Morgan Stanley

Morgan Stanley Europe SE

Interim Financial Statements as at 30 June 2023

Commercial Register Frankfurt am Main HRB 109880

Registered office:
Grosse Gallusstrasse 18
60312 Frankfurt am Main

TABLE OF CONTENTS [1]

(1) Please note that the English version of the Interim Financial Statements as at 30 June 2023 is a convenience translation. Deloitte GmbH Wirtschaftprüfungsgesellschaft, Frankfurt am Main, issued the Independent Auditors' Report only for the German version of the Interim Financial Statements as at 30 June 2023. Therefore, the German version prevails.

INTERIM FINANCIAL STATEMENTS

INTERIM FINANCIAL STATEMENTS 2023

Balance Sheet as of 30 June 2023

€ in millions	**Note**		**30 Jun 2023**	**31 Dec 2022**
Receivables from credit institutions	4			
a) Due on demand		14,500		17,929
b) Other receivables		193		195
			14,693	**18,124**
Receivables from customers	4		**12,276**	**14,196**
thereof: loans granted to local authorities €82 million (31 Dec 2022: €120 million)				
Trading assets	7		**34,627**	**35,486**
Investments in affiliated companies	8		**603**	**603**
thereof: credit institutions €603 million (31 Dec 2022: €603 million)				
Intangible assets	8			
a) Goodwill			**40**	**42**
Property, plant and equipment	8		**19**	**20**
Other assets	9		**298**	**441**
Prepaid expenses and deferred charges			**2**	**2**
Total assets			**62,558**	**68,914**

INTERIM FINANCIAL STATEMENTS 2023

Balance Sheet as of 30 June 2023

€ in millions	Note		30 Jun 2023	31 Dec 2022
Liabilities to credit institutions	4			
a) Due on demand		10,029		11,440
b) With an agreed maturity or term		431		501
			10,460	**11,941**
Liabilities to customers	4			
a) Other liabilities				
aa) Due on demand		11,581		13,747
ab) With an agreed maturity or term		2,725		2,375
			14,306	**16,122**
Debt Issuances	11			
a) Debt Securities			**34**	**0**
Trading liabilities	7		**29,365**	**33,448**
Other liabilities	9		**298**	**309**
Deferred income			**5**	**7**
Provisions	12			
a) Provisions for pensions and similar obligations		12		11
b) Provisions for taxation		23		31
c) Other provisions		115		115
			150	**157**
Subordinated debt	13		**1,009**	**1,006**
Fund for general banking risks			**26**	**26**
thereof: special items according to Section 340e (4) HGB €26 million (31 Dec 2022: €26 million)				
Instruments for Additional Tier 1 Regulatory Capital	14		**1,000**	**1,000**
Equity capital (shareholder's fund)	15			
a) Subscribed capital		3,901		3,901
b) Capital reserve		1,931		931
c) Earnings reserve		66		24
d) Retained earnings		7		42
			5,905	**4,898**
Total liabilities and equity			**62,558**	**68,914**

INTERIM FINANCIAL STATEMENTS 2023

Income Statement for the period from 1 January to 30 June 2023

€ in millions	Notes			30 Jun 2023	30 Jun 2022
Interest income from credit and money market transactions	16		537		(21)
thereof: negative interest income €0 million (30 June 2022: €67 million)					
Interest expenses	16		609		24
thereof: negative interest expenses €0 million (30 June 2022: €81 million)					
				(72)	**(45)**
Commission income	17		217		223
Commission expenses	17		44		41
				173	**182**
Net trading result	18			**217**	**119**
Other operating income	19			**12**	**8**
General administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		138			104
ab) Social security and other pension costs and benefits		23			17
thereof: Pension scheme €6 million (30 June 2022: €6 million)					
			161		121
b) Other administrative expenses			108		80
				269	**201**
Depreciation, amortisation and write-downs of intangible assets, and property, plant and equipment	8			**5**	**7**
Other operating expenses	19			**43**	**35**
Income from ordinary activities				**13**	**21**
Income taxes	20			**6**	**18**
Net profit for the period				**7**	**3**
Net profit				**7**	**3**

INTERIM FINANCIAL STATEMENTS 2023

Statement of Cash Flows for the period from 1 January to 30 June 2023

€ in millions	Note	6 months ended 30 June 2023	6 months ended 30 June 2022
Net income		**7**	**3**
Non-cash items included in net income and reconciliation to cash flow from operating activities			
+/– Depreciation on intangible assets and property, plant and equipment	8	5	7
+/– Increase in/(reversal of) provisions	12	1	(9)
+/- Increase in/(reversal of) Risk discount value-at-risk	7	5	13
+/– Interest expense / income	16	72	45
+/– Income tax expense / income	22	6	18
+/– Other adjustments		(1)	0
= Subtotal		**95**	**77**
Changes in assets and liabilities from operating activities			
–/+ Receivables from credit institutions		3,438	5,211
–/+ Receivables from customers		2,017	(2,402)
–/+ Trading assets		849	(19,866)
–/+ Other assets from operating activities		142	20
+/– Payables to credit institutions		(1,482)	192
+/– Payables to customers		(1,891)	4,514
+/– Debt Issuances		34	0
+/– Trading liabilities		(4,104)	16,296
+/– Other liabilities from operating activities		(36)	140
+ Interest received		445	98
– Interest paid		(474)	(128)
– Income taxes paid		(14)	(18)
Cash flow from operating activities		**(981)**	**4,134**
– Payments for the acquisition of intangible assets and property, plant and equipment		(1)	(1)
Cash flow from investing activities		**(1)**	**(1)**
+ Proceeds from the issuance of instruments for Additional Tier 1 Regulatory Capital	14	0	400
+ Proceeds from contributions to equity	15	1,000	600
– Interest paid for subordinated debt		(18)	(5)
Cash flow from financing activities		**982**	**995**
= Change in cash and cash equivalents		0	5,128
+ Cash and cash equivalents at the beginning of the period		0	0
Cash and cash equivalents at the end of the period	**24**	**0**	**5,128**

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 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. MSESE is a Capital Requirements Regulation ("CRR”) credit institution (Class 1 Investment Firm) however is not authorised to provide either deposit taking services or lending.

The principal business activity of MSESE is the provision of financial services to a client base mainly in the European Economic Area (“EEA”) consisting of corporations, governments, and financial institutions. MSESE operates branch offices in Denmark, France, Italy, the Netherlands, Poland, Spain and Sweden.

There are control agreements (Beherrschungsverträge) in place between MSEHSE and MSESE as well as between MSESE and MSBAG, which include loss compensations in accordance with Section 302 of the German Stock Corporation Act (Aktiengesetz or “AktG”). Due to a Profit and Loss Transfer Agreement between MSESE and MSBAG an income tax group (“Ertragsteuerliche Organschaft”) in accordance with the Corporation Tax Act (“Körperschaftsteuergesetz”) exists.

Capital actions

In the first half of 2023, in connection with the expansion of its business activities, MSESE received CET1 capital of €1,000 million from MSEHSE as an infusion into the capital reserve.

2. Basis of accounting

The interim financial statements are prepared in accordance with 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”), the AktG and the requirements for the German Accounting Standards (Deutsche Rechnungslegungs Standards or “DRS”) 16. Unless otherwise stated, all amounts are rounded to the nearest million Euros.

The company which prepares the consolidated financial statements for the smallest consolidation scope is MSEHSE and the company which prepares the consolidated financial statements for the largest consolidation scope is Morgan Stanley, incorporated in the State of Delaware, in the United States of America (“U.S.”). Morgan Stanley, together with the Company and Morgan Stanley’s other subsidiary undertakings, form the Morgan Stanley Group. The financial statements of Morgan Stanley are published by the Securities and Exchange Commission (“SEC”) in New York, USA, under Central Index Key Number 0000895421. Both sets of consolidated financial statements are available from the Company.

3. Accounting policies

Cash reserve and receivables

Cash reserve is accounted for at nominal value. Receivables from credit institutions and customers are accounted for at acquisition cost, including pro-rata interest and are net of loan loss provisions. Cash placed overnight under the deposit facility with the Deutsche Bundesbank is reported within “Receivables from credit institutions” as at 30 June 2023, whereby as at 31 December 2022 it was disclosed as Cash reserve. Prior year comparatives have been restated accordingly.

Receivables from credit institutions and receivables from customers include, amongst other items, secured financing transactions that are classified as banking book activity. Prior year comparatives for these Balance Sheet categories have been restated for a subset of secured financing transactions as at 31 December 2022.

Loan loss provision

MSESE recognises loan loss provisions for receivables from credit institutions and customers.

In accordance with the requirements of IDW RS BFA 7, which is consistent with the International Financial Reporting Standard ("IFRS") 9, the Expected Credit Loss ("ECL") model is based on the change in credit risk since initial recognition:

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

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

When assessing SICR, MSESE considers both quantitative and qualitative information and analysis. These are based on historical information and conditions expected in the future, which are assessed by credit risk experts.

The determination of a SICR is generally based on changes in the probability of default ("PD"), in conjunction with an assumption that a SICR has occurred if a financial asset is more than 30 days past due.

ECL is calculated using three main components:

- PD: the 12 month and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and over the remaining lifetime of the financial instrument respectively, based on conditions existing at the balance sheet date and future economic conditions.
- Loss given default ("LGD"): the LGD represents expected loss conditional on default, taking into account the mitigating effect of collateral, including the expected value of the collateral when realised and the time value of money.
- Exposure at default ("EAD"): this represents the expected EAD, taking into account the expected repayment of principal and interest from the balance sheet date to the date of default event together with any expected drawdowns of the facility over that period.

These parameters are generally derived from internally developed statistical models, incorporating historical, current and forward-looking macro-economic data and country risk expert judgement. The macro-economic scenarios are reviewed quarterly.

Trading assets and liabilities

Financial instruments held in trading assets and liabilities are initially recognised at purchase price and subsequently 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. Guarantees received or provided in respect of trading derivative contracts are accounted for as trading derivative contracts.

In determining fair value, MSESE uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value that requires the most observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability that were developed based on market data obtained from sources independent of MSESE. Unobservable inputs are inputs that reflect assumptions MSESE believes other market participants would use in pricing the asset or liability, that are developed based on the best information available in the circumstances.

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

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

  Valuations are based on quoted prices in active markets that the Morgan Stanley Group has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgement.

- Level 2: Valuation techniques using observable inputs

  Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

- Level 3: Valuation techniques with significant unobservable inputs

  Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

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 inputs can vary from product to product and is affected by a wide variety of factors, including the type of product, whether the product is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the product. To the extent that a valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgement. Accordingly, the degree of judgement exercised by MSESE in determining fair value is greatest for instruments categorised in Level 3 of the fair value hierarchy.

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 assets. The risk discount is calculated using the regulatory value-at-risk based upon 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 trading result after risk discount. The special item may only be reversed e.g. to offset a net expense of the trading result 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. Derivatives in the trading assets and liabilities 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.

Valuation units

The Company has set up valuation units for physically settling commodity derivatives and structured notes to hedge against market risk. Physically settling commodity derivatives are combined with offsetting hedging transactions. In the first half of 2023, MSESE issued structured notes for the first time. Market risks in these products were hedged with offsetting derivatives.

For both, commodity derivatives and structured notes, the Company forms micro-valuation units in accordance with Section 254 HGB. There is a match in amount and maturity between the underlying and hedging transactions. In order to assess the effectiveness of a valuation unit, the method of matching of critical terms is used.

For the commodity derivatives, the Company applies the freezing method, whereby the changes in value resulting from the hedged risk are not reported on the balance sheet.

Provisions for imminent losses are recognised for an unrealised net loss of the hedged risk (negative ineffectiveness). Any unrealised gains are not recognised.

For structured notes MSESE uses the ongoing booking method, whereby the offsetting changes in the value of the hedged risk are recognised on the balance sheet.

Securities lending and repurchase agreements

Securities repurchase agreements are accounted for in accordance with the applicable 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, whilst 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 to 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 upon the 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 cost (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) HGB. These include cash collateral received, subordinated debt and instruments for Additional Tier 1 Regulatory Capital and other liquidity received from affiliated companies.

Prepaid expenses and deferred charges

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

Provisions

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

MSESE is applying accounting note IDW RH FAB 1.021 in relation to the valuation of provisions for pension and similar obligations funded by insurance contracts. IDW RH FAB 1.021 requires for matching cash flows, the use of the same valuation methodology assumptions for the asset and the liability.

For pensions and similar obligations where the cash flows do not match the plan assets and are not accounted for under IDW RH FAB 1.021, the company continues to use 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 upon the “Heubeck-Richttafeln 2018G” tables. The discount rate is based upon the average market interest rate of the last 10 years with an assumed remaining term of 15 years as published by the Deutsche Bundesbank according to Section 253 (2) HGB.

In accordance with Section 246 (2) HGB, the pension obligations are offset against the plan assets as well as the respective expenses and income. The Company has outsourced the reinsurance policies covering the general pension plan to a contractual trust arrangement (“CTA”).

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

Instruments for additional regulatory core capital

The issued instruments for Additional Tier 1 Regulatory 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 assets, liabilities and interest carry forwards. Deferred tax liabilities are netted against deferred tax assets and the remaining deferred tax assets are not recognised in the balance sheet in accordance with the accounting option set out in Section 274 (1) sentence 2 HGB.

Company-specific tax rates at the time of recognition of temporary differences are used for the estimation of deferred taxes and liabilities. The deferred taxes related to the head office are measured using the relevant combined German income tax rate of 32% which includes corporate tax, trade tax and solidarity surcharge. The deferred taxes related to the foreign branches are measured using the applicable statutory tax rates respectively, which range from 19% to 33%.

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 at the rates ruling at 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 trading result. Due to the special coverage in the same currency, resulting gains and losses from currency translation are recognised in other operating income and expenses.

Notes to the Balance Sheet

4. Residual maturity of receivables and liabilities

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

€ in millions	30 Jun 2023	31 Dec 2022
Receivables from credit institutions		
Due on demand	14,500	17,929
With a remaining maturity of:		
up to three months	193	195
Total	**14,693**	**18,124**

Receivables from credit institutions include overnight cash deposits placed with the Deutsche Bundesbank of €12,330 million (31 December 2022: €14,744 million).

€ in millions	30 Jun 2023	31 Dec 2022
Receivables from customers		
Due on demand	11,715	12,673
With a remaining maturity of:		
up to three months	330	1,023
three months to one year	231	500
Total	**12,276**	**14,196**

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

€ in millions	30 Jun 2023	31 Dec 2022
Liabilities to credit institutions		
Due on demand	10,029	11,440
With a remaining maturity of:		
three months to one year	431	501
Total	**10,460**	**11,941**

€ in millions	30 Jun 2023	31 Dec 2022
Liabilities to customers		
Due on demand	11,581	13,747
With a remaining maturity of:		
up to three months	492	–
one year to five years	2,233	2,375
Total	**14,306**	**16,122**

The following table presents the maturity structure of debt issuances:

€ in millions	30 Jun 2023	31 Dec 2022
Debt Issuances		
With a remaining maturity of		
more than five years	34	–
Total	**34**	**0**

5. Receivables and liabilities with affiliated companies

The following table presents receivables from and liabilities to affiliated companies.

€ in millions	30 Jun 2023	31 Dec 2022
Receivables from credit institutions	163	261
Receivables from customers	9,742	11,908
Liabilities to credit institutions	6,636	7,379
Liabilities to customers	8,450	10,133
Subordinated debt	1,009	1,006
Instruments for Additional Tier 1 Regulatory Capital	1,000	1,000

6. Repurchase agreements

The carrying amount of the securities sold under repurchase agreements, lent or pledged as collateral is €4,335 million (31 December 2022: €1,384 million).

7. Trading assets and liabilities

In alignment with its business strategy and regulatory expectations, MSESE plans to expand its business activities. As part of this expansion, in the first half of 2023, MSESE increased it's market risk management capabilities on certain European Union (“EU”) products. The balance sheet impact of this change was limited due to the application of netting rules under HGB.

The following table provides a breakdown of the trading assets and liabilities:

	30 Jun 2023	
€ in millions	Trading assets	Trading liabilities
Derivative financial instruments	20,948	19,689
Receivables/liabilities	8,611	6,195
Bonds and other fixed-income securities	4,318	3,481
Shares and other non-fixed-income securities	777	–
Risk discount Value-at-Risk	(27)	–
Total	**34,627**	**29,365**

Derivative financial instruments include the offset of positive fair values of €480,543 million with negative fair values of €484,163 million along with cash collateral received of €10,467 million and cash collateral paid of €14,087 million.

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

	30 Jun 2023
€ in millions	Nominal amount
Interest-related transactions	15,364,025
Exchange-rate-related transactions	1,053,298
Equity-related transactions	138,546
Credit derivatives	71,158
Other transactions	23,569
Total	**16,650,596**

The 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:

	30 Jun 2023 Fair Value	
€ in millions	Asset	Liability
Interest-related transactions	10,063	10,138
Exchange-rate-related transactions	7,851	5,535
Equity-related transactions	1,221	1,069
Credit derivatives	424	448
Other transactions	1,389	2,499
Total	**20,948**	**19,689**

8. Non-current assets

Intangible assets consist of goodwill of €40 million (31 December 2022: €42 million).

Property, plant and equipment includes leasehold improvements of €13 million (31 December 2022: €13 million) and office equipment of €3 million (31 December 2022: €3 million).

Investments in affiliated companies relates to shares in MSBAG. The net profit of MSBAG as at 31 December 2022 amounted to €0 million due to the profit transfer to MSESE. The equity of MSBAG as at 31 December 2022 amounted to €660 million.

The following table shows changes in non-current assets:

€ in millions	Intangible assets	Property, plant and equipment	Investments in affiliated companies
Acquisition / production cost 1 Jan 2023	**59**	**40**	**603**
Additions	–	1	–
Acquisition / production cost 30 Jun 2023	**59**	**41**	**603**
Accumulated depreciation 1 Jan 2023	**17**	**20**	**–**
Depreciation	2	2	–
Accumulated depreciation 30 Jun 2023	**19**	**22**	**–**
Carrying amount as at 31 Dec 2022	**42**	**20**	**603**
Carrying amount as at 30 Jun 2023	**40**	**19**	**603**

9. Other assets and liabilities

Other assets of €298 million (31 December 2022: €441 million) and other liabilities of €298 million (31 December 2022: €309 million) primarily consist of collateral paid and received for derivatives.

10. Foreign currencies

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

€ in millions	30 Jun 2023	31 Dec 2022
Assets	13,458	14,300
Liabilities	14,015	14,734

The foreign currency volumes mainly relate to the currency USD.

11. Debt Issuances

In the first half of 2023, MSESE issued structured notes to non-affiliated companies of €34 million (31 December 2022: €0 million).

12. Provisions

Provisions for pensions and similar obligations

Provisions of €12 million (31 December 2022: €11 million) were made for pensions and similar obligations.

The main actuarial assumptions applied are as follows:

Actuarial assumptions	30 Jun 2023	31 Dec 2022
Discount rate	1.8%	1.8%
Income dynamics	2.5%	2.5%
Pension dynamics	2.6%	2.6%

The discount rate is based upon the average market interest rate of the last 10 years with an assumed remaining term of 15 years. For more details refer to the section "Provisions" in Note 2 "Accounting policies".

Other provisions

Other provisions of €115 million (31 December 2022: €115 million) primarily relate to variable, deferred and share-based compensation measured at the fair value of Morgan Stanley shares at the balance sheet date.

13. Subordinated debt

As at 30 June 2023, MSESE holds subordinated debt of €1,009 million (31 December 2022: €1,006 million). The loan was granted by its immediate parent MSEHSE, has a variable interest rate of EURIBOR plus 160 basis points, matures at 27 October 2031 and has an optional quarterly call dates starting from 27 October 2025.

Interest expense on subordinated debt includes interest not yet due at 30 June 2023 of €9 million (31 December 2022: €6 million).

14. Instruments for Additional Tier 1 Regulatory Capital

As at 30 June 2023, liabilities include Additional Tier 1 Regulatory Capital ("AT1 Notes") in accordance with CRR. AT1 Notes with a total nominal amount of €600 million and a denomination of €5 million each were issued on 29 October 2020. Additional AT1 Notes with a total nominal amount of €400 million and a denomination of €5 million each were issued on 12 April 2022.

The AT1 Notes represent the Company's perpetual, unsecured and subordinated debt. The notes issued in 2020 and 2022 are interest bearing at a fixed annual interest rate of 4.7% and 5.0%, respectively. Interest expenses on these instruments include interest not yet due of €28 million (31 December 2022: €4 million) which is disclosed in other liabilities.

15. Equity

Equity as at 30 June 2023 is composed as follows:

€ in millions	30 Jun 2023	31 Dec 2022
Subscribed capital	3,901	3,901
Capital reserve	1,931	931
Earnings reserve	66	24
Retained earnings	7	42
Total equity	**5,905**	**4,898**

Subscribed capital

MSEHSE is the sole shareholder of the Company.

The subscribed capital is unchanged and is comprised of €3,901 million no-par-value registered shares of €1 each.

Capital reserve

Capital reserve increased €1,000 million on 3 April 2023 from €931 million to €1,931 million due to CET1 capital infusion from MSEHSE.

Earnings reserve

Net income of €42 million for the financial year ending 31 December 2022 was transferred to earnings reserves by resolution of the Supervisory Board on 24 April 2023.

Notes to the Income Statement

16. Interest income and expenses

Significant increase in interest income and expenses reflects the higher interest rate environment in which the Company executes its funding and financing activities.

The following table provides a breakdown of interest income:

€ in millions	30 Jun 2023	30 Jun 2022
Cash collateral pledged	298	(14)
Reverse repurchase agreements	61	(8)
Funding provided to affiliated companies	2	17
Cash deposits	176	(16)
Total interest income	**537**	**(21)**
Thereof: negative interest income	–	(67)

The following table provides a breakdown of interest expenses:

€ in millions	30 Jun 2023	30 Jun 2022
Funding received from affiliated companies	193	51
Cash collateral received	259	(28)
AT1 Notes	24	18
Subordinated debt	21	6
Repurchase agreements	112	(23)
Total interest expenses	**609**	**24**
Thereof: negative interest expense	–	81

17. Commission income and expenses

Commission income of €217 million (30 June 2022: €223 million) includes €67 million (30 June 2022: €90 million) related to investment banking activities and €150 million (30 June 2022: €133 million) from the brokerage of financial products. The decrease in commission income from investment banking activities is the result of lower global advisory activities reflecting the market conditions in the first half of 2023.

Commission expenses of €44 million (30 June 2022: €41 million) mainly result from services received from affiliated companies and fees for securities services received from companies outside the Morgan Stanley Group.

18. Net trading result

The net trading result amounts to €217 million (30 June 2022: €119 million). The increase compared to the previous half-year is driven by the higher interest rate environment and strong client activity in interest rate derivatives.

19. Other operating income and expenses

Other operating income of €12 million (30 June 2022: €8 million) primarily consists of payments for securities settlements in accordance with Central Securities Depositories Regulation (“CSDR”) as well as service charges from ongoing operations with affiliated companies in Germany, the UK and the U.S.

Other operating expenses of €43 million (30 June 2022: €35 million) consist primarily of French and Spanish financial transaction taxes and expenses related to the settlement of securities.

20. Income taxes

Income taxes are composed of the following:

€ in millions	30 Jun 2023	30 Jun 2022
Corporation tax	3	10
Trade tax	3	8
Total income tax	**6**	**18**

Income taxes relate to the ongoing taxes for the financial half year and are impacted partly by non-deductible expenses such as the annual contribution to the Single Resolution Fund and partially 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 CO_2 certificates which were hedged by offsetting derivatives with affiliated companies. These valuation units have an average residual maturity of one year and are not reported on the balance sheet. Nominal and fair value amounts as at 30 June 2023 are as follows:

€ in millions	Nominal amount	Fair value positive	Fair value negative
Underlying transaction	678	25	21
Hedging Instrument	678	21	25

Market risks in issued structured notes were hedged with offsetting derivatives with affiliated companies. Nominal and fair value amounts of these valuation units as at 30 June 2023 are as follows.

€ in millions	Nominal amount	Hedge / Full fair value change positive	negative
Structured Note	35	0	1
Hedging Instrument	35	1	0

22. Contingencies

Refer to Note 1 "Corporate information" for details of the control agreements and Profit and Loss Transfer Agreement.

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 was as follows:

Business Units	30 Jun 2023	31 Dec 2022
Infrastructure and Control	354	320
Institutional Securities Group	373	309
Real Assets	0	16
Total	**727**	**645**

Infrastructure and Control primarily consists of Operations, Finance, Risk Management, Corporate Service, IT and Legal and Compliance.

The Institutional Securities Group includes Institutional Equities Division, Fixed Income Division, Investment Banking Division and Global Capital Markets.

24. Statement of Cash Flows

The cash flow statement is prepared using the indirect method and shows the net increase/ decrease in cash and cash equivalents in the first half year.

Cash and cash equivalents represents the Company`s cash balance held with central banks due on demand and are not subject to any restrictions on disposal. Due to its narrow definition, Cash and cash equivalents does not include overnight deposits placed with the Deutsche Bundesbank, which are reported within "Receivables from credit institutions".

25. Management Board and Supervisory Board

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

- Oliver Behrens,
  Chairman of the Management Board
- David Best,
  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. Jana Währisch,
  Member of the Management Board

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

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

- Frank Mattern,
  Chairman of the Supervisory Board, Independent advisor
- Clare Woodman,
  Deputy Chairperson of the Supervisory Board, Managing Director, Morgan Stanley
- Raja Akram,
  Managing Director, Morgan Stanley

- Maria Luís Casanova Morgado Dias de Albuquerque, Independent advisor
- David Cannon, Independent advisor
- Lee Guy, Independent advisor
- Kim Lazaroo, Managing Director, Morgan Stanley
- Lucrezia Reichlin, University Professor resigned as a member of the Supervisory Board with effect as of 31 May 2023.