Registered number: 35857

Registered office:
47 Esplanade
St. Helier
JE1 0BD
Jersey

MORGAN STANLEY FINANCE II LIMITED
(FORMERLY MORGAN STANLEY (JERSEY) LIMITED)

Report and interim financial statements

30 June 2021

MORGAN STANLEY FINANCE II LIMITED

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DIRECTORS' REPORT

The Directors present their report and condensed interim financial statements (which comprise the condensed statement of comprehensive income, the condensed statement of changes in equity, the condensed statement of financial position, the condensed statement of cash flows, and the related notes, 1 to 13) for Morgan Stanley Finance II Limited (the "Company") for the period ended 30 June 2021.

RESULTS AND DIVIDENDS

The profit for the period, after tax, was $3,000 (period ended June 2020: $6,000).

During the period, no dividends were paid or proposed (year ended December 2020: $nil).

PRINCIPAL ACTIVITY

The principal activity of the Company is the issuance of financial instruments and the hedging of the obligations arising pursuant to such issuances.

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

On 11 March 2021, the entity changed from being a private company to a public company and subsequently recommenced trading in May 2021.

BUSINESS REVIEW

Business environment

During the course of 2021, the Company has been impacted by factors in the global environment in which it operates, each of which introduces risks and uncertainties that may adversely affect the results of operations of the Company. In particular:

COVID-19

Since its onset, the COVID-19 pandemic has had a significant impact on global economic conditions and the environment in which the businesses operate, and it may continue to do so in the future. Though many employees have been working from home for some time, the Morgan Stanley Group is preparing for employees to return to work in the Morgan Stanley Group's offices in certain locations. The Morgan Stanley Group continues to be fully operational, with the majority of employees working from home. Recognising that local conditions vary for offices around the world and that the trajectory of the virus continues to be uncertain, the Morgan Stanley Group may adjust its plans for employees returning to offices as deemed necessary.

Overview of period to June 2021

The condensed statement of comprehensive income is set out on page 7. The profit for the period is $3,000, which represents interest income for the period (period ended June 2020: $6,000). The Company was in liquidation from 30 July 2020 and taken out of liquidation on 17 November 2020 to recommence trading. The trading income for the year is $nil which is consistent with the Company's principal activity.

The condensed statement of financial position is set out on page 9. Total assets and total liabilities at 30 June 2021 were $257,416,000 (year ended December 2020: $483,000) and $256,930,000 (year ended December 2020: $nil) respectively. The increase in total assets and total liabilities from 31 December 2020 is due to the commencement of trading in structured notes, classified in financial liabilities designated at fair value through profit or loss, and the related hedging instruments, classified in financial assets designated at fair value through profit or loss.

The performance of the Company is included in the results of the Morgan Stanley Group. The Company's Directors believe that providing further performance indicators for the Company itself would not enhance an understanding of the development, performance or position of the business of the Company.

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.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Risk management

The Directors consider that the Company's key financial risks are credit risk, primarily its concentration of exposure to other Morgan Stanley Group undertakings and liquidity risk. The Company leverages the Morgan Stanley Group's credit and liquidity risk frameworks to identify, measure, monitor and control credit risk and to ensure that the Company has access to adequate funding.

The Company also has some limited exposure to country, operational and legal, regulatory and compliance risks.

The Company leverages the risk management policies and procedures of the Morgan Stanley Group.

Note 10 provides more detailed qualitative disclosures on the Company's exposure to financial risks in addition to narrative disclosures on exposure to operational risk.

Going Concern

Business risks associated with the uncertain market and economic conditions are being actively monitored and managed by the Company. The existing and potential effects of COVID-19 on the business of the Company have been considered as part of the going concern analysis, including impact on operational capacity, access to liquidity and capital, contractual obligations, asset valuations and other critical accounting judgements and key sources of estimation uncertainty.

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

DIRECTORS

The following Directors held office throughout the period and to the date of approval of this report (except where otherwise shown):

D Cole	Director	(appointed 7 January 2021)
H Herrmann	Director	
S Keams	Director	(appointed 7 January 2021)
C Schmuck	Director	(resigned 7 January 2021)
S Hopkins	Alternate Director	(resigned 7 January 2021)

Approved by the Board and signed on its behalf by

Director

30 September 2021

DIRECTORS' RESPONSIBILITIES STATEMENT

In accordance with Article 4(2)(c) of the Luxembourg Law of 11 January 2008, as amended, there are certain transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market (the "Transparency Law").

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

(a) the condensed set of interim financial statements has been prepared in accordance with International Accounting Standard ("IAS") 34 'Interim Financial Reporting' as adopted by the European Union ("EU"), give a true and fair view of the assets, liabilities, financial position and result of the Company; and

(b) the interim management report includes a fair review of the information required by Article 4(4) of the Transparency Law, being an indication of the important events that have occurred during the period and their impact on the condensed set of interim financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year.

Approved by the Board and signed on its behalf by

Director

30 September 2021

Board of Directors

D Cole	Director
H Herrmann	Director
S Keams	Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY FINANCE II LIMITED

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated statement of financial position, the condensed consolidated statement of cash flows and related notes 1 to 13. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with Article 4 of the Luxembourg Transparency Law.

As disclosed in note 2, the annual financial statements of the Company will be prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") as adopted by the EU, Interpretations issued by the IFRS Interpretations Committee ("IFRIC") and Companies (Jersey) Law 1991. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with Article 4 of the Luxembourg Transparency Law and in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 is not prepared, in all material respects, in accordance with Article 4 of the Luxembourg Transparency Law and in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the EU.

Use of our report

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

Deloitte LLP

Deloitte LLP
Chartered Accountants and Statutory Auditor
London
30 September 2021

CONDENSED STATEMENT OF COMPREHENSIVE INCOME
Six months ended 30 June 2021

	Note	(unaudited) Six months ended 30 June 2021 $'000	(unaudited) Six months ended 30 June 2020 $'000
Net gains on financial instruments held mandatorily at fair value through profit or loss ("FVPL")		57	-
Net expense on financial instruments designated at fair value through profit or loss		(57)	-
Net result from financial instruments held at fair value		-	
Interest income	3	3	6
Net interest income		3	6
PROFIT BEFORE INCOME TAX		3	6
Income tax	4	-	-
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		3	6

The notes on pages 11 to 27 form an integral part of the condensed interim financial statements.

CONDENSED STATEMENT OF CHANGES IN EQUITY
Six months ended 30 June 2021

	Note	Stated capital $'000	Retained earnings $'000	Total equity $'000
Balance at 1 January 2020 (unaudited)		14	459	473
Profit and total comprehensive income for the period (unaudited)		-	6	6
Balance at 30 June 2020 (unaudited)		14	465	479
Balance at 1 January 2021 (unaudited)		14	469	483
Profit and total comprehensive income for the period (unaudited)		-	3	3
Balance at 30 June 2021 (unaudited)		14	472	486

The notes on pages 11 to 27 form an integral part of the condensed interim financial statements.

MORGAN STANLEY FINANCE II LIMITED
Registered number: 35857

CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 June 2021

	Note	(unaudited) As at 30 June 2021 $'000	(unaudited) As at 31 December 2020 $'000
ASSETS			
Cash and short-term deposits	5	254	-
Loans and advances	5	256,676	-
Trade and other receivables	6	486	483
TOTAL ASSETS		257,416	483
LIABILITIES AND EQUITY			
LIABILITIES			
Trading financial liabilities	5	5,514	-
Trade and other payables	7	250	-
Debt and other borrowings	8	251,166	-
TOTAL LIABILITIES		256,930	-
EQUITY			
Stated capital		14	14
Retained earnings		472	469
Equity attributable to owners of the Company		486	483
TOTAL EQUITY		486	483
TOTAL LIABILITIES AND EQUITY		257,416	483

These condensed financial statements were approved by the Board and authorised for issue on 30 September 2021.

Signed on behalf of the Board

Director

The notes on pages 11 to 27 form an integral part of the condensed interim financial statements.

CONDENSED STATEMENT OF CASH FLOWS
Six months ended 30 June 2021

	(unaudited) Six months ended 30 June 2021 $'000	(unaudited) Six months ended 30 June 2020 $'000
OPERATING ACTIVITIES		
Profit for the period	3	6
Adjustments for:		
Interest income	(3)	(6)
Operating cash flows before changes in operating assets and liabilities	-	-
Changes in operating assets:		
(Increase) in loans and advances	(256,676)	-
	(256,676)	-
Changes in operating liabilities:		
Increase in debt and other borrowings	251,166	-
Increase in trade and other payables	250	-
Increase in trading financial liabilities	5,514	-
	256,930	-
NET CASH FLOWS FROM OPERATING ACTIVITIES	254	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	254	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	-	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	254	-

The notes on pages 11 to 27 form an integral part of the condensed interim financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Period ended 30 June 2021

1. CORPORATE INFORMATION

The Company is incorporated and domiciled in Jersey, at the following address 47 Esplanade, St Helier, Jersey, JE1 0BD. The Company engaged in the issuance of financial instruments and the hedging of the obligations arising pursuant to such issuances.

The Company's immediate parent undertaking, ultimate undertaking and controlling entity is Morgan Stanley, which, together with the Company and Morgan Stanley's other subsidiary undertakings, form the Morgan Stanley Group. Morgan Stanley is incorporated in the State of Delaware, in the United States of America. Copies of its financial statements can be obtained from www.morganstanley.com/investorrelations.

2. BASIS OF PREPARATION

Statement of compliance

The Company prepares its annual financial statements in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") as adopted by the European Union ("EU"), Interpretations issued by the IFRS Interpretations Committee ("IFRIC") and Companies (Jersey) Law 1991. The condensed interim financial statements have been prepared in accordance with Article (4)(2)(c) of the Luxembourg Transparancy Law and in accordance with International Accounting Standard ("IAS") 34 *'Interim Financial Reporting'*, as adopted by the EU.

In preparing these condensed interim financial statements, the Company has applied consistently the accounting policies and methods of computation used in the Company's annual financial statements for the year ended 31 December 2020, except where noted below in the 'Summary of new accounting policies'.

Summary of new accounting policies

a. Financial instruments

i) Financial instruments mandatorily at fair value through profit and loss

Trading financial instruments, including all derivatives, are initially recorded on trade date at fair value. All subsequent changes in fair value, foreign exchange differences, interest and dividends are reflected in the statement of comprehensive income in 'Net gains on financial instruments held mandatorily at fair value through profit or loss'.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. Transaction costs are excluded from the initial fair value measurement of the financial instrument. These costs are recognised in the statement of comprehensive income in 'Other expense'.

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

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

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

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

All subsequent changes in fair value, foreign exchange differences, interest and dividends are reflected in the statement of comprehensive income in 'Net income/(expense) on financial instruments designated at fair value'.

2. BASIS OF PREPARATION (CONTINUED)

New standards and interpretations adopted during the period

The following standards, amendments to standards and interpretations 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 interim financial statements.

Interest Rate Benchmark Reform Phase 2 amendments to IFRS 9 *'Financial Instruments'*, IAS 39 *'Financial Instruments: Recognition and Measurement'*, IFRS 7 *'Financial Instruments: Disclosures'*, IFRS 4 *'Insurance Contracts'* and IFRS 16 *'Leases'* were issued by the IASB in August 2020. The amendments outline the accounting and disclosure requirements for the financial instruments which are transitioned to alternative benchmark rates. The amendments are applicable retrospectively and are effective from and will be applied for annual periods beginning on or after 1 January 2021. The amendments were endorsed by the EU in January 2021.

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

New standards and interpretations not yet adopted

At the date of authorisation of these condensed interim financial statements, the following amendments to standards relevant to the Company's operations have been issued by the IASB but were not mandatory for accounting periods beginning 1 January 2021. Except where otherwise stated, the Company does not expect that the adoption of the following amendments to standards will have a material impact on the Company's condensed interim financial statements.

Amendments to IAS 1 *'Presentation of Financial Statements'*: Classification of Liabilities as Current or Non-current were issued by the IASB in January 2020 and revised in July 2020, for retrospective application in accounting periods beginning on or after 1 January 2023.

As part of the 2018-2020 Annual Improvements Cycle published in May 2020, the IASB made an amendment to IFRS 9 *'Financial Instruments'*, relating to the treatment of fees in the assessment of whether financial liabilities are modified or exchanged, where such transactions occur on or after 1 January 2022. Early application is permitted. The amendments were endorsed by the EU in July 2021.

Amendments to IAS 8 *'Accounting Policies, Changes in Accounting Estimates and Errors'*: Definition of Accounting Estimates were issued by the IASB in February 2021, for prospective application in accounting periods beginning on or after 1 January 2023. Early application is permitted.

Amendments to IAS 1 *'Presentation of Financial Statements'*: Disclosure of Accounting Policies were issued by the IASB in February 2021, for prospective application in accounting periods beginning on or after 1 January 2023. Early application is permitted.

2. BASIS OF PREPARATION (CONTINUED)

New standards and interpretations not yet adopted (continued)

Amendments to IAS 12 *'Income taxes'*: Deferred tax related to Assets and Liabilities arising from a Single Transaction' were issued by the IASB in May 2021, for prospective application in accounting periods beginning on or after 1 January 2023. Early application is permitted.

Critical accounting judgements and key sources of estimation uncertainty

In preparing the financial statements, the Company makes judgements and estimates that affect the application of accounting policies and reported amounts.

Critical accounting judgements are key decisions made by management in the application of the Company's accounting policies, other than those involving estimations, which have the most significant effects on the amounts recognised in the financial statements.

Key sources of estimation uncertainty represent assumptions and estimations made by management that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

No critical accounting judgements 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 interim financial statements. There are no key sources of estimation uncertainty in the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

The going concern assumption

The existing and potential effects of COVID-19 (coronavirus) on the operational capacity of the business, access to liquidity and capital, contractual obligations asset valuations and other critical accounting judgements and key sources of estimation uncertainty have been considered in the Directors' report.

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 and continue to adopt the going concern basis in preparing the interim Directors' report and condensed interim, financial statements.

3. INTEREST INCOME

All interest income relates to financial assets at amortised cost and is calculated using the EIR method.

4. INCOME TAX

The company is subject to Jersey income tax at the rate 0.00% (2020: 0.00%).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Period ended 30 June 2021

5. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY

The following table analyses financial assets and financial liabilities as presented in the condensed statement of financial position by the IFRS 9 measurement classifications.

30 June 2021	**FVPL (mandatorily)**	**FVPL (designated)**	**Amortised cost**	**Total**
$'000				
Cash and short-term deposits	-	-	254	254
Loans and advances:				
Loans	-	256,676	-	256,676
Trade and other receivables:				
Other receivables	-	-	486	486
Total financial assets	-	256,676	740	257,416
Trading financial liabilities:				
Derivatives	5,514	-	-	5,514
Trade and other payables:				
Other payables	-	-	250	250
Debt and other borrowings:				
Issued Structured Notes	-	251,166	-	251,166
Total financial liabilities	5,514	251,166	250	256,930

All assets as at 31 December 2020 of $483,000 were measured at amortised cost.

Financial assets and financial liabilities designated at FVPL

The financial assets and financial liabilities shown in the tables above which are 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 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.

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

Financial assets and financial liabilities designated at FVPL (continued)

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

The carrying amount of financial liabilities held at fair value was $48,000 higher than the contractual amount due at maturity (31 December 2020: not applicable).

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 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 of these liabilities ("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.

6. TRADE AND OTHER RECEIVABLES

	30 June 2021 $'000	31 December 2020 $'000
Trade and other receivables (amortised cost)		
Amounts due from other Morgan Stanley Group undertakings	486	483

7. TRADE AND OTHER PAYABLES

	30 June 2021 $'000	31 December 2020 $'000
Trade and other payables (amortised cost)		
Amounts due to other Morgan Stanley Group undertakings	250	-

8. DEBT AND OTHER BORROWINGS

	30 June 2021 $'000	31 December 2020 $'000
Debt and other borrowings (designated at FVPL)		
Issued structured notes	251,166	-

Refer to note 5 for details of issued Structured Notes included within debt and other borrowings designated at FVPL.

9. SEGMENT REPORTING

Segment information is presented in respect of the Company's business and geographical segments.

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 one geographical market, the Americas.

10. RISK MANAGEMENT

Risk management procedures

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 is consistent with and leverages the risk management policies and procedures of the Morgan Stanley Group and which include escalation to appropriate senior management personnel.

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

Credit risk

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

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

The Company enters into all of its financial asset transactions with other Morgan Stanley Group undertakings, and both the Company and the other Morgan Stanley Group undertakings are wholly owned subsidiaries of the same ultimate parent entity, Morgan Stanley. As a result of the implicit support that would be provided by Morgan Stanley, the Company is considered exposed to the credit risk of Morgan Stanley.

10. RISK MANAGEMENT (CONTINUED)

Exposure to credit risk

The maximum exposure to credit risk ("gross credit exposure") of the Company as at 30 June 2021 is the carrying amount of the financial assets held in the condensed statement of financial position. The Company has not entered into any credit enhancements to manage its exposure to credit risk.

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 class

Class	Gross credit exposure [1]	
	30 June 2021 $'000	31 December 2020 $'000
Subject to ECL:		
Cash and short-term deposits	254	-
Trade and other receivables	486	483
Not subject to ECL[2]:		
Loans and advances	256,676	-
	257,416	483

(1) The carrying amount recognised in the condensed statement of financial position best represents the Company's maximum exposure to credit risk.
(2) Financial assets measured at FVPL are not subject to ECL.

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

The Company does not hold financial assets considered to be credit impaired.

Credit quality

Exposure to credit risk by internal rating grades

Internal credit ratings, as below, are derived using methodologies generally consistent with those used by external agencies:

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

Exposure to credit risk

All gross carrying amounts have an internal rating grade of A. All exposures subject to ECL are Stage 1.

10. RISK MANAGEMENT (CONTINUED)

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. Generally, the Company incurs liquidity risk as a result of its trading activities.

The Morgan Stanley Group's Liquidity Risk Management Framework is critical to helping ensure that the Company maintains sufficient liquidity reserves and durable funding sources to meet its daily obligations and to withstand unanticipated stress events. The Liquidity Risk Department is a distinct area in Risk Management, which oversees and monitors liquidity risk. The Liquidity Risk Department ensures transparency of material liquidity risks, compliance with established risk limits and escalation of risk concentrations to appropriate senior management. To execute these responsibilities, the Liquidity Risk Department:

- Establishes limits in line with the Morgan Stanley Group's risk appetite;
- Identifies and analyses emerging liquidity risks to ensure such risks are appropriately mitigated;
- Monitors and reports risk exposures against metrics and limits; and
- Reviews the methodologies and assumptions underpinning the Morgan Stanley Group's Liquidity Stress Tests to ensure sufficient liquidity and funding under a range of adverse scenarios.

The liquidity risks identified by these processes are summarised in reports produced by the Liquidity Risk Department that are circulated to and discussed with senior management as appropriate.

The Treasury Department and applicable business units have primary responsibility for evaluating, monitoring and controlling the liquidity risks arising from the Morgan Stanley Group's business activities, and for maintaining processes and controls to manage the key risks inherent in their respective areas. The Liquidity Risk Department coordinates with the Treasury Department and these business units to help ensure a consistent and comprehensive framework for managing liquidity risk across the Morgan Stanley Group.

The Company's liquidity risk management policies and procedures are consistent with those of the Morgan Stanley Group.

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

10. RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

The following principles guide the Company's liquidity risk management framework:

- Sufficient liquid assets should be maintained to cover maturing liabilities and other planned and contingent outflows;
- Maturity profile of assets and liabilities should be aligned, with limited reliance on short-term funding;
- Source, counterparty, currency, region, and term of funding should be diversified; and
- Liquidity Stress Tests should anticipate, and account for, periods of limited access to funding.

The Company hedges all of its financial liabilities with financial assets entered into with other Morgan Stanley Group undertakings, where both the Company and other Morgan Stanley Group undertakings are wholly-owned subsidiaries of the same parent, Morgan Stanley. Further, the maturity profile of the financial assets matches the maturity profile of the financial liabilities.

The core components of the Morgan Stanley Group's liquidity management framework, which includes consideration of the liquidity risk for each individual legal entity, are the Required Liquidity Framework, Liquidity Stress Tests and the Global Liquidity Reserve, which support the Morgan Stanley Group's target liquidity profile.

Required Liquidity Framework

The Required Liquidity Framework establishes the amount of liquidity the Company must hold in both normal and stressed environments to ensure that its financial condition and overall soundness is not adversely affected by an inability (or perceived inability) to meet its financial obligations in a timely manner. The Required Liquidity Framework considers the most constraining liquidity requirement to satisfy all regulatory and internal limits at a Morgan Stanley Group and legal entity level.

Liquidity Stress Tests

The Morgan Stanley Group uses Liquidity Stress Tests to model external and intercompany flows across multiple scenarios and a range of time horizons. These scenarios contain various combinations of idiosyncratic and systemic stress events of different severity and duration. The methodology, implementation, production and analysis of the Company's Liquidity Stress Tests are important components of the Required Liquidity Framework.

The Liquidity Stress Tests are produced for Morgan Stanley and its major operating subsidiaries, as well as at major currency levels, to capture specific cash requirements and cash availability at various legal entities. The Liquidity Stress Tests assume that subsidiaries will use their own liquidity first to fund their obligations before drawing liquidity from Morgan Stanley. It is also assumed that Morgan Stanley will support its subsidiaries and will not have access to cash that may be held at certain subsidiaries. In addition to the assumptions underpinning the Liquidity Stress Tests, Morgan Stanley Group takes into consideration the settlement risk related to intra-day settlement and clearing of securities and financial activities.

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

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

10. RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Liquidity Resources

The Morgan Stanley Group maintains sufficient liquidity resources, which consist of unencumbered highly liquid securities and cash deposits with banks (including central banks) ("Liquidity Resources") to cover daily funding needs and to meet strategic liquidity targets sized by the Required Liquidity Framework and Liquidity Stress Tests. The total amount of the Liquidity Resources is actively managed by the Morgan Stanley Group considering the following components: unsecured debt maturity profile; balance sheet size and composition; funding needs in a stressed environment inclusive of contingent cash outflows; and collateral requirements. The amount of Liquidity Resources within the Morgan Stanley Group is based on the Morgan Stanley Group's risk tolerance and is subject to change depending on market and firm-specific events. Unencumbered highly liquid securities consist of netted trading assets, investment securities and securities received as collateral.

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

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

Liquidity Resources may fluctuate from period to period based on the overall size and composition of the balance sheet, the maturity profile of our unsecured debt and estimates of funding needs in a stressed environment, among other factors.

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

Funding management

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

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

Balance sheet management

In managing both the Morgan Stanley Group's and the Company's funding risk the composition and size of the entire balance sheet, not just financial liabilities, is monitored and evaluated. The liquid nature of the marketable securities and short-term receivables arising principally from sales and trading activities in the Institutional Securities business provides the Morgan Stanley Group and the Company with flexibility in managing the composition and size of its balance sheet.

10. RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

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 2021. 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.

30 June 2021	**On demand**	**Less than 1 year**	**Total**
$'000			
Financial assets			
Cash and short term deposits	254	-	254
Loans and advances:			
Loans	-	256,676	256,676
Trade and other receivables:			
Other receivables	486	-	486
Total financial assets	740	256,676	257,416
Financial liabilities			
Trading financial liabilities:			
Derivatives	-	5,514	5,514
Trade and other payables:			
Other payables	250	-	250
Debt and other borrowings:			
Issued Structured Notes	-	251,166	251,166
Total financial liabilities	250	256,680	256,930

All financial assets were repayable on demand as at 31 December 2020.

Market risk

Equity price sensitivity analysis

The sensitivity analysis below is determined based on the exposure to equity price risk at 30 June 2021. There was no exposure to equity price risk at 31 December 2020.

10. RISK MANAGEMENT (CONTINUED)

Market risk (continued)

Equity price sensitivity analysis (continued)

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 2021 $'000	31 December 2020 $'000
Trading financial liabilities	(25,117)	-
Debt and other borrowings	25,117	-
	-	-

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

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 US Dollars, 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.

Operational risk

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

The scope also includes oversight of technology risk, cybersecurity risk, information security risk, and third party risk management (supplier and affiliate risk).

The Company has established an operational risk framework to identify measure, monitor and control risk across the Company. This framework is consistent with the framework established by the Morgan Stanley Group and includes escalation to the Company's appropriate senior management personnel. The framework is continually evolving to reflect changes in the Company and to respond to the changing regulatory and business environment.

10. RISK MANAGEMENT (CONTINUED)

Operational risk (continued)

The Company has implemented operational risk data and assessment systems to monitor and analyse internal and external operational risk events, to assess business environment and internal control factors and to perform scenario analysis. The collected data elements are incorporated in the operational risk capital model. The model encompasses both quantitative and qualitative elements. Internal loss data and scenario analysis results are direct inputs to the capital model, while external operational incidents, business environment and internal control factors are evaluated as part of the scenario analysis process.

In addition, the Company employs a variety of risk processes and mitigants to manage its operational risk exposures. These include a governance framework, a comprehensive risk management program and insurance. Operational risks and associated risk exposures are assessed relative to the risk tolerance established by the Board and are prioritised accordingly.

The breadth and variety of operational risk are such that the types of mitigating activities are wide-ranging. Examples of such activities include continuous enhancement of defences against cyber-attacks; use of legal agreements and contracts to transfer and/or limit operational risk exposures; due diligence; implementation of enhanced policies and procedures; exception management processing controls; and segregation of duties.

Primary responsibility for the management of operational risk is with the business segments, the control groups and the business managers therein. The business managers maintain processes and controls designed to identify, assess, manage, mitigate and report operational risk. Each of the business segments has a designated operational risk coordinator. The operational risk coordinator regularly reviews operational risk issues and reports to the Company's senior management within each business. Each control group also has a designated operational risk coordinator and a forum for discussing operational risk matters with the Company's senior management. Oversight of operational risk is provided by the Operational Risk Oversight Committee, regional risk committees and senior management. In the event of a merger; joint venture; divestiture; reorganisation; or creation of a new legal entity, a new product or a business activity, operational risks are considered, and any necessary changes in processes or controls are implemented.

The Operational Risk Department provides independent oversight of operational risk and assesses, measures and monitors operational risk against tolerance. The Operational Risk Department works with the business divisions and control groups to help ensure a transparent, consistent and comprehensive framework for managing operational risk within each area and across the Company.

The Operational Risk Department scope includes oversight of technology risk, cybersecurity risk, information security risk, the fraud risk management and prevention programme and third party risk management (supplier and affiliate risk oversight and assessment) programme. Furthermore, the Operational Risk Department supports the collection and reporting of operational risk incidents and the execution of operational risk assessments; provides the infrastructure needed for risk measurement and risk management; and ensures ongoing validation and verification of the Company's advanced measurement approach for operational risk capital.

10. RISK MANAGEMENT (CONTINUED)

Operational risk (continued)

The Fusion Resilience Centre's mission is to understand, prepare for, respond to, recover and learn from operational threats and incidents that impact the Morgan Stanley Group, from cyber and fraud to technology incidents, weather events, terror attacks, geopolitical unrest and pandemics. Programmes for Business Continuity and Disaster recovery are designed to mitigate risk and enable recovery from business continuity incidents impacting the Company's people, technology, suppliers and/or facilities. Business divisions within the Morgan Stanley Group and control groups maintain business continuity plans, including identifying processes and strategies to continue business critical processes during a business continuity incident, the business unit will be able to continue its critical processes and limit the impact of the incident to the Morgan Stanley Group and its clients. Technical recovery plans are maintained for critical technology assets and detail the steps to be implemented to recover from a disruption. Business units also test the documented preparation to provide a reasonable expectation that, during a business continuity events. Disaster recovery testing is performed to validate the recovery capability of these critical technology assets.

The Company maintains a programme that oversees our cyber and information security risks. Our cybersecurity and information security policies, procedures and technologies are designed to protect the Company's information assets against unauthorised disclosure, modification or misuse and are also designed to address regulatory requirements. These policies and procedures cover a broad range of areas, including: identification of internal and external threats, access control, data security, protective controls, detection of malicious or unauthorised activity, incident response and recovery planning.

In connection with its ongoing operations, the Company utilises third-party suppliers, which it anticipates that such usage will continue and may increase in the future. These services include, for example, outsourced processing and support functions and consulting and other professional services. The Company's risk-based approach to managing exposure to these services includes the performance of due diligence, implementation of service level and other contractual agreements, consideration of operational risk and ongoing monitoring of third-party suppliers' performance. The Company maintains a third-party risk programme which is designed to align with our risk tolerance and meet regulatory requirements. The program includes appropriate governance, policies, procedures, and enabling. The third-party risk programme includes the adoption of appropriate risk management controls and practices throughout the third-party management lifecycle to manage risk of service failure, risk of data loss and reputational risk, among others.

11. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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

All financial assets and financial liabilities recognised at fair value on a recurring basis at 30 June 2021 are classified as level 2 (valuation techniques using observable inputs). There were no financial instruments recognised at fair value on a recurring basis at 31 December 2020.

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

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

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

Asset and Liability / Valuation Technique	Valuation Hierarchy Classification
Issued Structured Notes designated at fair value through profit or loss • The Company issues Structured Notes which are primarily composed of instruments whose payments and redemption values are linked to the performance of a specific index, a basket of stocks, a specific security, a commodity, a credit exposure or basket of credit exposures, and instruments with various interest-rate-related features including step-ups, step-downs, and zero coupons. • Fair value of Structured Notes is determined using debt portions of the Structured Notes and traded prepaid equity securities contracts. These models incorporate observable inputs referencing identical or comparable securities, including prices to which the notes are linked, interest rate yield curves, option volatility and currency rates, and commodity or equity prices. • Independent, external and traded prices for the notes are considered as well as the impact of the Company's own credit spreads which are based on observed secondary bond market spreads.	• Generally Level 2
Notes • Notes give a risk exposure tailored to market views and risk appetite and mainly provide exposure to the underlying single name equity, equity index or portfolio of equities. Typically, the redemption payment of the note is significantly dependent on the value of embedded equity derivatives. In general, call and put options, digital options, straddles and callability features are combined to create a bespoke coupon rate or redemption payoff for each note issuance, with risk exposure to one or more equity underlyings or indices. The Company values the embedded derivatives using market standard models, which are assessed for appropriateness at least annually. Model inputs, such as equity forward rates, equity implied volatility and equity correlations are marked such that the fair value of the derivatives match prices observable in the inter-dealer markets. In arriving at fair value, the Company uses discount rates appropriate to the funding rates specific to the instrument. In general, this results in overnight rates being used to discount the Company assets and liabilities. In addition, since the notes bear Morgan Stanley's credit risk, the Company considers this when assessing the fair value of the notes, by adjusting the discount rates to reflect the prevailing credit spread at the reporting date.	• Generally Level 2
OTC Derivative Contracts • OTC derivative contracts include forward, swap and option contracts related to interest rates, foreign currencies, credit standing of reference entities, equity prices or commodity prices. • Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be modeled using a series of techniques, including closed-form analytic formulas, such as the Black-Scholes option-pricing model, simulation models or a combination thereof. Many pricing models do not entail material subjectivity as the methodologies employed do not necessitate significant judgment, since model inputs may be observed from actively quoted markets, as is the case for generic interest rate swaps, many equity, commodity and foreign currency option contracts, and certain CDSs. In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry.	• Level 2
Loans • The fair value of loans to other Morgan Stanley Group undertakings is estimated based on the present value of expected future cash flows using its best estimate of interest rate yield curves.	• Level 2

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

There were no transfers between Levels of the fair value hierarchy during the current period or prior year.

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

c. 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 period or prior year.

12. 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.

13. RELATED PARTY DISCLOSURES

The Company's immediate and ultimate parent undertaking and controlling entity and the largest group of which the Company is a member and for which group financial statements are prepared is Morgan Stanley. Morgan Stanley is incorporated in the state of Delaware, the United States of America. Copies of its financial statements can be obtained from www.morganstanley.com/investorrelations.

Transactions with related parties

The Morgan Stanley Group conducts business for clients globally through a combination of both functional and legal entity organisational structures. Accordingly, the Company is closely integrated with the operations of the Morgan Stanley Group and enters into transactions with other Morgan Stanley Group undertakings on an arm's length basis for the purposes of utilising financing, trading and risk management, and infrastructure services. The nature of these relationships along with information about the transactions and outstanding balances is given below. Settlement of the outstanding balances will be made via inter-company mechanisms.

The Company has not recognised any expense and has made no provision for impairment relating to the amount of outstanding balances from related parties (31 December 2020: $nil).

Funding

The Company receives funding from and provides funding to other Morgan Stanley Group undertakings in the following forms:

General funding

General funding is undated, unsecured, floating rate lending. Funding may be received or provided for specific transaction related funding requirements, or for general operational purposes. The interest rates are established by the Morgan Stanley Group Treasury function for all entities within the Morgan Stanley Group and approximate the market rate of interest that the Morgan Stanley Group incurs in funding its business.

Details of the outstanding balances on these funding arrangements and the related interest income or expense recognised in the condensed statement of comprehensive income during the period and prior year are shown in the table below:

13. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions with related parties (continued)

	30 June 2021		31 December 2020	
	Interest	Balance	Interest	Balance
	$'000	$'000	$'000	$'000
Amounts due from the Company's direct parent undertakings	3	486	10	483
Amounts due to other Morgan Stanley Group undertakings	-	250	-	-

Trading and risk management

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

	30 June 2021		31 December 2020	
	Interest	Balance	Interest	Balance
	$'000	$'000	$'000	$'000
Amounts due from the Company's direct parent undertakings	57	256,676	10	483
Amounts due to other Morgan Stanley Group undertakings	-	5,514	-	-

The Company has received net cash collateral of $5,514,000 from other Morgan Stanley Group undertakings (31 December 2020: $nil received) in order to mitigate credit risk on exposures arising under derivatives contracts between the Company and other Morgan Stanley Group undertakings.

Infrastructure services

The Company uses infrastructure services, including the provision of office facilities, operated by other Morgan Stanley Group undertakings at no charge.

Amounts outstanding at the reporting date are included within the general funding balances disclosed above.