at fair value of Morgan Stanley shares at the balance sheet date.

13. Subordinated liabilities

As at 30 June 2022, there is subordinated debt of €1,002 million (31 Dec 2021: €1,002 million) with a variable interest rate at EURIBOR plus 1.6% and maturity date of 27 October 2031. The subordinated loan was issued by the Company to its immediate parent MSEHSE on 27 October 2020.

Subordinated liabilities do not contain any conditions for converting into equity or any other form of debt. An early repayment obligation does not exist.

In the event of a liquidation or insolvency of the Company, the claims and interest claims of the subordinated creditors will only be repaid after the claims of all non-subordinated creditors have been satisfied.

Interest expense on subordinated liabilities at 30 June 2022 includes accrued interests not yet due of €2 million (31 Dec 2021: €2 million).

14. Instruments of additional regulatory core capital

MSESE issued regulatory core capital ("AT1-bonds") in accordance with CRR. AT1-bonds with a total nominal amount of €600 million and a denomination of €5 million each were issued on 29 October 2020. In the reporting period AT1-bonds with a total nominal amount of €400 million and a denomination of €5 million each were issued on 12 April 2022.

AT1-bonds represent the Company's perpetual, unsecured and subordinated liabilities. The bonds issued in 2020 and 2022 are interest bearing at a fixed annual interest rate of 4.7% and 5.0%, respectively. Interest expense on these instruments includes accrued interest not yet due

of €21 million (31 Dec 2021: €2 million) at the reporting date which is included in other liabilities.

15. Equity

Equity as at 30 June 2022 is composed as follows:

€ in millions	30 Jun 2022	31 Dec 2021
Subscribed capital	1,051	451
Capital reserves	2,786	2,786
Revenue reserves	24	2
Retained earnings	3	22
Total	3,864	3,261

Subscribed capital

MSEHSE is the sole shareholder of the Company. Subscribed capital increased by €600 million effective 4 April 2022. It is comprised of €1,051 million no-par-value registered shares of €1 each.

Capital reserves

Capital reserves of €2,786 million remained unchanged compared to the financial year end 2021.

Revenue reserves

Net income for the financial year ending 31 December 2021 of €22 million was transferred to revenue reserves by resolution of the Supervisory Board on 27 April 2022.

Notes to the Income Statement

16. Interest income and expenses

Interest income from the Company's credit and money market transactions mainly result from negative interest income on deposits with group companies as well as with the Deutsche Bundesbank and repurchase agreements.

Interest expenses mainly consists of negative interest expenses on collateral received from clients and companies of the Morgan Stanley Group as well as on securities lending transactions.

17. Commission income and commission expenses

Commission income of €223 million (30 June 2021: €289 million) comprises €90 million (30 June 2021: €169 million) related to investment banking activities and €133 million (30 June 2021: €120 million) from the brokerage of financial products. The decrease in commission income from investment banking activities is the result of lower global underwriting activities reflecting the market conditions in the first financial half year.

Commission expenses of €41 million (30 June 2021: €35 million) mainly result from services received from affiliated companies and fees for securities services from companies outside the Morgan Stanley Group.

18. Net income of the trading portfolio

Net income of the trading portfolio amounts to €119 million (30 June 2021: net expenses of the trading portfolio of €10 million). The increase versus prior period is the result of strong client activity in interest rate and foreign exchange derivatives, equity derivatives and commodities trading.

19. Other operating income and expenses

Other operating income of €8 million (30 June 2021: €8 million) comprises primarily intra-group service charges of €3 million (30 June 2021: €8 million) from ongoing operations with affiliated companies in Germany, the United Kingdom and the U.S.

Other operating expenses of €35 million (30 June 2021: €25 million) consist mainly of French financial transaction taxes of €22 million (30 June 2021: €18 million) and Spain financial transaction taxes of €5 million (30 June 2021: €4 million), for which MSESE is liable.

20. Income taxes

Income taxes are composed of the following:

€ in millions	30 Jun 2022	30 Jun 2021
Corporation tax	10	12
Trade tax	8	9
Total	18	21

Income taxes relate to the ongoing taxes for the financial half year and are influenced partly by non-deductible expenses; such as the annual contribution to the Single Resolution Fund or limited deductible interest expenses according to Section 4h of the German Income Tax Act (Einkommenssteuergesetz or "EStG").

Additional Comments

21. Valuation units

In the reporting period, the Company continued to trade derivatives on CO₂ certificates with non-group companies. These were hedged by offsetting derivatives with companies within the Morgan Stanley Group. These valuation units have an average residual maturity of one year. The pending transactions which are not reported on the balance sheet at 30 June 2022 are as follows:

€ in millions	Nominal amount	Fair value	
		positive	negative
Underlying transaction	897	10	493
Hedging instrument	897	493	10

22. Contingencies

There are control agreements in place between MSEHSE and MSESE and between MSESE and MSBAG which include loss compensations in accordance with Section 302 AktG. Additionally, letters of comfort are provided by MSEHSE to benefit MSESE and MSBAG as well as by MSESE to benefit MSBAG.

A revolving liquidity facility between MSESE and MSBAG is in place to ensure the free movement of funds between the two entities and enable them to meet their individual and joint obligations as they come due.

23. Employees

The average number of employees by business units were as follows:

Business Units	30 Jun 2022	31 Dec 2021
Institutional Securities Group ⁽¹⁾	283	239
Real Assets	21	18
Infrastructure and Control	301	269
Total	605	526

⁽¹⁾ The Institutional Securities Group includes the business units Institutional Equities Division and Fixed Income Division.

The unit Infrastructure and Control primarily consists of Operations, Finance, Risk Management and Legal and Compliance.

24. Management Board and Supervisory Board

In the first half of the financial year and at the time of the preparation of the interim financial statements, the Management Board is comprised as follows:

- Oliver Behrens,
Chairman of the Management Board
- David Best,
appointed effective as of 1 April 2022
Member of the Management Board
- Martin Borghetto,
Member of the Management Board
- Philipp Lingnau,
Member of the Management Board
- André Munkelt,
Member of the Management Board
- Dr. Hanns Christoph Siebold,
resigned with effect from 28 February 2022
Member of the Management Board
- Dr. Jana Währisch,
Member of the Management Board

Dr Hanns Christoph Siebold resigned as a member of the Supervisory Board of Morgan Stanley (France) S.A., Paris, France, effective 28 February 2022.

The Company has not granted any loans to the members of the Board of Management or the Supervisory Board nor has entered into liability relationships with them.

In the first half of the financial year and at the time of the preparation of the interim financial statements, the Supervisory Board is comprised as follows:

- Clare Woodman,
Chairman of the Supervisory Board,
Managing Director
- Frank Mattern,
Deputy Chairman of the Supervisory
Board, independent advisor
- Raja Akram,
Managing Director
- David Cannon,
Independent advisor
- Lee Guy,
Managing Director
- Dr. Lutz R. Raettig,
Independent advisor
- Lucrezia Reichlin,
Professor
- David A. Russell,
Managing Director

25. Events after the reporting period

With entry into force of the Regulation (EU) 2019/2033 on the prudential requirements of investment firms and with the implementation of the Directives (EU) 2019/2034 on the prudential supervision of investment firms with WpIG on 26 June 2021, MSESE has been reclassified as a CRR Credit institution. The European Central Bank granted MSESE its formal CRR Credit Institution licence on 1 September 2022.

MSESE resolved to convert capital reserves of €2,000 million into share capital on 11 August 2022. The new share capital was recorded in the commercial register on 9 September 2022.

Frankfurt am Main, 20 September 2022

Morgan Stanley Europe SE

The Management Board

Oliver Behrens (Chairman)

David Best

Martin Borghetto

Philipp Lingnau

André Munkelt

Dr. Jana Währisch