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MORGAN STANLEY & CO. INTERNATIONAL plc

Half-yearly financial report

30 June 2020

MORGAN STANLEY & CO. INTERNATIONAL plc

CONTENTS

INTERIM MANAGEMENT REPORT

The Directors present their interim management report and the condensed consolidated financial statements ("Interim Financial Statements") of Morgan Stanley & Co. International plc (the "Company") and all of its subsidiary undertakings (together the "Group"), for the six month period ended 30 June 2020. This interim management report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to the Company and its subsidiary undertakings when viewed as a whole.

The interim management report contains certain forward-looking statements. These statements are made by the Directors in good faith, based on the information available at the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information. In particular, the effects on the Group of the Coronavirus disease ("COVID-19") pandemic and the related global economic crisis, in addition to the potential impact of the UK's withdrawal from the European Union ("EU") continue to be key areas of principal risk and uncertainty.

RESULTS AND DIVIDENDS

The Group's profit for the six month period, after tax, was $592 million (30 June 2019: $361 million).

On 1 June 2020, a coupon payment on the Additional Tier 1 ("AT1") capital instruments of $119 million (2019: $119 million; see note 12) was paid. No other dividends were proposed or paid during the six months ended 30 June 2020 (2019: $nil).

GROUP AND COMPANY OVERVIEW

The principal activity of the Group is the provision of financial services to corporations, governments and financial institutions across a global client base.

The Company operates branches in the Dubai International Financial Centre, the Netherlands, Poland, the Qatar Financial Centre, South Korea and Switzerland.

The Company is authorised by the Prudential Regulation Authority ("PRA") and regulated by the PRA and the Financial Conduct Authority ("FCA"). In addition, the Company is a registered swap dealer and is regulated by the United States ("US") Commodity Futures Trading Commission ("CFTC").

There have been no changes in the Group's principal activity during the period and no significant change in the Group's principal activity is expected.

The Group's ultimate parent undertaking and controlling entity is Morgan Stanley, which, together with the Group and Morgan Stanley's other subsidiary undertakings, form the "Morgan Stanley Group". The Company is also a wholly owned indirect subsidiary of Morgan Stanley International Limited ("MSI").

The Morgan Stanley Group is a global financial services firm that maintains significant market positions in each of its business segments: Institutional Securities, Wealth Management and Investment Management. The Morgan Stanley Group provides a wide variety of products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals. As a key contributor to the execution of the Morgan Stanley Group's Institutional Securities global strategy, the Group provides capital raising; financial advisory services, including advice on mergers and acquisitions, restructurings, real estate and project finance; corporate lending; sales, trading, financing and market-making activities in equity and fixed income products, including foreign exchange and commodities; and investment activities.

INTERIM MANAGEMENT REPORT
BUSINESS ENVIRONMENT AND PERFORMANCE

Business environment

Global markets and economic conditions

The COVID-19 pandemic created a severe disruption in the global economy, causing global economic output to contract by an annual rate of 4.9% in the first half of 2020. The economic impact was broad-based, across both developed markets and emerging markets. In developed markets, the economy contracted at an annual rate of 6.5% in the first half of 2020; in emerging markets, economic activity declined by an annual rate of 3.9%. In response to the pandemic, policy makers have embarked on significant monetary and fiscal easing measures, bringing central banks' balance sheets and fiscal deficits to multi-year highs. In the US, the Federal Reserve has cut the federal funds rate to the zero lower bound and expanded its balance sheet by 14% of Gross Domestic Product ("GDP") since February. Congress is expected to pass a new stimulus package in September worth \$1.5 to \$2 trillion. If \$1.5 trillion is approved, the US fiscal deficit will likely widen to around 27.1% of GDP this year. In the United Kingdom ("UK"), the Bank of England has cut the Bank Rate to the lower bound and expanded its balance sheet by 11%. The UK government has also announced various other measures, bringing its deficit to 17.2% of GDP this year. In the euro area, the European Central Bank ("ECB") has expanded its balance sheet by 15% of GDP since February, and the euro area's fiscal deficit will reach 10.3% of GDP this year. In addition, the ECB has asked certain EU banks not to pay dividends or buy back shares, with the latest request in July 2020 extending this suspension until 1 January 2021. Likewise, in Japan, the Bank of Japan has expanded its balance sheet by 15% of GDP since February, and the announced supplemental budgets will push the fiscal deficit to 15.1% of GDP this year. In China, the People's Bank of China has lowered interest rates, and the fiscal support announced in May by the National People's Congress will bring China's fiscal deficit to 15.2% of GDP this year. Other major central banks, such as the Reserve Bank of India, the Central Bank of Russia and the Central Bank of Brazil have lowered interest rates to multi-year lows, and governments in other economies have similarly implemented measures to ensure adequate credit flows to businesses and to provide relief to households.

COVID-19 pandemic

The COVID-19 pandemic and related government-imposed shelter-in-place restrictions have had, and will likely continue to have, a severe impact on global economic conditions and the environment in which we operate our businesses. Morgan Stanley has begun implementing a return-to-workplace program, which is phased based on role, location and employee willingness and ability to return, and focused on the health and safety of all returning staff. Recognising that offices around the world face different local conditions, time lines for return may vary significantly, though Morgan Stanley is currently planning for the return of additional employees to offices by the end of 2020. Morgan Stanley continues to be fully operational, with approximately 90% of global employees working from home as of 30 June 2020.

Economic conditions have had mixed effects on the Morgan Stanley Group's and the Group's businesses. For the six month period to 30 June 2020 high levels of client trading activity, related to market volatility, have significantly increased revenues in the Group, however this was partially offset by the negative impact of lower company dividends impacting the EMEA Equity businesses. The increased allowances for credit losses for the Group were immaterial.

Although Morgan Stanley is unable to estimate the extent of the impact, the ongoing COVID-19 pandemic and related global economic crisis are likely to have adverse impacts on future operating results of the Group. In addition, levels of client trading activity may not remain elevated and investment banking advisory activity may be subdued.

Business environment (continued)

COVID-19 pandemic (continued)

In response to the significant economic impact of the COVID-19 pandemic, global regulators have released a suite of regulatory updates and programs to facilitate market continuation and to provide incentives for banks to continue lending to business and consumers. The impact of these regulatory measures is included in the Company's Capital Resources below and the roll offs are included within regular forward looking capital planning activities. For further detail, refer to 'COVID-19 Regulatory measures' on page 10.

Morgan Stanley and the Group continue to use their Risk Management framework, including stress testing, to manage the significant uncertainty in the present economic and market conditions.

UK withdrawal from the EU

On 31 January 2020, the UK withdrew from the EU under the terms of a withdrawal agreement between the UK and the EU. The withdrawal agreement provides for a transition period to the end of December 2020, during which time the UK will continue to apply EU law as if it were a member state, and UK firms' passporting rights to provide financial services in EU jurisdictions will continue. Pages 3 to 4 of the strategic report to the consolidated financial statements for the year ended 31 December 2019 ("Annual Report and Financial Statements") provide more detailed disclosure on the UK's withdrawal from the EU and the Group's new operating model.

The Company continues to take steps to complete the transfer of its existing branch operations. The Morgan Stanley Group expects that further clients of the Company, and activities currently transacted by the Company, including capital markets activities, will move from the Company to MSESE. The extent and timing of these moves will depend on client preferences and on licensing rules, which in turn will depend on the form of any future trading agreement between the UK and the EU in relation to financial services.

Following the reorganisations mentioned, the Group's principal activity and risks remain unchanged and the majority of current profitability and balance sheet is expected to remain within the Group.

The Morgan Stanley Group has prepared its European operation to be able to do business with its clients in the EU regardless of whether or not equivalence (or an alternative arrangement for financial services) is granted. Changes have been made to European operations in an effort to ensure that the Morgan Stanley Group can continue to provide cross-border banking and investment and other services in EU member states from within the EU where necessary.

As a result of the ongoing political uncertainty, it is currently unclear what the final post-Brexit structure of European operations will be for the Morgan Stanley Group overall. Given the potential negative disruption to regional and global financial markets, results of Morgan Stanley's operations and business prospects could be negatively affected.

INTERIM MANAGEMENT REPORT
BUSINESS ENVIRONMENT AND PERFORMANCE (CONTINUED)

Financial performance indicators

The Board of directors monitors the results of the Group by reference to a range of performance and risk based metrics, including, but not limited to, the following:

Key performance indicators

in $ millions	30 June 2020	30 June 2019
Return on shareholders' equity (Group)		
Ordinary shareholders' equity at beginning of the year	20,561	21,060
Profit after tax	592	361
Return on shareholders' equity - annualised	5.8%	3.4%

in $ millions	30 June 2020	31 December 2019
Tier 1 capital ratio (Company)		
Risk-weighted assets ("RWAs")	144,306	127,348
Tier 1 capital	19,224	18,894
Tier 1 capital ratio	13.3%	14.8%
Leverage ratio (Company)		
Leverage exposure	440,711	445,417
Tier 1 capital	19,224	18,894
Leverage ratio	4.4%	4.2%
Liquidity coverage ratio[1] (Company)		
Liquidity buffer – High quality liquid assets	39,957	42,688
Liquidity coverage ratio	209%	214%

1. Calculated as the average of the preceding twelve months

Movements in Key performance indicators are primarily explained by movements in the financial statement components in the following 'Overview of 2020 financial results' section, as well as the 'Own funds' section on page 11.

The Company has consistently been, and continues to be, in excess of required minimum regulatory ratios for capital and liquidity. Further information on how the Company manages these resources is outlined in the section 'Liquidity and Capital Resources management and regulation'.

Other performance indicators

in $ millions	30 June 2020	30 June 2019
Return on assets (Group)		
Total assets at beginning of the year	502,508	446,199
Profit after tax	592	361
Return on assets - annualised	0.24%	0.16%

INTERIM MANAGEMENT REPORT
BUSINESS ENVIRONMENT AND PERFORMANCE (CONTINUED)

Overview of 2020 financial results

Income statement

Set out below is an overview of the Group's financial results for the six month periods ended 30 June 2020 ("the period") and 30 June 2019 ("the prior year period").

in $ millions		Six months ended 30 June 2020		Six months ended 30 June 2019	Increase/ (decrease)	Variance %
Net revenues		**3,651**		**2,824**	**827**	**29%**
Staff related expenses	(1,064)		(896)		168	19%
Non-staff related expenses	(1,463)		(1,432)		31	2%
Operating expenses		**(2,527)**		**(2,328)**	**199**	**9%**
Net loss on investment in subsidiary		-		(6)	(6)	-100%
Profit before tax		**1,124**		**490**	**634**	**129%**
Income tax expense		(532)		(129)	403	312%
Profit after tax		**592**		**361**	**231**	**64%**

The condensed consolidated income statement for the period is set out on page 20 and segment reporting in note 13 of the condensed consolidated financial statements. The Group reported a 64% increase in profit after tax for the period, primarily driven by a significant increase in client activity during the period as noted in the 'COVID-19 pandemic' section earlier. These elevated activity levels were particularly marked in the Asia and Americas geographic segments of the Group's business, resulting in an increase in their contribution to the Group's profit before tax to 52% compared to 28% in the prior year period.

Net revenues

The Group's net revenues increased by 29% compared to the prior year period, and are best considered in two categories, 'Fee and commission income' and the aggregate of all other net revenues.

All other net revenues increased by $636 million primarily due to an increase in both the Fixed Income and Equity businesses driven by higher client activity. The increase in Fixed Income reflects the strong performance of these businesses across products and geographies. The Equity businesses revenues increased mainly in the Asia region, however was partially offset by lower EMEA revenues as a result of reduced company dividends following the ECB direction on dividend payments, as disclosed in the 'Global markets and economic conditions' section on page 4. Within other net revenues, the Group benefitted from a significant decrease in 'Net interest expense' as a result of a decrease in interest rates as compared to the prior year period.

'Fee and commission' income increased by $191 million mainly as a result of the higher client activity referred to above in the Equity and Fixed Income businesses across geographical regions and particularly within the Asia region's equity markets. In addition, Investment Banking fee income increased, again driven by activity levels.

Operating expenses

The increase in staff related expenses was primarily driven by an increase in discretionary compensation as a result of increased revenues, offset by a reduction in the mark-to-market on deferred equity compensation, primarily due to the decrease in the Morgan Stanley share price in the period.

Non-staff related expenses were slightly higher, reflecting an increase in volume-related expenses from increased client activity.

Refer to note 5 of the condensed consolidated financial statements for further detail on 'Operating expenses'.

INTERIM MANAGEMENT REPORT
BUSINESS ENVIRONMENT AND PERFORMANCE (CONTINUED)

Overview of 2020 financial results (continued)

Income statement (continued)

Income tax expense

The Group's tax expense for the period is $532 million, compared to $129 million for the prior period. This represents an effective tax rate ("ETR") of 47.3% (30 June 2019: 26.3%), which is higher than the average standard rate of UK corporation tax (inclusive of the UK Banking surcharge) of 27% (30 June 2019: 27%). The reason for the higher ETR is primarily due to a $212 million tax expense as a result of remeasurement of provisions in relation to uncertain tax positions, principally following a Dutch Court judgement in relation to an ongoing matter. This resulted in an increase to the ETR of 18.9%. See Income tax note 6 and the 'Tax matters' section of Provisions note 11 for further details.

Balance sheet

in $ millions	**30 June 2020**	**31 December 2019**	**Increase/ (decrease)**	**Variance %**
Cash and short term deposits	32,790	28,803	3,987	14%
Trading financial assets	357,249	310,744	46,505	15%
Secured financing	82,571	92,447	(9,876)	-11%
Trade and other receivables	71,864	69,760	2,104	3%
Other assets	774	754	20	3%
Total Assets	**545,248**	**502,508**	**42,740**	**9%**
Trading financial liabilities	315,293	262,256	53,037	20%
Secured borrowing	79,900	84,474	(4,574)	-5%
Trade and other payables	90,844	86,296	4,548	5%
Debt and other borrowings	37,235	48,523	(11,288)	-23%
Other liabilities	825	342	483	141%
Total Liabilities	**524,097**	**481,891**	**42,206**	**9%**
Total Equity	**21,151**	**20,617**	**534**	**3%**

Assets and liabilities

The increase in 'Trading financial assets' and 'Trading financial liabilities' was primarily driven by derivative assets and liabilities respectively, as a result of fair value movements due to a reduction in interest rates. The increase in 'Trading financial assets' from derivative assets was partially offset by a reduction in corporate equities, predominantly driven by a decrease in client demand towards the end of period.

The decrease in 'Debt and other borrowings' is due to a decrease in unsecured funding required, as a result of a decrease in business activity towards to end of the period.

Equity

Total Equity increased by $534 million primarily as a result of profit after tax of $592 million.

LIQUIDITY AND CAPITAL RESOURCE MANAGEMENT AND REGULATION

Pages 7 to 15 of the Annual Report and Financial Statements provides more detailed qualitative disclosures on the Group's Liquidity and Capital resource management and Regulation. Quantitative information and updates from 31 December 2019 are included below.

Liquidity and funding management

Regulatory liquidity framework

The Basel Committee has developed the Liquidity Coverage Ratio ("LCR") for use as a standard in liquidity risk supervision.

For more detail on the requirements with which the Company must comply refer to page 9 of the Annual Report and Financial Statements for the year ended 31 December 2019. The Company complied with all of its regulatory liquidity requirements during the year.

in $ millions	**30 June 2020**	**31 December 2019**
High quality liquid assets	39,957	42,688
Liquidity Coverage ratio[1]	209%	214%

1. Calculated as the average of the preceding twelve months

Credit ratings

The Company relies on external sources to finance a significant portion of its daily operations. The cost and availability of financing are impacted by the credit ratings, among other variables.

At 30 June 2020, the Company's senior unsecured ratings were as follows:

	Short-Term Debt	**Long-Term Debt**	**Rating Outlook**
Moody's Investors Service, Inc ("Moody's")	P-1	A1	Rating Under Review for Upgrade
Standard & Poor's Rating Service ("S&P")	A-1	A+	Stable

Collateral impact of a downgrade

The Company is a participant in global derivatives markets. In some cases, the derivative counterparties have contractual rights that require the Company to post collateral to them in the event that credit rating agencies downgrade the Company's credit rating.

In measuring collateral call risks, all amounts of collateral that the Company could be required to post in accordance with the terms and conditions of the downgrade trigger clauses found in applicable legal agreements, are considered.

As at 30 June 2020, the future potential collateral amounts and termination payments that could be called or required, by counterparties or exchanges and clearing organisations in the event of one-notch or two-notch downgrade scenarios (from the lowest of Moody's or S&P ratings) based on the relevant contractual downgrade triggers, were $160 million and an incremental $244 million, respectively.

The impact of potential collateral calls related to the derivative exposures is inherently uncertain and would depend on a number of interrelated factors, including, among others, the magnitude of the downgrade, the rating relative to peers, the rating assigned by the relevant agency pre-downgrade, individual client behavior and future mitigating actions that could be taken. The Company manages the risk of potential collateral calls on the derivative positions by employing a variety of risk mitigation strategies, including modelling the impact of credit rating agency downgrades in the liquidity stress test program, monitoring historical changes in variation margin, diversifying risk exposures, hedging, managing counterparty and product risk limits and maintain the liquidity reserve to enable the Company to meet unexpected collateral calls or other potentially adverse developments.

LIQUIDITY AND CAPITAL RESOURCE MANAGEMENT AND REGULATION (CONTINUED)

Capital management

The Group views capital as an important source of financial strength. Its policies and procedures for managing and monitoring its capital are detailed on pages 14 to 15 of the Annual Report and Financial Statements.

As at 30 June 2020 the Company Total Capital Requirement ("TCR") was $15.7 billion, equivalent to 10.9% of RWAs. In addition, the PRA sets a buffer if required in addition to the Basel Combined Buffers, which is available to support the Company in a stressed market environment.

The Company's capital is managed to ensure that risk- and leverage-based requirements assessed through the Internal Capital Adequacy Assessment Process ("ICAAP") and Supervisory and Evaluation Review Process ("SREP") are met. Internal capital ratio minima are set to ensure the Company has sufficient capital to meet their regulatory requirements at all times.

The capital managed by the Company broadly includes share capital, Additional Tier 1 capital instruments, subordinated debt, senior subordinated debt and reserves. In order to maintain or adjust its capital structure, the Company may pay dividends, return capital to its shareholder, issue new shares, or issue or repay AT1 capital instruments or subordinated debt.

Regulatory capital framework

The Group continues to manage its capital position to ensure adequate resources are available to support its activities, to enable it to withstand market stresses, and to meet regulatory stress testing requirements proposed by its regulators.

The Company is regulated by the FCA and the PRA and as such is subject to minimum capital requirements as calculated in accordance with PRA rules, which are based on the fourth EU Capital Requirements Directive and EU Capital Requirements Regulation ("CRR") collectively known as "CRD IV". The Company's capital is monitored on an ongoing basis to ensure compliance with these requirements. At a minimum, the Company must ensure that Capital Resources described in accordance with CRR as Own Funds, are greater than the TCR.

The Company complied with all of its regulatory capital requirements during the year.

COVID-19 Regulatory Measures

In response to the significant economic impact of the COVID-19 pandemic, global regulators have released a suite of regulatory updates and programs to facilitate market continuation and to provide incentives for banks to continue lending to business and consumers. The regulatory responses to COVID-19 differ by jurisdictions and continue to evolve.

In the EU, effective from 27 June 2020, targeted amendments were made to the CRR and the revised CRR ("CRR2"). The amendments include revised capital and liquidity requirements to address the impact of higher market volatility. For example, they allow flexibility for competent authorities to exclude certain back-testing exceptions observed during the COVID-19 pandemic period, if certain conditions are met, which will reduce institutions' Value at Risk multiplier and capital requirements for market risk calculated using internal models.

In the UK, the Bank of England reduced countercyclical buffer requirements. Other guidance has also been provided, for example on the use of capital and liquidity buffers.

The impact of these regulatory measures is included in the Company's Capital Resources below and the roll offs are included within regular forward looking capital planning activities.

LIQUIDITY AND CAPITAL RESOURCE MANAGEMENT AND REGULATION (CONTINUED)

Capital management (continued)

Own Funds

Set out below are details of the Company's Capital Resources, described in accordance with CRR in the tables below as Own Funds, as at 30 June 2020 and 31 December 2019.

in $ millions	**30 June 2020**	**31 December 2019**
Common Equity Tier 1 ("CET 1")	15,724	15,394
Additional Tier 1	3,500	3,500
Tier 1 Capital	19,224	18,894
Tier 2 Capital	5,000	5,000
Total Own Funds	**24,224**	**23,894**
Risk Weighted Assets ("RWAs")	144,306	127,348
CET 1 Ratio	10.9%	12.1%
Tier 1 Capital Ratio	13.3%	14.8%
Total Capital Ratio	16.8%	18.8%

RWAs increased by $16,958 million during the period, primarily as a result of an increase in market risk due to increases in VaR based measures.

CET 1 increased by $330 million in the period, primarily as a result of an increase in 'Retained earnings' (refer to 'Overview of 2020 financial results' above).

Leverage ratio

The Basel III framework introduced a simple, transparent, non-risk based leverage ratio to act as a credible supplementary measure to the risk-based capital requirements. The Basel Committee is of the view that a simple leverage ratio framework is critical and complementary to the risk-based capital framework, and that a credible leverage ratio is one that ensures broad and adequate capture of both the on- and off-balance sheet sources of banks' leverage.

For the Company's leverage ratio refer to the 'Key performance indicators' section above.

The Company will be subject to a binding leverage ratio of 3% from 28 June 2021 as part of CRR II. Further details of CRR II are on page 14 of the Annual Report and Financial Statements..

Resolution and recovery planning

Both the Morgan Stanley Group and the MSI Group prepare, on an annual basis, a recovery plan, which identifies mitigation tools available to both groups in times of severe stress. For further details see pages 13 of the Annual Report and Financial Statements.

Minimum Requirement for own funds and Eligible Liabilities ("MREL") and Total Loss Absorbing Capacity ("TLAC")

In June 2018, the Bank of England, as the UK resolution authority, set MREL for all institutions on both an individual and group consolidation basis, in line with the Bank Recovery and Resolution Directive ("BRRD"). MREL serves to ensure that the Group has sufficient eligible liabilities in a bail-in scenario to absorb losses and safeguard existing capital requirements. MREL requirements were effective from 1 January 2019. In 2018, the Group issued a $6,000 million senior subordinated loan, to ensure compliance with the regulations.

As part of the CRR II, the TLAC requirements apply at the Group level only and were effective from 27 June 2019. The $6,000 million senior subordinated loan referred to above contributes to meeting the Group's TLAC requirements.

LIQUIDITY AND CAPITAL RESOURCE MANAGEMENT AND REGULATION (CONTINUED)

Regulatory developments

Pages 14 to 15 of the Annual Report and Financial Statements provides qualitative disclosures on regulatory developments that impact the Group. The following are updates to these developments.

Investment Firm Regulation / Directive

Following the transition period of the UK's withdrawal from the EU, the UK will endeavour to introduce the Investment Firms Prudential Regime ("IFPR") with a largely consistent application date with that of the EU's Investment Firm Regulation ("IFR")/ Investment Firm Directive ("IFD"). However, as the IFPR is being introduced through the FS Bill, the specific timing and final scope of the introduction of this regime is still being considered and will be dependent on the Bill's passage through Parliament.

Expected Replacement of London Interbank Offered Rate ("LIBOR")

The International Accounting Standards Board issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in August 2020. The amendments outline the accounting and disclosure requirements for financial instruments which are transitioned to alternative benchmark rates. The amendments are applicable retrospectively and are effective for annual periods beginning on or after 1 January 2021. Earlier application is permitted. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

RISK MANAGEMENT

Risk is an inherent part of the Group's business activity. The Group seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities, in accordance with defined policies and procedures.

The Group has an established Risk Management Framework, which leverages the risk management policies and procedures of the Morgan Stanley Group to support the identification, monitoring and management of risk.

The Risk Management Framework includes a well-defined, comprehensive risk governance structure with appropriate risk management expertise, including processes for periodically assessing the efficacy of the Risk Management Framework. The Board of Directors is assisted in its oversight of the risk management by the MSI Risk Committee and the EMEA Risk Committee, in addition to a number of management level committees.

Pages 15 to 29 of the strategic report and note 25 to the Annual Report and Financial Statements provide more detailed qualitative disclosures on the Group's risk strategy and appetite, risk management framework, and exposure to financial risks.

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

RISK MANAGEMENT (CONTINUED)

Market risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities, correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio.

The Group manages the market risk associated with its trading activities at both a divisional and an individual product level, and also considers market risk at the legal entity level.

The Group uses the statistical technique known as Value at Risk ("VaR") as one of the tools used to measure, monitor and review the market risk exposures of its trading portfolios. The Market Risk Department calculates and distributes daily VaR-based risk measures to various levels of management. The following table shows the Group's Management VaR at the total level, as well as the contribution from primary risk categories for the six month period ended 30 June 2020 and for the year ended 31 December 2019.

	95% / one-day VaR for the six months ended 30 June 2020		95% / one-day VaR for the year ended 31 December 2019	
in $ millions	**Period end**	**Average**	**Period end**	**Average**
Primary Risk Categories	31	26	15	19
Credit Portfolio(1)	8	7	5	5
Less: Diversification benefit(2)	(7)	(7)	(5)	(4)
Total Management VaR	**32**	**26**	**15**	**20**

(1) The Credit Portfolio VaR is disclosed as a separate category from the Primary Market Risk Categories and includes loans that are carried at fair value and associated hedges as well as counterparty credit valuation adjustments and related hedges.
(2) Diversification benefit equals the difference between total management VaR and the sum of the VaRs for the Primary Market Risk Categories and the Credit Portfolio. This benefit arises because the simulated one-day losses for each of the component categories occur on different days; similar diversification benefits are also taken into account within each category.

The Group's average Total Management VaR for the six months ended 30 June 2020 was $26 million, compared to $20 million for the year ended 2019. On average, VaR increased primarily due to elevated market volatility amid the COVID-19 pandemic.

Credit risk

Credit risk management framework

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Group. Credit risk includes country risk, which is further described below.

The Group primarily incurs credit risk exposure to institutions and sophisticated investors mainly through its Institutional Securities business segment.

This risk may be incurred through a variety of activities, including, but not limited to, the following:

- entering into derivative contracts under which counterparties may have obligations to make payments to the Group;
- extending credit to clients through lending commitments;
- providing short- or long-term funding that is secured by physical or financial collateral whose value may at times be insufficient to fully cover the repayment amount;
- posting margin and/or collateral to clearing houses, clearing agencies, exchanges, banks, securities firms and other financial counterparties;
- placing funds on deposit at other financial institutions to support the Group's clearing and settlement obligations; and
- investing or trading in securities and loan pools, whereby the value of these assets may fluctuate based on realised or expected defaults on the underlying obligations or loans.

RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Credit risk management framework (continued)

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

For further information on the Group's credit risk management framework, monitoring and control, credit evaluation and risk mitigation procedures, refer to pages 21 to 25 of the Annual Report and Financial Statements for the year ended 31 December 2019.

Exposure to credit risk

Counterparty risk exposure

The below table shows the Group's maximum exposure to credit risk and credit exposure for certain financial assets the Group believes are subject to credit risk and where the Group has entered into credit enhancements, including receiving cash and security as collateral and master netting agreements. The financial effect of the credit enhancements is also disclosed in the table. The net credit exposure represents the credit exposure remaining after the effect of the credit enhancements. Exposure to other Morgan Stanley Group undertakings is included in this table.

	30 June 2020			31 December 2019		
in $ millions	**Gross credit exposure(1)**	**Credit enhancements**	**Net credit exposure**	**Gross credit exposure(1)**	**Credit enhancements**	**Net credit exposure**
Trading financial assets:						
Derivatives	268,436	(260,161)	8,275	216,289	(209,619)	6,670
Secured financing	82,571	(81,969)	602	92,447	(91,419)	1,028
Unrecognised financial instruments						
Loan commitments	2,988	(700)	2,288	3,946	(1,059)	2,887
	353,995	(342,830)	11,165	312,682	(302,097)	10,585

(1) Gross credit exposure is the carrying amount which best represents the Group's maximum exposure to credit risk, and for recognised financial instruments is reflected in the condensed consolidated statement of financial position.

Additional information on the exposure to credit risk, including the maximum exposure to credit risk by credit rating, is presented in note 14.

Country and Sovereign risk exposure

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

For further information on how the Group identifies, monitors and manages country risk exposure refer to page 24 of the Annual Report and Financial Statements.

The Group's sovereign exposures consist of financial instruments entered into with sovereign and local governments. Its non-sovereign exposures primarily consist of exposures to corporations and financial institutions. The table on the next page shows the Group's five largest non-UK country net exposures. Exposure to other Morgan Stanley Group undertakings has been excluded from this table.

RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Exposure to credit risk (continued)

Five largest non-UK country risk net exposures:

in $ millions Country	Net Inventory[(1)]	Net Counterparty Exposure[(2)]	Funded lending	Unfunded Commit-ments	Exposure Before Hedges	Hedges[(3)]	Net Exposure 30 June 2020	Net Exposure 31 December 2019[(4)]
Germany								
Sovereigns	1,771	150	-	-	1,921	(361)	1,560	
Non-sovereigns	(195)	2,582	-	16	2,403	(188)	2,215	
Total Germany	1,576	2,732	-	16	4,324	(549)	3,775	-[(4)]
Italy								
Sovereigns	1,307	(46)	-	-	1,261	(21)	1,240	
Non-sovereigns	147	268	8	179	602	(89)	513	
Total Italy	1,454	222	8	179	1,863	(110)	1,753	-[(4)]
United States								
Sovereigns	685	63	-	-	748	-	748	
Non Sovereigns	(1,559)	1,785	34	645	905	(149)	756	
Total United States	(874)	1,848	34	645	1,653	(149)	1,504	3,947
United Arab Emirates								
Sovereigns	71	1,248	-	-	1,319	-	1,319	
Non Sovereigns	7	77	-	-	84	-	84	
Total United Arab Emirates	78	1,325	-	-	1,403	-	1,403	925
France								
Sovereigns	(1,536)	15	-	-	(1,521)	-	(1,521)	
Non Sovereigns	(575)	2,500	145	1,275	3,345	(501)	2,844	
Total France	(2,111)	2,515	145	1,275	1,824	(501)	1,323	1,186

(1) Net inventory represents exposure to both long and short single name and index positions (i.e. bonds and equities at fair value and CDS based on notional amount assuming zero recovery adjusted for any fair value receivable or payable). As a market maker, the Group transacts in these CDS positions to facilitate client trading.

(2) Net counterparty exposure (i.e. repurchase transactions, securities lending and over-the-counter ("OTC") derivatives) taking into consideration legally enforceable master netting agreements and collateral.

(3) Represents CDS hedges (purchased and sold) on net counterparty exposure and funded lending executed by trading desks responsible for hedging counterparty and lending credit risk exposures for the Group. Amounts are based on the CDS notional amount assuming zero recovery adjusted for any fair value receivable or payable.

(4) Neither Germany nor Italy were within the Group's five largest non-UK country and sovereign net exposures in the prior period.

Note that overnight deposits the Group has with banks are excluded from the table above.

Liquidity and funding risk

Liquidity and funding risk refers to the risk that the Group will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity and funding risk also encompasses the Group's ability (or perceived ability) to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern. Liquidity risk 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 Group incurs liquidity and funding risk as a result of its trading, investing and client facilitation activities.

For a further discussion on the Group's liquidity risk refer to page 25-26 of the Annual Report and Financial Statements.

RISK MANAGEMENT (CONTINUED)

Operational risk

Operational risk refers to the risk of loss, or of damage to the Group'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 Group may incur operational risk across the full scope of its business activities. Legal and compliance risk is included in the scope of operational risk.

In respect of the Group's compliance risk, the Agence France Trésor ("AFT"), on behalf of the French Minister of the Economy, Finance and Economic Recovery, suspended Morgan Stanley from its Primary Dealer status for a minimum period of three months with effect from 4 August 2020. This suspension impacts the Company and another Morgan Stanley subsidiary undertaking not within the Group. While the suspension is not expected to have a significant impact of the financial performance of the Group, the Company is fully focused on implementing remediation measures which have been agreed with the AFT.

For further information on the Group's operational risk including conduct risk and legal, regulatory and compliance risk, refer to the pages 26 to 29 of the Annual Report and Financial Statements.

GOING CONCERN

Business risks associated with the uncertain market and economic conditions are being actively monitored and managed by the Group. Retaining sufficient liquidity and capital to withstand these market pressures remains central to the Group's strategy. In particular, the Group's capital and liquidity is deemed sufficient to exceed regulatory minimums under both a normal and in a stressed market environment, including the current and potential stresses of COVID-19 and Brexit for the foreseeable future. The existing and potential effects of COVID-19 on the business of the Group 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. Additionally, the specific impact of Brexit on the business of the Group has been considered. The Group has access to further Morgan Stanley Group capital and liquidity as required.

Taking all of these factors into consideration, the Directors believe it is reasonable to assume that the Group will have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the interim management report and Interim Financial Statements.

Approved by the Board and signed on its behalf by

DocuSigned by:

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K Lazaroo

Director

17 September 2020

CORPORATE GOVERNANCE

When determining its corporate governance arrangements, the Company applies regulatory requirements as set out by the PRA and FCA and aligns with best practice guidance on the corporate governance of financial institutions. It has therefore chosen not to formally adopt an additional corporate governance code. The corporate governance arrangements as well as further detail on the risk management policy framework of the Group can be found on pages 38 to 42 of the Corporate Governance report and note 25 of the Annual Report and Financial Statements.

DIRECTORS' RESPONSIBILITY STATEMENT

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 Group; and

(b) the interim management report includes a fair review of the information required by DTR4.2.7R of the Disclosure and Transparency Rules, 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.

By order of the Board on 17 September 2020

DocuSigned by:

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K Lazaroo

Director

Board of Directors:

S Ball	
J Bloomer	(Chairman)
D O Cannon	
T Duhon	
L Guy	(resigned 6 May 2020)
J Horder	(resigned 2 June 2020)
A Kohli	
K Lazaroo	
S Orlacchio	(appointed 2 June 2020)
M C Phibbs	
D A Russell	
A Sekhar	(appointed 6 May 2020)
P D Taylor	(appointed 1 August 2020)
N P Whyte	
C Woodman	

INDEPENDENT REVIEW REPORT TO MORGAN STANLEY & CO. INTERNATIONAL plc

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 2020 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 19. 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 the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

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 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

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.

DocuSigned by:
Deloitte LLP
B9969F665DC34C0...

Deloitte LLP
Chartered Accountants and Statutory Auditor
London
17 September 2020

MORGAN STANLEY & CO. INTERNATIONAL plc

CONDENSED CONSOLIDATED INCOME STATEMENT
Six months ended 30 June 2020

in $ millions	Note	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
Net trading income		2,540	3,000
Net income from other financial instruments held at fair value	2	233	(472)
Fee and commission income	3	1,237	1,046
Other revenue		1	51
Interest income	4	362	1,063
Interest expense	4	(722)	(1,864)
Net interest expense		(360)	(801)
Net revenue		3,651	2,824
Net loss on investments in subsidiaries, associates and joint ventures		-	(6)
Non-interest expenses:			
Operating expenses	5	(2,527)	(2,328)
PROFIT BEFORE TAX		1,124	490
Income tax expense	6	(532)	(129)
PROFIT FOR THE PERIOD		592	361

All operations were continuing in the current and prior periods.

The notes on pages 26 to 59 form an integral part of the Interim Financial Statements.

MORGAN STANLEY & CO. INTERNATIONAL plc

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Six months ended 30 June 2020

in $ millions	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
PROFIT FOR THE PERIOD	592	361
OTHER COMPREHENSIVE INCOME, NET OF TAX		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of net defined benefit liability	(2)	1
Changes in fair value attributable to own credit risk on financial liabilities designated at fair value	70	(118)
Items that may be reclassified subsequently to profit or loss:		
Currency translation reserve:		
Foreign currency translation differences arising on foreign operations during the period	(7)	(14)
Net amount reclassified to consolidated income statement upon transfer of subsidiary	-	6
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX	61	(125)
TOTAL COMPREHENSIVE INCOME	653	236

For the six month period to 30 June 2020 and for the six month period to 30 June 2019, all Total Comprehensive Income was attributable to owners of the parent.

The notes on pages 26 to 59 form an integral part of the Interim Financial Statements.

MORGAN STANLEY & CO. INTERNATIONAL plc

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Six months ended 30 June 2020

in $millions	Note	Equity instruments	Share premium account	Currency translation reserve	Capital contribution reserve	Capital redemption reserve	Debt valuation adjustment reserve	Retained earnings and Pension reserve	Attributable to owners of the parent	Non-controlling interest	Total equity
Balance at 1 January 2020		15,965	513	107	3	1,400	(141)	2,714	20,561	56	20,617
Profit for the period		-	-	-	-	-	-	592	592	-	592
Other comprehensive income for the period:											
Remeasurement of defined benefit liability		-	-	-	-	-	-	(2)	(2)	-	(2)
Changes in fair value attributable to own credit risk on financial liabilities designated at fair value		-	-	-	-	-	70	-	70	-	70
Realised debt valuation losses		-	-	-	-	-	(1)	1	-	-	-
Foreign currency translation differences arising on foreign operations		-	-	(7)	-	-	-	-	(7)	-	(7)
Total comprehensive income		-	-	(7)	-	-	69	591	653	-	653
Transactions with owners:											
Dividends	12	-	-	-	-	-	-	(119)	(119)	-	(119)
Balance at 30 June 2020 (unaudited)		15,965	513	100	3	1,400	(72)	3,186	21,095	56	21,151

MORGAN STANLEY & CO. INTERNATIONAL plc

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Six months ended 30 June 2020

in $ millions	Equity instruments	Share premium account	Currency translation reserve	Capital contribution reserve	Capital redemption reserve	Debt valuation adjustment reserve	Pension reserve and Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total equity
Balance at 1 January 2019	15,965	513	109	3	1,400	53	3,017	21,060	57	21,117
Profit for the period	-	-	-	-	-	-	361	361	-	361
Other comprehensive income for the period:										
Remeasurement of defined benefit liability	-	-	-	-	-	-	1	1	-	1
Change in fair value attributable to own credit risk on financial liabilities designatd at fair value	-	-	-	-	-	(118)	-	(118)	-	(118)
Foreign currency translation differences arising on foreign operation	-	-	(14)	-	-	-	-	(14)	-	(14)
Recycling of currency translation resrve upon disposal of subsidiary	-	-	6	-	-	-	-	6	-	6
Total comprehensive income	-	-	(8)	-	-	(118)	362	236	-	236
Transactions with owners:										
Dividends	-	-	-	-	-	-	(650)	(650)	-	(650)
Prior period impact of change in accounting policy for IAS 12	-	-	-	-	-	-	7	7	-	7
Balance at 30 June 2019 (unaudited)	15,965	513	101	3	1,400	(65)	2,736	20,653	57	20,710

The notes on pages 26 to 59 form an integral part of the Interim Financial Statements.

MORGAN STANLEY & CO. INTERNATIONAL plc
Registered Number: 02068222

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2020

in $ millions	Note	30 June 2020 (unaudited)	31 December 2019
ASSETS			
Cash and short term deposits		32,790	28,803
Trading financial assets (of which $47,548 million (2019: $44,935 million) were pledged to various parties)	8	357,249	310,744
Secured financing	7	82,571	92,447
Loans and advances		337	203
Investment securities		132	141
Trade and other receivables		71,864	69,760
Current tax assets		175	282
Deferred tax assets		71	70
Property, plant and equipment		16	18
Other assets		43	40
TOTAL ASSETS		545,248	502,508
LIABILITIES AND EQUITY			
Bank loans and overdrafts		6	9
Trading financial liabilities	8	315,293	262,256
Secured borrowing	7	79,900	84,474
Trade and other payables		90,844	86,296
Debt and other borrowings		37,235	48,523
Provisions		3	25
Current tax liabilities		334	49
Accruals and deferred income		476	253
Post-employment benefit obligations		6	6
TOTAL LIABILITIES		524,097	481,891
EQUITY			
Share capital		15,965	15,965
Share premium account		513	513
Currency translation reserve		100	107
Capital contribution reserve		3	3
Capital redemption reserve		1,400	1,400
Pension reserve		(2)	-
Debt valuation adjustment reserve		(72)	(141)
Retained earnings		3,188	2,714
Equity attributable to owners of the parent		21,095	20,561
Non-controlling interest		56	56
TOTAL EQUITY		21,151	20,617
TOTAL LIABILITIES AND EQUITY		545,248	502,508

The notes on pages 26 to 59 form an integral part of the Interim Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
As at 30 June 2020

in $ millions	Note	Six months ended 30 June 2020 (unaudited)	Six months ended 30 June 2019 (unaudited)
NET CASH FLOWS FROM OPERATING ACTIVITIES		4,525	3,195
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1)	-
Changes in ownership interest in subsidiaries		-	(456)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(1)	(456)
FINANCING ACTIVITIES			
Dividends paid	12	(119)	(119)
Interest on senior subordinated loan liabilities		(75)	(120)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(194)	(239)
NET INCREASE IN CASH AND CASH EQUIVALENTS		4,330	2,500
Currency translation differences on foreign currency cash balances		(340)	(71)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		28,794	30,829
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		32,784	33,258

The notes on pages 26 to 59 form an integral part of the Interim Financial Statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Six months ended 30 June 2020

1. BASIS OF PREPARATION

a. General information

These Interim Financial Statements do not constitute statutory accounts within the meaning of Section 435 of the United Kingdom Companies Act 2006 ("Companies Act").

Statutory accounts for the year ended 31 December 2019 were approved by the Board of Directors on 20 April 2020 and delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2016. Other comparative information for the six months ended 30 June 2019 is included in certain instances.

b. Accounting policies

The Group has prepared its annual consolidated financial statements in accordance with IFRSs issued by the International Accounting Standards Board ("IASB") as adopted by the EU, Interpretations issued by the IFRS Interpretations Committee ("IFRIC") and the Companies Act. The Interim Financial Statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and in accordance with IAS 34 '*Interim Financial Reporting*', as adopted by the EU.

In preparing these Interim Financial Statements the Group has applied consistently the accounting policies and methods of computation used in the Group's Annual Report and Financial Statements.

c. New standards and interpretations adopted during the period

The following amendments to standards relevant to the Group's operations were adopted during the period and did not have a material impact on the Group's condensed consolidated financial statements.

Amendments to IAS 1 *'Presentation of Financial Statements'* and IAS 8 *'Accounting Policies, Changes in Accounting Estimates and Errors'*: Definition of Material were issued by the IASB in October 2018, for application in accounting periods beginning on or after 1 January 2020. The amendments were endorsed by the EU in December 2019.

An amendment to IFRS 3 '*Business Combinations*' was issued by the IASB in October 2018, for application in accounting periods beginning on or after 1 January 2020. The amendment was endorsed by the EU in April 2020.

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

1. BASIS OF PREPARATION (CONTINUED)

d. New standards and interpretations not yet adopted

At the date of authorisation of these condensed consolidated financial statements, the following amendments to standards relevant to the Group's operations were issued by the IASB but not mandatory for accounting periods beginning 1 January 2020. The Group does not expect that the adoption of the following amendments to standards will have a material impact on the Group's condensed consolidated financial statements.

An amendment to IFRS 16 *'Leases'*: Covid-19-Related Rent Concessions was issued by the IASB in May 2020, for retrospective application in accounting periods beginning on or after 1 June 2020. Early application is permitted.

Amendments to IAS 37 *'Provisions, Contingent Liabilities and Contingent Assets'*: Onerous Contracts – Cost of Fulfilling a Contract were issued by the IASB in May 2020 for modified retrospective application in accounting periods beginning on or after 1 January 2022. Early application is permitted.

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.

e. Critical accounting judgements and sources of estimation uncertainty

In preparing the condensed consolidated financial statements, the Group 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 Group's accounting policies, other than those involving estimations, which have the most significant effects on the amounts recognised in the financial statements. Critical accounting estimates 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.

The critical judgements in applying the Group's accounting policies are as follows:

- *Consolidation of structured entities:* the Group determines whether it controls, and therefore should consolidate a structured entity upon its initial involvement and reassesses on an ongoing basis for as long as it has any continuing involvement with the structured entity. See note 14 of the Annual Report and Financial Statements and note 10.

The Group's critical sources of estimation uncertainty are as follows:

- *Valuation of Level 3 financial instruments:* Valuation techniques used to measure the fair value of instruments categorised in Level 3 of the fair value hierarchy are dependent on unobservable parameters, and as such require the application of judgement, involving estimations and assumptions. The fair value for these financial instruments has been determined using parameters appropriate for the valuation methodology based on prevailing market evidence. It is recognised that the unobservable parameters could have a range of reasonable possible alternative values. See accounting policy note 3(d) of the Annual Report and Financial Statements and note 16 'Sensitivity of fair values to changing significant assumptions to reasonable possible alternatives'.

- *Measurement of property, litigation, taxation and other provisions:* Estimates are used in the calculation of provisions, which are calculated based on the net present value of expected future cash flows, although the Group recognises that it is inherently difficult to estimate the amount of the future losses in certain instances. See accounting policy note 3(o) of the Annual Report and Financial Statements and note 11.

The Group evaluates the critical accounting judgements and accounting estimates on an ongoing basis and believes that these are reasonable.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Six months ended 30 June 2020

2. NET INCOME FROM OTHER FINANCIAL INSTRUMENTS HELD AT FAIR VALUE

in $ millions	**30 June 2020**	**30 June 2019**
Net gains/(losses) on:		
Non-trading financial assets at FVPL		
Secured financing	25	6
Loans and advances - corporate loans	(26)	3
Investment securities	(2)	8
Trade and other receivables - prepaid OTC contracts	(534)	45
Total non-trading financial assets at FVPL	**(537)**	**62**
Financial liabilities designated at FVPL		
Secured borrowing	9	(27)
Trade and other payables - prepaid OTC contracts	456	(34)
Debt and other borrowings - issued structured notes	305	(473)
Total financial liabilities designated at FVPL	**770**	**(534)**
Total net gains/(losses) on financial instruments at FV	**233**	**(472)**

For the period to 30 June 2020, there was a net loss on non-trading financial assets at FVPL of $537 million (30 June 2019: net gain of $62 million) and a net gain on financial liabilities designated at FVPL of $770 million (30 June 2019: net loss of $534 million). These variances reflected market decreases in the first half of 2020 as compared to market increases in the first half of 2019 and credit spreads widening in the first half of 2020, as opposed to tightening in the first half of 2019.

3. FEE AND COMMISSION INCOME

in $millions	**30 June 2020**	**30 June 2019**
Investment banking	596	510
Commission income	432	362
Trust and other fiduciary activities	86	82
Other	123	92
Total fee and commission income	1,237	1,046
Of which, revenue with contracts with customers	1,213	1,083

Total fee and commission income includes the transfer of revenues totalling $24 million from other Morgan Stanley Group undertakings (30 June 2019: $37 million transferred to other undertakings). These transfers do not relate to revenue from contracts with customers.

3. FEE AND COMMISSION INCOME (CONTINUED)

Revenue from contracts with customers

The following table presents revenues in the current period.

in $ millions	**Current contract revenues**	
	30 June 2020	**30 June 2019**
Investment banking[1]	605	549
Commission income	431	360
Trust and other fiduciary activities	55	82
Other revenue from contracts with customers	122	92
Total revenue from contracts with customers	1,213	1,083

(1) Includes advisory and underwriting revenues.

4. INTEREST INCOME AND INTEREST EXPENSE

The table below presents interest income and expense by accounting classification. Interest income and expense is calculated using the effective interest rate method for financial assets and financial liabilities measured at amortised cost.

in $ millions	**30 June 2020**	**30 June 2019**
Financial assets measured at amortised cost	249	785
Trading financial assets	142	102
Non-trading financial assets at FVPL	(29)	176
Financial assets measured at FVPL	113	278
Total interest income	362	1,063
Financial liabilities measured at amortised cost	690	1,713
Financial liabilities designated at FVPL	32	151
Total interest expense	722	1,864

Certain currencies, in which the Group's trades are denominated, may at times have negative interest rates, of which a current example is the Euro. When financial assets and financial liabilities are denominated in currencies with negative interest rates, this results in negative 'Interest income' and positive 'Interest expense' being recognised.

5. OPERATING EXPENSE

in $ millions	30 June 2020	30 June 2019
Direct staff costs	804	46
Management charges from other Morgan Stanley Group undertakings relating to staff costs	260	850
Staff related expenses	1,064	896
Management charges from other Morgan Stanley Group undertakings relating to other services	700	656
Brokerage fees	282	304
Administration and corporate services	36	49
Professional services	57	70
Other taxes	330	287
Net impairment loss on financial assets	4	12
Other	54	54
Non-staff related expenses	1,463	1,432
Total operating expense	2,527	2,328

The Group employs staff directly and also utilises the services of staff who are employed by other Morgan Stanley Group undertakings.

Operating expenses for the current year period increased as compared to the prior year period, primarily driven by a 19% increase in Staff related expenses from $896 million to $1,064 million. The increase in staff related expenses was primarily driven by an increase in discretionary compensation as a result of increased revenues, offset by a reduction in the mark-to-market on deferred equity compensation, primarily due to the decrease in the Morgan Stanley share price in the period.

'Direct staff costs' increased, and 'Management charges from other Morgan Stanley Group undertakings relating to staff costs' decreased as compared to the prior year period, as a result of the transfer of staff from Morgan Stanley Employment Services UK Limited ("MSES") to the Company on 1 July 2019.

6. INCOME TAX EXPENSE

The Group's tax expense has been accrued based on the expected tax rate that takes into account current expectations concerning the allocation of group relief within the Morgan Stanley UK tax group and prevailing tax rates in the jurisdictions in which the Group operates.

The UK Bank Levy (the "Levy") is an annual charge on a bank's balance sheet. It is applied to chargeable liabilities and equity of the Group and other Morgan Stanley UK tax-resident entities and their overseas subsidiaries. Under IFRIC 21, *'Levies'*, the Levy is not recognised in the Interim Financial Statements, since the Levy's obligating event has not yet arisen. However, for the purposes of calculating the ETR, an adjustment has been made for the forecast Levy (since it is non-deductible for UK corporation tax purposes). As such, the Levy impacts the annual ETR and the tax expense for the six months ended 30 June 2020.

6. INCOME TAX EXPENSE (CONTINUED)

The Group's forecast ETR is sensitive to the geographic mix of profits and tax rates in non-UK jurisdictions (including the net effect of foreign withholding taxes suffered by the Group), the additional 8% UK banking surcharge, as well as the non-deductibility of certain expenses for tax purposes. Offsetting this is the income tax benefit of coupon payments on Additional Tier 1 capital instruments which, following amendments to IAS 12 effective 1 January 2019, requires the presentation of the tax benefit to be reported in 'Income tax expense' and therefore reduces the forecast tax rate for the year.

The Group's forecast ETR for the period is 47.3% (six months ended 30 June 2019: 26.3%), which is higher than the standard rate of corporation tax (inclusive of the UK Banking Surcharge) in the UK of 27%. The reason for the higher ETR is primarily due to a $212 million tax expense as a result of remeasurement of provisions in relation to uncertain tax positions, principally following a Dutch Court judgement in relation to an ongoing matter. This resulted in an increase to ETR of 18.9%. See the 'Tax matters' section of Provisions note 11 for further detail.

7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY

The following table analyses financial assets and financial liabilities presented in the Group's consolidated statement of financial position by the IFRS 9 measurement classifications as at 30 June 2020 and 31 December 2019.

	30 June 2020				31 December 2019			
in $millions	**FVPL**	**FVPL (designated)**	**Amortised cost**	**Total**	**FVPL**	**FVPL (designated)**	**Amortised cost**	**Total**
Cash and short term deposits	-	-	32,790	**32,790**	-	-	28,803	**28,803**
Trading financial assets	357,249	-	-	**357,249**	310,744	-	-	**310,744**
Secured financing:								
Cash collateral on securities borrowed	25,098	-	-	**25,098**	28,796	-	-	**28,796**
Securities purchased under agreements to resell	45,092	-	-	**45,092**	47,509	-	-	**47,509**
Other secured financing	12,381	-	-	**12,381**	16,142	-	-	**16,142**
Loans and advances	146	-	191	**337**	19	-	184	**203**
Investment securities	132	-	-	**132**	141	-	-	**141**
Trade and other receivables	1,497	-	70,237	**71,734**	1,656	-	67,967	**69,623**
Total financial assets	441,595	-	103,218	**544,813**	405,007	-	96,954	**501,961**
Bank loans and overdrafts	-	-	6	**6**	-	-	9	**9**
Trading financial liabilities	315,293	-	-	**315,293**	262,256	-	-	**262,256**
Secured borrowings:								
Cash collateral on securities loaned	-	-	23,492	**23,492**	-	1	22,993	**22,994**
Securities sold under agreements to repurchase	-	13,855	20,897	**34,752**	-	13,345	21,356	**34,701**
Other financial liabilities	-	20,456	1,200	**21,656**	-	25,387	1,392	**26,779**
Trade and other payables	-	745	89,766	**90,511**	-	2,073	83,924	**85,997**
Debt and other borrowings	-	8,148	29,087	**37,235**	-	7,047	41,476	**48,523**
Total financial liabilities	315,293	43,204	164,448	**522,945**	262,256	47,853	171,150	**481,259**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Six months ended 30 June 2020

8. TRADING FINANCIAL ASSETS AND LIABILITIES

in $ millions	30 June 2020		31 December 2019	
	Assets	Liabilities	Assets	Liabilities
Government debt securities	27,321	21,461	15,310	19,293
Corporate and other debt	10,267	4,271	11,485	3,519
Corporate equities	51,225	22,427	67,660	23,727
Derivatives (see note 9)	268,436	267,134	216,289	215,717
	357,249	315,293	310,744	262,256

9. DERIVATIVES

in $ millions	30 June 2020 Bilateral OTC	Cleared OTC	Listed derivative contracts	Total	31 December 2019 Bilateral OTC	Cleared OTC	Listed derivative contracts	Total
Derivative assets:								
Interest rate contracts	108,195	4,936	1	**113,132**	77,594	3,352	-	**80,946**
Credit contracts	8,829	194	-	**9,023**	5,955	220	-	**6,175**
Foreign exchange and gold contracts	83,338	1,599	2	**84,939**	83,545	1,403	-	**84,948**
Equity contracts	42,689	-	12,070	**54,759**	34,151	-	6,704	**40,855**
Commodity contracts	6,455	-	128	**6,583**	3,276	-	89	**3,365**
	249,506	6,729	12,201	**268,436**	204,521	4,975	6,793	**216,289**
Derivative liabilities:								
Interest rate contracts	104,887	3,412	7	**108,306**	75,023	2,234	2	**77,259**
Credit contracts	8,325	221	-	**8,546**	6,114	269	-	**6,383**
Foreign exchange and gold contracts	82,558	1,628	5	**84,191**	83,114	1,526	2	**84,642**
Equity contracts	46,910	-	12,267	**59,177**	37,971	-	5,917	**43,888**
Commodity contracts	6,755	-	159	**6,914**	3,411	-	134	**3,545**
	249,435	5,261	12,438	**267,134**	205,633	4,029	6,055	**215,717**

10. INTEREST IN STRUCTURED ENTITIES

The Group's involvement with unconsolidated structured entities, including those of which it considers itself the sponsor, is consistent with that described in the Group's Annual Report and Financial Statements.

Unconsolidated structured entities

The table below shows certain non-consolidated structured entities in which the Group had an interest at 30 June 2020 and 31 December 2019. The tables include all structured entities in which the Group has determined that its maximum exposure to loss exceeds specific thresholds or meets certain other criteria. The majority of the structured entities included in the tables below are sponsored by unrelated parties; the Group's involvement is generally the result of the Group's client intermediation and secondary market-making activities.

The Group's maximum exposure to loss is dependent on the nature of the Group's interest in the structured entity and is limited to notional amounts of certain liquidity facilities, total return swaps and the fair value of certain other derivatives and investments which the Group has made in the structured entity. The reported exposure does not include the offsetting benefit of hedges, including total return swaps in relation to fund investments and other entities, or of any reductions associated with the collateral held as part of a transaction with the structured entity or any party to the structured entity. Where notional amounts are used to quantify maximum exposure related to derivatives, such amounts do not reflect fair value changes already recorded by the Group. Liabilities issued by structured entities are generally non-recourse to the Group.

in $ millions	Client intermediation	Mortgage and asset-backed securitisations	Collateralised debt obligation	Total
30 June 2020				
Assets of the structured entity	12,411	8,662	631	21,704
Maximum exposure to loss:				
Debt and equity interests	1,069	178	157	1,404
Derivative and other contracts	3,169	-	-	3,169
Total maximum exposure to loss	4,238	178	157	4,573
Carrying value of exposure to loss - assets[1]:				
Debt and equity interests	1,069	178	157	1,404
Derivative and other contracts	588	-	-	588
Total carrying value of exposure to loss - assets	1,657	178	157	1,992
Carrying value of exposure to loss - liabilities[1]:				
Derivatives and other contracts	1,998	-	-	1,998
Commitments, guarantees and other	168	-	-	168
Total carrying value of exposure to loss - liabilities	2,166	-	-	2,166
Additional interests in structured entities[2]	7	274	224	505

10. INTEREST IN STRUCTURED ENTITIES (CONTINUED)

Unconsolidated structured entities (continued)

in $ millions	Client intermediation	Mortgage and asset-backed securitisations	Collateralised debt obligation	Total
31 December 2019				
Assets of the structured entity	12,081	5,949	1,970	20,000
Maximum exposure to loss:				
Debt and equity interests	1,913	403	225	2,541
Derivative and other contracts	2,827	-	-	2,827
Total maximum exposure to loss	4,740	403	225	5,368
Carrying value of exposure to loss - assets (1):				
Debt and equity interests	1,913	403	225	2,541
Derivative and other contracts	382	-	-	382
Total carrying value of exposure to loss - assets	2,295	403	225	2,923
Carrying value of exposure to loss - liabilities (1):				
Derivatives and other contracts	1,931	-	-	1,931
Commitments, guarantees and other	428	-		428
Total carrying value of exposure to loss - liabilities	2,359	-	-	2,359
Additional interests in structured entities(2)	1	217	176	394

(1) Amounts are recognised in the condensed consolidated statement of financial position in Trading financial assets or Trading financial liabilities – derivatives or liabilities - corporate and other debt.

(2) Primarily as a result of its secondary market-making activities, the Group owned additional securities issued by securitisation structured entities for which the maximum exposure to loss is less than the specific thresholds noted earlier.

Client intermediation transactions represent a range of transactions designed to provide investors with returns based on the returns of underlying securities, referenced assets or indexes. The Group's involvement in these transactions is to act as the intermediary between the Structured Entity and the client, generally either through a derivative or by intermediating financing

Securitisation transactions generally involve structured entities. Primarily as a result of its secondary market-making activities, the Group owned additional securities issued by securitisation structured entities for which the maximum exposure to loss is less than the specific thresholds noted earlier.

Collateralised debt obligations ("CDOs") are structured entities that purchase a pool of assets consisting of corporate bonds, ABS or synthetic exposures on similar assets through derivatives, and issue multiple tranches of debt and equity securities to investors. Although not obligated, the Group generally makes a market in the securities issued by SPEs in these transactions and may retain unsold securities. These beneficial interest are included in 'Trading financial assets' and are measured at fair value.

The Group's primary risk exposure is to the securities issued by the structured entity owned by the Group, with the risk being greatest for the most subordinate class of beneficial interests. These securities are generally reported in Trading financial assets – corporate and other debt. The Group does not provide additional support in these transactions through contractual facilities, such as liquidity facilities, guarantees or similar derivatives. The Group's maximum exposure to loss generally equals the fair value of the securities owned.

The Group has not provided financial support to, or otherwise agreed to be responsible for supporting financially, any unconsolidated structured entity.

10. INTEREST IN STRUCTURED ENTITIES (CONTINUED)

Sponsored unconsolidated structured entities (continued)

Details of when the Group considers itself the sponsor of certain non-consolidated structured entities are provided in note 14 of the Annual Report and Financial Statements.

In some sponsored entities, the Group has been involved with the structured entity, through establishing the structured entity, marketing of products associated with the structured entity in its own name, and/ or through involvement in the design of the structured entity. The Group has no interest in these entities as at 30 June 2020 (31 December 2019: $nil).

The gain related to sponsored entities during the six month period to 30 June 2020 was $165 million (31 December 2019: loss of $184 million). Gains or losses are reported under 'Net trading income' in the condensed consolidated income statement. For the six month period to 30 June 2020, $56 million of assets were transferred to those sponsored entities (31 December 2019: $381 million). It is the investors in the structured entity, rather than the Group, that are exposed to carrying value of assets transferred. The Group's exposure to the structured entity is limited to net amounts receivable from swap transactions with the entity and is not directly linked to the transferred assets themselves.

11. PROVISIONS

in $ millions	**Property**	**Other**	**Total**
At 1 January 2020	2	23	25
Provisions utilised	-	(22)	(22)
At 30 June 2020	**2**	**1**	**3**

Litigation matters

In addition to the matters described below, in the normal course of business, the Group has been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with its activities as a global diversified financial services institution. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the entities that would otherwise be the primary defendants in such cases are bankrupt or are in financial distress.

The Group is also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding the Group's business, and involving, among other matters, sales and trading activities, financial products or offerings sponsored, underwritten or sold by the Group, and accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief.

The Group contests liability and/or the amount of damages as appropriate in each pending matter. Where available information indicates that it is probable a liability had been incurred at the date of the financial statements and the Group can reasonably estimate the amount of that loss, the Group accrues the estimated loss by a charge to income. The Group's future legal expenses may fluctuate from period to period, given the current environment regarding government investigations and private litigation affecting global financial services firms, including the Group.

11. PROVISIONS (CONTINUED)

In many proceedings and investigations, however, it is inherently difficult to determine whether any loss is probable or even possible, or to estimate the amount of any loss. The Group cannot predict with certainty if, how or when such proceedings or investigations will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be, particularly for proceedings and investigations where the factual record is being developed or contested or where plaintiffs or government entities seek substantial or indeterminate damages, restitution, disgorgement or penalties. Numerous issues may need to be resolved, including through potentially lengthy discovery and determination of important factual matters, determination of issues related to class certification and the calculation of damages or other relief, and by addressing novel or unsettled legal questions relevant to the proceedings or investigations in question, before a loss or additional loss or range of loss or additional range of loss can be reasonably estimated for a proceeding or investigation.

Subject to the foregoing, the Group believes, based on current knowledge and after consultation with counsel, that the outcome of such proceedings and investigations will not have a material adverse effect on the financial condition of the Group, although the outcome of such proceedings or investigations could be material to the Group's operating results and cash flows for a particular period depending on, among other things, the level of the Group's revenues or income for such period.

While the Group has identified below certain proceedings that the Group believes to be material, individually or collectively, there can be no assurance that additional material losses will not be incurred from claims that have not yet been asserted or are not yet determined to be material.

The following are updates to certain matters disclosed in the Annual Report and Financial Statements.

On 21 May 2020, the Appellate Division, First Department ("First Department"), modified the order of the Supreme Court of the State of New York, New York County in *China Development Industrial Bank v. Morgan Stanley & Co. Incorporated*, *et al.*, to deny the Group's and another Morgan Stanley Group affiliate's motion for sanctions relating to spoliation of evidence and otherwise affirmed the denial of the Group's and another Morgan Stanley Group affiliate's motion for summary judgment. On 19 June 2020, the Group and another Morgan Stanley Group affiliate moved for leave to appeal the First Department's decision to the New York Court of Appeals.

On 14 July 2020, the Italian Supreme Court in the matter styled *Case number 2012/00406/MNV* scheduled a hearing to take place on 17 November 2020.

Tax matters

The Group is subject to tax laws which are complex and subject to different interpretations by the taxpayer and the relevant governmental taxing authorities. Specifically, in relation to the Group and Morgan Stanley Group implementing updated transfer pricing policies for certain intercompany transactions, discussions are on-going with relevant taxing authorities. Management makes judgments and interpretations about the application of these inherently complex tax laws when determining the provision for taxes. Disputes over interpretations of the tax laws may be settled with the taxing authority upon examination or audit. The Group periodically evaluates the likelihood of assessments in each taxing jurisdiction resulting from current and subsequent years' examinations. Provisions related to potential losses that may arise from tax audits are established in accordance with the guidance on accounting for uncertain tax items. The Group has established provisions that it believes are adequate in relation to the potential for additional assessments. Whilst a range of outcomes is foreseeable, management considers the amount of the provision to be a reasonable estimate of expected future liabilities after consideration of all pertinent facts, based on the status of inquiries at the balance sheet date.

11. PROVISIONS (CONTINUED)

Tax matters (continued)

In matters styled *Case number 15/3637* and *Case number 15/4353*, the Dutch Tax Authority ("Dutch Authority") is challenging in the Dutch courts, the prior set-off by a subsidiary undertaking of the Group of approximately €124 million (approximately $139 million) plus accrued interest of withholding tax credits against the subsidiary undertaking of the corporation tax liabilities for the tax years 2007 to 2013. The Dutch Authority alleges that the subsidiary undertaking of the Group was not entitled to receive the withholding tax credits on the basis, inter alia, that the subsidiary undertaking of the Group did not hold legal title to certain securities subject to withholding tax on the relevant dates. The Dutch Authority has also alleged that the subsidiary undertaking of the Group failed to provide certain information to the Dutch Authority and keep adequate books and records. On 26 April 2018, the District Court in Amsterdam issued a decision dismissing the Dutch Authority's claims with respect to certain of the tax years in dispute. On 12 May 2020, the Court of Appeal in Amsterdam granted the Dutch Tax Authority's appeal in matters re-styled *Case number 18/00318* and *Case number 18/00319*. On 22 June 2020, the subsidiary undertaking of the Group filed an appeal against the decision of the Court of Appeal in Amsterdam before the Dutch High Court. The Group's tax charge for the period includes a tax expense of $212 million principally associated with the remeasurement of provisions for this matter, see note 6.

12. DIVIDENDS

On 1 June 2020, a coupon payment on the $1,300 million Additional Tier 1 capital instrument of $118,950,000 (31 December 2019: $118,625,000) was paid out of reserves available for distribution.

The Directors have not proposed the payment of a dividend out of reserves available at 30 June 2020 (2019: $nil).

13. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. The business segments and geographical segments are based on the Group's management and internal reporting structure. Transactions between business segments are on normal commercial terms and conditions.

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 Group's own business segments are consistent with those of Morgan Stanley.

The Group has one reportable business segment, Institutional Securities, which includes capital raising and financial advisory services; corporate lending; sales, trading, financing and market-making activities in equity and fixed income securities and related products, including global macro, credit and commodities products, and investment activities.

Geographical segments

The Group operates in three geographic regions, being Europe, Middle East and Africa ("EMEA"), the Americas and Asia.

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

13. SEGMENT REPORTING (CONTINUED)

Geographical segments (continued)

Geographical Segments in $ millions	EMEA		Americas		Asia		Total	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019	30 June 2020	30 June 2019	30 June 2020	30 June 2019
External revenues net of interest	2,531	2,207	360	128	760	489	3,651	2,824
Profit before income tax	545	351	235	35	344	104	1,124	490
	30 June 2020	**31 Dec 2019**	**30 June 2020**	**31 Dec 2019**	**30 June 2020**	**31 Dec 2019**	**30 June 2020**	**31 Dec 2019**
Total assets	376,502	368,224	96,676	70,952	72,070	63,332	545,248	502,508

14. FINANCIAL RISK MANAGEMENT

14.1 Risk management procedures

The Group's risk management procedures are consistent with those disclosed in the Group's consolidated financial statements for the year ended 31 December 2019. This disclosure is therefore limited to quantitative data for each risk category.

14.2 Market risk

VaR for the six month period ended 30 June 2020

The table below presents the period end, average, max and min values for the Group's management VaR for the period ending 30 June 2020 compared to the year ending 31 December 2019.

in $ millions	95% / one-day VaR for the six months ended 30 June 2020				95% / one-day VaR for the year ended 31 December 2019			
	Period end	**Average**	**High**	**Low**	**Period end**	**Average**	**High**	**Low**
Market Risk Category:								
Interest rate and credit spread	18	15	20	12	13	14	20	11
Equity price	26	18	31	7	7	11	27	7
Foreign exchange rate	5	5	12	2	3	5	9	2
Commodity price	6	4	8	1	2	2	4	1
Less: Diversification benefit(1)(2)	(24)	(16)	N/A	N/A	(10)	(13)	N/A	N/A
Primary Risk Categories	31	26	41	14	15	19	31	13
Credit Portfolio(3)	8	7	9	5	5	5	8	4
Less: Diversification benefit(1)(2)	(7)	(7)	N/A	N/A	(5)	(4)	N/A	N/A
Total Management VaR	32	26	41	15	15	20	34	14

(1) Diversification benefit equals the difference between total trading VaR and the sum of the VaRs for the four risk categories. This benefit arises because the simulated one-day losses for each of the four primary market risk categories occur on different days; similar diversification benefits are also taken into account within each category.

(2) N/A – Not applicable. The minimum and maximum VaR values for the total VaR and each of the component VaRs might have occurred on different days.

(3) The Credit Portfolio VaR is disclosed as a separate category from the Primary Risk Categories and includes loans that are carried at fair value and associated hedges as well as counterparty credit valuation adjustments and related hedges.

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

14.2 Market risk (continued)

The Group's average Total Management VaR for the six months ended 30 June 2020 was $26 million, compared to $20 million for the year ended 2019. On average, VaR increased primarily due to elevated market volatility amid the COVID-19 pandemic.

Non-trading risks for the six month period ended 30 June 2020

The Group believes that sensitivity analysis is an appropriate representation of the Group's non-trading risks. Reflected below is this analysis, which covers substantially all of the non-trading risk in the Group's portfolio, with the exception of counterparty credit valuation adjustments, which are covered in the previous section.

Interest rate risk

The Group's VaR excludes certain funding liabilities and money market transactions. The application to these positions of a parallel shift in interest rates of 200 basis points would result in a net loss or gain, respectively, of approximately $16.3 million as at 30 June 2020, compared to a net loss or gain of $53.8 million as at 31 December 2019.

Funding liabilities

The credit spread risk sensitivity of the Group's mark-to-market funding liabilities corresponds to an increase or decrease in value of approximately $5.4 million and $4.6 million for each 1 basis point shift in the Group's credit spread level for 30 June 2020 and 31 December 2019, respectively.

Equity investments price risk

The Group is exposed to equity price risk as a result of changes in the fair value of its investments in listed and private equities classified as FVPL financial assets. These investments are predominantly equity positions with long investment horizons, the majority of which are for business facilitation purposes. The market risk related to these investments is measured by estimating the potential reduction in net revenues associated with a 10% decline in asset values as shown in the table below.

in $ millions	30 June 2020 10% sensitivity	31 December 2019 10% sensitivity
Investment securities	13	14

Currency risk

The analysis below details the foreign currency exposure for the Group, by foreign currency, relating to the retranslation of its non-US dollar denominated branches and subsidiaries.

The analysis calculates the impact on total comprehensive income of a reasonably possible parallel shift of the foreign currency in relation to the US dollar, with all other variables held constant. This analysis does not take into account the effect of the foreign currency hedges held by other members of the Morgan Stanley Group.

	30 June 2020			31 December 2019		
		Sensitivity to applied percentage change in currency (+/-)			Sensitivity to applied percentage change in currency (+/-)	
in $ millions	Foreign currency exposure	Percentage change applied %	Other comprehensive income	Foreign currency exposure	Percentage change applied %	Other comprehensive income
Euro	40	14%	6	45	14%	6
Taiwan New Dollar	143	8%	11	135	8%	11
Polish Zloty	6	17%	1	6	17%	1
South Korean Won	291	11%	32	270	11%	30
Swiss Franc	27	4%	1	23	4%	1
	507		51	479		49

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

14.3 Credit Risk

14.3.1 Credit risk management

Refer to pages 13 to 15 of the interim management report and to pages 21 to 25 of the Annual Report and Financial Statements for details of the Group's credit risk management processes.

14.3.2 Exposure to credit risk

The maximum exposure to credit risk ("gross credit exposure") of the Group as at 30 June 2020 is disclosed on the following page, based on the carrying amounts of the financial assets and the maximum amount that the Group could have to pay in relation to unrecognised financial instruments, which the Group believes are subject to credit risk.

Where the Group enters into credit enhancements, including receiving cash and security as collateral and master netting agreements, to manage the credit exposure on these financial instruments the financial effect of the credit enhancements is disclosed below. The net credit exposure represents the credit exposure remaining after the effect of the credit enhancements.

Trading financial assets are subject to traded credit risk through exposure to the issuer of the financial asset; the Group manages this issuer credit risk through its market risk management infrastructure and this traded credit risk is incorporated within the VaR based risk measures included in the market risk disclosure. However, listed derivatives are included below, as they are recognised as having credit risk exposure to central counterparties.

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

14.3 Credit Risk (continued)

14.3.2 Exposure to credit risk (continued)

Exposure to credit risk by class

Class in $ millions	30 June 2020 Gross credit exposure	30 June 2020 Credit enhance-ments	30 June 2020 Net credit exposure(1)	31 December 2019 Gross credit exposure	31 December 2019 Credit enhance-ments	31 December 2019 Net credit exposure(1)
Subject to ECL:						
Cash and short term deposits	32,790	-	32,790	28,803	-	28,803
Loans and advances	191	-	191	184	-	184
Trade and other receivables(2)	70,237	-	70,237	67,967	-	67,967
FVPL, not subject to ECL:						
Trading financial assets - derivatives	268,436	(260,161)	8,275	216,289	(209,619)	6,670
Secured financing	82,571	(81,969)	602	92,447	(91,419)	1,028
Loans and advances	146	-	146	19	-	19
Trade and other receivables	1,497	(1,413)	84	1,656	(583)	1,073
	455,868	(343,543)	112,325	407,365	(301,621)	105,744
Unrecognised financial instruments						
Subject to ECL:						
Loan commitments	1,758	-	1,758	1,767	-	1,767
Letters of credit	106	-	106	104	-	104
FVPL, not subject to ECL:						
Loan commitments	1,230	(700)	530	2,179	(1,059)	1,120
Letters of credit	926	(925)	1	1	-	1
Loan guarantees	174	(174)	-	-	-	-
Unsettled securities purchased under agreements to resell(3)	49,720	-	49,720	37,367	-	37,367
Total unrecognised financial instruments	53,914	(1,799)	52,115	41,418	(1,059)	40,359
	509,782	(345,342)	164,440	448,783	(302,680)	146,103

(1) Of the residual net credit exposure, intercompany cross product netting arrangements are in place which would allow for an additional $4,121 million of an available $25,799 million (31 December 2019: $4,970 million of an available $27,617 million) to be offset in the event of default by certain Morgan Stanley counterparties.

(2) Trade and other receivables primarily include cash collateral pledged against the payable on OTC derivative positions. These derivative liabilities are included within trading financial liabilities in the consolidated statement of financial position.

(3) For unsettled securities purchased under agreement to resell, collateral in the form of securities will be received at the point of settlement. Since the value of collateral is determined at a future date it is currently unquantifiable and not included in the table.

The impact of master netting arrangements and similar agreements on the Group's ability to offset financial assets and financial liabilities is disclosed in note 15.

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

14.3 Credit Risk (continued)

14.3.3 Credit quality

Exposure to credit risk by internal rating grades

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

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

The table on the next page presents gross carrying/ nominal amount by internal rating grade. All exposures subject to ECL are Stage 1, unless otherwise shown. For the unrated trade receivable balances, a lifetime ECL is always calculated without considering whether SICR has occurred.

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

14.3 Credit Risk (continued)

14.3.3 Credit quality (continued)

At 30 June 2020 in $ millions	Investment Grade AAA	AA	A	BBB	Non-investment grade	Unrated[1] /Default	Total	Net of ECL
Subject to ECL:								
Cash and short term deposits	9,301	10,227	12,494	615	153	-	32,790	32,790
Loans and advances:								
Stage 1	-	-	71	27	25	-	123	123
Stage 2	-	-	-	-	72	-	72	68
Trade and other receivables:								
Stage 1	2,806	5,101	37,007	11,909	6,677	6,699	70,199	70,199
Stage 3	2	2	2	8	-	29	43	38
	12,109	**15,330**	**49,574**	**12,559**	**6,927**	**6,728**	**103,227**	**103,218**
Not subject to ECL:								
Trading financial assets - derivatives	4,226	18,144	154,615	72,886	18,460	105	268,436	268,436
Secured financing	835	11,396	47,470	18,846	4,024	-	82,571	82,571
Loans and advances	-	-	100	1	44	1	146	146
Trade and other receivables	-	37	338	-	1,122	-	1,497	1,497
	5,061	**29,577**	**202,523**	**91,733**	**23,650**	**106**	**352,650**	**352,650**
Unrecognised financial instruments subject to ECL:								
Loan commitments								
Stage 1	-	488	785	180	116	-	1,569	1,569
Stage 2	-	-	-	157	32	-	189	189
Letters of credit								
Stage 1	-	-	105	-	-	-	105	105
Stage 2	-	-	-	-	1	-	1	1
	-	**488**	**890**	**337**	**149**	**-**	**1,864**	**1,864**
Unrecognised financial instruments not subject to ECL:								
Unsettled securities purchased under agreements to resell	45	35,864	7,889	3,194	2,728	-	49,720	49,720
Guarantees	-	-	-	-	926	-	926	926
Loan guarantee	-	-	-	174	-	-	174	174
Loan commitments	-	135	450	202	443	-	1,230	1,230
	45	**35,999**	**8,339**	**3,570**	**4,097**	**-**	**52,050**	**52,050**

(1) For the unrated trade receivables, a lifetime ECL is always calculated without considering whether SICR has occurred.

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

14.3 Credit Risk (continued)

14.3.3 Credit quality (continued)

At 31 December 2019 in $ millions	Investment Grade AAA	AA	A	BBB	Non-investment grade	Unrated[(1)] /Default	Total	Net of ECL
Subject to ECL:								
Cash and short term deposits	7,483	8,503	12,190	584	43	-	28,803	28,803
Loans and advances								
Stage 1	-	-	127	28	23	-	178	178
Stage 2	-	-	-	-	8	-	8	6
Trade and other receivables:								
Stage 1	2,330	5,320	38,228	10,858	5,698	5,492	67,926	67,926
Stage 3	2	2	3	5	-	32	45	41
	9,815	**13,825**	**50,548**	**11,475**	**5,772**	**5,524**	**96,960**	**96,954**
Not subject to ECL:								
Trading financial assets - derivatives	3,854	22,558	142,101	27,228	15,302	5,246	216,289	216,289
Secured financing	2,408	14,723	50,684	20,603	4,029	-	92,447	92,447
Loans and advances	-	-	-	1	18	-	19	19
Trade and other receivables	-	36	579	5	1,036	-	1,656	1,656
	6,262	**37,317**	**193,364**	**47,837**	**20,385**	**5,246**	**310,411**	**310,411**
Unrecognised financial instruments subject to ECL:								
Loan commitments								
Stage 1	-	487	788	297	179	-	1,751	1,751
Stage 2	-	-	-	-	16	-	16	16
Letters of credit	-	-	103	-	1	-	104	104
	-	**487**	**891**	**297**	**196**	**-**	**1,871**	**1,871**
Unrecognised financial instruments not subject to ECL:								
Unsettled securities purchased under agreements to resell	-	21,441	4,846	10,671	409	-	37,367	37,367
Guarantees	-	-	-	-	1	-	1	1
Loan commitments	-	135	765	617	638	24	2,179	2,179
	-	**21,576**	**5,611**	**11,288**	**1,048**	**24**	**39,547**	**39,547**

(1) For the unrated trade receivables, a lifetime ECL is always calculated without considering whether SICR has occurred.

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

14.4 Liquidity and funding risk

Refer to page 15 of the interim management report and to pages 8 to 10 of the Annual Report and Financial Statements for further detail on the Group's liquidity and funding risk.

Maturity analysis

In the following maturity analysis of financial liabilities, derivative contracts and other financial liabilities held as part of the Group's trading activities are presented at fair value, consistent with how these financial liabilities are managed, and disclosed as on demand. Derivatives not held as part of the Group's trading activities and financial liabilities designated at FVPL which contain an embedded derivative are disclosed according to their earliest contractual maturity; all such amounts are presented at their fair value, consistent with how these financial liabilities are managed. All other amounts represent undiscounted cash flows payable by the Group from financial liabilities to their earliest contractual maturities as at 30 June 2020 and 31 December 2019. 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 Group to appropriately reflect the liquidity risk arising from those financial liabilities, and is consistent with how the liquidity risk on these financial liabilities is managed by the Group.

30 June 2020 in $ millions	On demand	Less than 1 month	1 month - 3 months	3 months - 1 year	1 year - 5 years	Greater than 5 years	Total
Financial liabilities							
Bank loans and overdrafts	6	-	-	-	-	-	6
Trading financial liabilities:							
Derivatives	267,134	-	-	-	-	-	267,134
Other	48,159	-	-	-	-	-	48,159
Secured borrowing	67,816	2,642	3,389	5,408	672	-	79,927
Trade and other payables	89,760	23	14	210	516	85	90,608
Debt and other borrowings	1,820	82	12,985	714	13,633	9,017	38,251
Total financial liabilities	474,695	2,747	16,388	6,332	14,821	9,102	524,085
Unrecognised financial instruments							
Guarantees	337	-	-	-	-	-	337
Letters of credit	-	-	-	-	927	106	1,033
Loan Guarantees	-	-	-	174	-	-	174
Loan commitments	2,989	-	-	-	-	-	2,989
Unsettled securities purchased under agreements to resell(1)	48,233	466	366	432	223	-	49,720
Other commitments	34	-	-	-	-	-	34
Total unrecognised financial instruments	51,593	466	366	606	1,150	106	54,287

(1) The Group enters into forward starting reverse repurchase agreements (agreements which have a trade date at or prior to 30 June 2020 and settle subsequent to period end). These agreements primarily settle within three business days and of the total amount at 30 June 2020, $46,769 million settled within three business days.

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

Maturity analysis (continued)

in $ millions	On demand	Less than 1 month	1 month - 3 months	3 months - 1 year	1 year - 5 years	Greater than 5 years	Total
31 December 2019							
Financial liabilities							
Bank loans and overdrafts	9	-	-	-	-	-	9
Trading financial liabilities:							
Derivatives	215,717	-	-	-	-	-	215,717
Other	46,539	-	-	-	-	-	46,539
Secured Borrowing	67,166	5,793	5,444	4,894	1,260	-	84,557
Trade and other payables	85,206	-	-	523	93	238	86,060
Debt and other borrowings	710	85	23,933	1,009	14,573	10,053	50,363
Total financial liabilities	415,347	5,878	29,377	6,426	15,926	10,291	483,245
Unrecognised financial instruments							
Guarantees	343	-	-	-	-	-	343
Letters of credit	-	-	-	-	105	-	105
Loan commitments	3,945	-	-	-	-	-	3,945
Underwriting commitments	-	-	-	637	-	-	637
Unsettled securities purchased under agreements to resell(1)	27,720	6,534	512	2,378	223	-	37,367
Other commitments	25	-	-	-	-	-	25
Total unrecognised financial instruments	32,033	6,534	512	3,015	328	-	42,422

(1) The Group enters into forward starting reverse repurchase agreements (agreements which have a trade date at or prior to 31 December 2019 and settle subsequent to period end). These agreements primarily settle within three business days and of the total amount at 31 December 2019, $27,720 million settled within three business days.

15. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING

In order to manage credit exposure arising from its business activities, the Group applies various credit management policies and procedures, see note 25 of the 2019 Annual Report and Financial Statements for further detail. Primarily in connection with securities purchased under agreements to resell and securities sold under agreements to repurchase, securities borrowed and securities loaned transactions and derivative transactions, the Group enters into master netting arrangements and collateral arrangements with its counterparties. These agreements provide the Group with the right, in the ordinary course of business and/ or in the event of a counterparty default (such as bankruptcy or a counterparty's failure to pay or perform), to net a counterparty's right and obligations under such agreement and, in the event of counterparty default, set off collateral held by the Group against the net amount owed by a counterparty.

However, in certain circumstances, the Group may not have such an agreement in place; the relevant insolvency regime (which is based on type of counterparty entity and the jurisdiction of organisation of the counterparty) may not support the enforceability of the agreement; or the Group may not have sought legal advice to support the enforceability of the agreement.

In the statement of financial position, financial assets and financial liabilities are only offset and presented on a net basis where there is a current legally enforceable right to set off the recognised amounts and an intention to either settle on a net basis or to realise the asset and the liability simultaneously. In the absence of such conditions, financial assets and financial liabilities are presented on a gross basis.

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

The following table presents information about the offsetting of financial instruments and related collateral amounts. The table does not include information about financial instruments that are subject only to a collateral agreement. The effect of master netting arrangements, collateral agreements and other credit enhancements, on the Group's exposure to credit risk is disclosed in note 14.

				Amounts not offset(3)			
in $ millions	**Gross amounts**	**Amounts offset(1)**	**Net amounts**	**Financial instruments**	**Cash collateral(2)**	**Net exposure(4)**	**Not subject to legally enforceable master netting agreement**
30 June 2020							
Secured financing:							
Cash collateral on securities borrowed	32,400	(7,302)	25,098	(24,641)	-	457	219
Securities purchased under agreement to resell	112,978	(67,886)	45,092	(44,989)	-	103	103
Trading financial assets - derivatives	386,243	(117,807)	268,436	(219,206)	(40,708)	8,522	1,895
TOTAL ASSETS AS AT 30 JUNE 2020	531,621	(192,995)	338,626	(288,836)	(40,708)	9,082	2,217
Secured borrowing:							
Cash collateral on securities loaned	30,794	(7,302)	23,492	(23,492)	-	-	-
Securities sold under agreement to repurchase	102,638	(67,886)	34,752	(33,141)	-	1,611	1,568
Trading financial liabilities - derivatives	386,552	(119,418)	267,134	(219,215)	(36,434)	11,485	2,493
TOTAL LIABILITIES AS AT 30 JUNE 2020	519,984	(194,606)	325,378	(275,848)	(36,434)	13,096	4,061
31 December 2019							
Secured financing:							
Cash collateral on securities borrowed	38,393	(9,597)	28,796	(28,064)	-	732	195
Securities purchased under agreement to resell	141,464	(93,955)	47,509	(47,212)	-	297	227
Trading financial assets - derivatives	297,056	(80,767)	216,289	(183,059)	(26,561)	6,669	1,136
TOTAL ASSETS AS AT 31 DECEMBER 2019	476,913	(184,319)	292,594	(258,335)	(26,561)	7,698	1,558
Secured borrowing:							
Cash collateral on securities loaned	32,591	(9,597)	22,994	(22,988)	-	6	-
Securities sold under agreement to repurchase	128,657	(93,956)	34,701	(33,653)	-	1,048	445
Trading financial liabilities - derivatives	296,545	(80,828)	215,717	(179,443)	(26,466)	9,808	2,012
TOTAL LIABILITIES AS AT 31 DECEMBER 2019	457,793	(184,381)	273,412	(236,084)	(26,466)	10,862	2,457

(1) Includes $6,545 million and $8,156 million (31 December 2019: $4,056 million and $4,118 million) of cash collateral related to Trading financial assets – derivatives and Trading financial liabilities – derivatives, respectively, recognised in 'amounts offset'.
(2) Cash collateral not offset is recognised within Trade and other receivables and Trade and other payables, respectively.
(3) In addition to the balances disclosed above, legally enforceable master netting agreements are in place for $1,179 million (31 December 2019: $2,067 million) of other secured financing and secured borrowing balances which are presented net on the condensed statement of financial position, and for $461 million (31 December 2019: $ 1,113 million) of certain trade and other receivables and trade and other payables which are not presented net.
(4) Intercompany cross-product legally enforceable netting arrangements are in place which would allow for an additional $4,121 million (31 December 2019: $4,970 million) of the total condensed consolidated statement of financial position, to be offset in the ordinary course of business and/ or in the event of default.

16. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

The following tables present the carrying value of the Group's financial assets and financial liabilities recognised at fair value on a recurring basis, classified according to the fair value hierarchy. The information below is limited to quantitative information and should be read in conjunction with note 27 of the Annual Report and Financial Statements.

30 June 2020 in $ millions	Quoted prices in active market (Level 1)	Observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Trading financial assets:				
Government debt securities	24,004	3,307	10	27,321
Corporate and other debt	-	9,629	638	10,267
Corporate equities	50,498	714	13	51,225
Derivatives:				
Interest rate contracts	17	111,984	1,131	113,132
Credit contracts	-	8,591	432	9,023
Foreign exchange and gold contracts	4	84,711	224	84,939
Equity contracts	1,015	52,107	1,637	54,759
Commodity contracts	3	6,546	34	6,583
Total trading financial assets	75,541	277,589	4,119	357,249
Secured financing:				
Cash collateral on securities borrowed	-	25,098	-	25,098
Securities purchased under agreements to resell	-	44,916	176	45,092
Other secured financing	-	12,381	-	12,381
Total secured financing	-	82,395	176	82,571
Loans and advances - corporate loans	-	129	17	146
Investment securities - corporate equities	-	-	132	132
Trade and other receivables:				
Prepaid OTC contracts	-	239	1,243	1,482
Other receivables	-	-	15	15
Total trade and other receivables	-	239	1,258	1,497
Total financial assets measured at fair value	75,541	360,352	5,702	441,595
Trading financial liabilities:				
Government debt securities	20,213	1,248	-	21,461
Corporate and other debt	-	4,269	2	4,271
Corporate equities	22,274	150	3	22,427
Derivatives:				
Interest rate contracts	28	107,829	449	108,306
Credit contracts	-	8,181	365	8,546
Foreign exchange and gold contracts	3	83,948	240	84,191
Equity contracts	1,319	55,503	2,355	59,177
Commodity contracts	49	6,833	32	6,914
Total trading financial liabilities	43,886	267,961	3,446	315,293
Secured borrowing:				
Cash collateral on securities loaned	-	-	-	-
Securities sold under agreements to repurchase	-	13,855	-	13,855
Other secured borrowing	-	20,456	-	20,456
Total secured borrowing	-	34,311	-	34,311
Trade and other payables:				
Prepaid OTC contracts	-	451	285	736
Unfunded loan commitments	-	7	2	9
Total trade and other payables	-	458	287	745
Debt and other borrowings - issued structured notes	-	7,615	533	8,148
Total financial liabilities measured at fair value	43,886	310,345	4,266	358,497

16. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

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

31 December 2019

in $ millions	Quoted prices in active market (Level 1)	Observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Trading financial assets:				
Government debt securities	13,377	1,930	3	15,310
Corporate and other debt	-	11,004	481	11,485
Corporate equities	67,323	309	28	67,660
Derivatives:				
Interest rate contracts	539	79,255	1,152	80,946
Credit contracts	-	5,844	331	6,175
Foreign exchange and gold contracts	-	84,765	183	84,948
Equity contracts	301	39,334	1,220	40,855
Commodity contracts	6	3,341	18	3,365
Total trading financial assets	81,546	225,782	3,416	310,744
Secured financing:				
Cash collateral on securities borrowed	-	28,796	-	28,796
Securities purchased under agreements to resell	-	47,252	257	47,509
Other	-	16,142	-	16,142
Total secured financing	-	92,190	257	92,447
Loans and advances - corporate loans	-	10	9	19
Investment securities - corporate equities	19	-	122	141
Trade and other receivables:				
Prepaid OTC contracts	-	1,282	353	1,635
Other	-	-	21	21
Total trade and other receivables	-	1,282	374	1,656
Total financial assets measured at fair value	81,565	319,264	4,178	405,007
Trading financial liabilities:				
Government debt securities	17,920	1,373	-	19,293
Corporate and other debt	-	3,499	20	3,519
Corporate equities	23,717	3	7	23,727
Derivatives:				
Interest rate contracts	13	76,800	446	77,259
Credit contracts	-	6,000	383	6,383
Foreign exchange and gold contracts	2	84,448	192	84,642
Equity contracts	371	41,570	1,947	43,888
Commodity contracts	7	3,521	17	3,545
Total trading financial liabilities	42,030	217,214	3,012	262,256
Secured borrowing:				
Cash collateral on securities loaned	-	1	-	1
Securities sold under agreements to repurchase	-	13,345	-	13,345
Other secured borrowing	-	25,387	-	25,387
Total secured borrowing	-	38,733	-	38,733
Trade and other payables:				
Prepaid OTC contracts	-	1,728	341	2,069
Unfunded loan commitments	-	3	1	4
Total trade and other payables	-	1,731	342	2,073
Debt and other borrowings - issued structured notes	-	6,733	314	7,047
Total financial liabilities measured at fair value	42,030	264,411	3,668	310,109

16. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

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

In the following tables:

- 'Sales and Issuances' amounts are reported together. For net derivatives, prepaid OTC liability contracts and issued structured notes these amounts represent issuances, whereas for other line items amounts represent sales.
- For financial assets and financial liabilities that were transferred into and out of Level 3 during the period, gains or (losses) are presented as if the assets or liabilities had been transferred into or out of Level 3 as at the beginning of the period.
- Net derivative contracts represent trading financial liabilities – derivative contracts net of trading financial assets – derivative contracts.

16. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

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

30 June 2020

in $ millions	Balance at 1 January 2020	Total gains/ (losses) recognised in condensed consolidated income statement(1)	Purchases	Sales & Issuances	Settlements	Net transfers in and / or (out) of Level 3	Balance at 30 June 2020	Unrealised gains/ (losses) for Level 3 assets/ liabilities outstanding as at 30 June 2020
Trading financial assets:								
Government debt securities	3	-	9	(2)	-	-	10	-
Corporate and other debt	481	(16)	232	(118)	-	59	638	(8)
Corporate equities	28	(83)	16	(93)	-	145	13	(8)
Total trading financial assets	512	(99)	257	(213)	-	204	661	(16)
Secured financing - securities purchased under agreements to resell	257	-	176	(257)	-	-	176	-
Loans and advances – corporate loans	9	(3)	5	-	(1)	7	17	-
Investment securities - corporate equities	122	(2)	14	(2)	-	-	132	(2)
Trade and other receivables:								
Prepaid OTC contracts	353	(5)	992	(97)	-	-	1,243	(5)
Other	21	-	-	(6)	-	-	15	-
Total trade and other receivables	374	(5)	992	(103)	-	-	1,258	(5)
Total financial assets measured at fair value	1,274	(109)	1,444	(575)	(1)	211	2,244	(23)
Trading financial liabilities:								
Corporate and other debt	20	-	(19)	-	-	1	2	-
Corporate equities	7	1	(5)	1	-	1	3	-
Net derivative contracts	81	876	(631)	680	281	448	(17)	441
Total trading financial liabilities	108	877	(655)	681	281	450	(12)	441
Trade and other payables:								
Prepaid OTC contracts	341	(41)	(97)	-	-	-	285	(41)
Unfunded loan commitments	1	(1)	-	-	-	-	2	-
Debt and other borrowings - issued structured notes	314	41	-	259	(38)	40	534	35
Total financial liabilities measured at fair value	764	876	(752)	940	243	490	809	435

(1) At 30 June 2020 there was $(28) million of losses on Debt and other borrowings – issued structured notes recognised in condensed consolidated other comprehensive income.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Six months ended 30 June 2020

16. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

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

31 December 2019

	Balance at 1 January 2019	Total gains/ (losses) recognised in condensed consolidated income statement(1)	Purchases	Sales and issuances	Settlements	Net transfers in and / or out of Level 3	Balance at 31 December 2019	Unrealised gains or (losses) for level 3 assets/ liabilities outstanding as at 31 December 2019
Trading financial assets:								
Government debt securities	13	-	2	(2)	-	(10)	3	-
Corporate and other debt	318	(4)	182	(187)	-	172	481	(19)
Corporate equities	33	(4)	3	(10)	-	6	28	-
Total trading financial assets	364	(8)	187	(199)	-	168	512	(19)
Secured financing - securities purchased under agreements to resell	317	-	257	(317)	-	-	257	-
Loans and advances - corporate loans	-	-	-	-	(1)	10	9	-
Investment securities - corporate equities	85	8	1	(3)	-	31	122	8
Trade and other receivables:								
Prepaid OTC contracts	123	175	63	(8)	-	-	353	175
Margin loans	130	-	-	(57)	-	(73)	-	-
Other	17	-	4	-	-	-	21	-
Total trade and other receivables	270	175	67	(65)	-	(73)	374	175
Total financial assets measured at fair value	1,036	175	512	(584)	(1)	136	1,274	164
Trading financial liabilities:								
Corporate and other debt	-	-	-	20	-	-	20	-
Corporate equities	9	2	(5)	-	-	5	7	-
Net derivative contracts	(127)	(94)	(804)	649	376	(107)	81	97
Total trading financial liabilities	(118)	(92)	(809)	669	376	(102)	108	97
Trade and other payables								
Prepaid OTC contracts	259	(183)	-	52	(153)	-	341	(173)
Unfunded loan commitments	-	-	-	1	-	-	1	-
Debt and other borrowings - issued structured notes	447	(69)	-	79	(228)	(53)	314	(45)
Total financial liabilities measured at fair value	588	(344)	(809)	800	(5)	(155)	763	(121)

(1) At 31 December 2019 there was $(13) million of Debt and other borrowings – issued structured notes recognised in condensed consolidated other comprehensive income.

During the period, there were no material transfers from Level 2 to Level 3 or Level 3 to Level 2 of the fair value hierarchy (2019: no material transfers).

16. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

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

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

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

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

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

30 June 2020	Fair value $millions	Predominant valuation techniques/ Significant unobservable inputs	Range (Average)[1]
ASSETS			
Trading financial assets:			
- Corporate and other debt:			
- Mortgage- and asset backed securities	247	Comparable pricing	
		Comparable bond price	3 to 105 pts (73 pts)
- Corporate bonds	259	Comparable pricing	
		Comparable bond price	65 to 130 pts (108.09 pts)
- Loans and lending commitments	132	Comparable pricing	
		Comparable loan pricing	25.5 to 100 pts (91.08 pts)
- Corporate equities	13	Comparable pricing	
		Comparable equity price	100% (100%)
Secured borrowings:			
- Securities purchased under agreements to resell	176	Discounted cash flow	
		Collateral funding spread	47 to 91 bps (69 bps)
Investment securities:			
- Corporate equities	132	Comparable pricing	
		Comparable equity price	50% to 100% (95%)
Trade and other receivables:			
-Prepaid OTC contracts	1,243	Discounted cash flow	
		Recovery rate	51% to 62% (53%/51%)

16. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

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

30 June 2020	Fair value $ millions	Predominant valuation technique/ Significant unobservable inputs	Range (Average)(1)
LIABILITIES			
Trading financial liabilities:			
- Net derivatives contracts:(2)			
- Interest rate	682	Option model	
		Inflation volatility	23.88% to 63.39% (43.75%/40.82%)
		Interest rate-foreign exchange correlation	54% to 59% (57%/56%)
		Interest rate curve correlation	53% to 90% (72%/75%)
		Inflation curve	0.6% to 0.65% (0.63%/0.63%)
		Interest rate volatility skew	38% to 191% (79%/80%)
		Foreign exchange volatility skew	-0.2% to 0% (-0.1%/-0.1%)
		Interest rate – inflation correlation	-75% to -5% (-39%/-45%)
		Interest rate quanto correlation	n/a (n/a)
		Bond volatility	20% to 37% (25%/22%)
- Credit	67	Credit default swap model	
		Credit spread	4 to 370 bps (101 bps)
		Comparable bond price	10 to 99 pts (59 pts)
		Funding spread	74.86 to 167.93 bps (115.95 bps)
		Funding spread	74.86 to 167.93 bps (115.71 bps)
		Comparable bond price	10 to 99 pts (59 pts)
		Credit spread	4 to 371 bps (77 bps)
- Foreign exchange and gold3)	(16)	Option model	
		Interest rate-foreign exchange correlation	16 to 59% (43%/43%)
		Interest rate volatility skew	38% to 191% (79%/80%)
		Deal execution probability	95% to 95% (95%/95%)
		Foreign exchange volatility skew	-7.2% to -2.8% (-5.3%/-6.1%)
		Currency basis	9% to 11% (10.55%/10.76%)
- Equity(3)	(718)	Option model	
		At the money volatility	13% to 75% (27%)
		Volatility skew	-3% to 0% (-1%)
		Equity-equity correlation	5% to 96% (72%)
		Equity-foreign exchange correlation	-80% to 60% (-35%)
- Commodity	2	Comparable pricing	
		Comparable price	$342 to $1,304 ($789)
Debt and other borrowings:			
- Issued structured notes	(533)	Option model	
		At the money volatility	12% to 50% (24%)
		Volatility skew	-1% to 0% (-1%)
		Equity-equity correlation	45% to 91% (70%)
		Equity-foreign exchange correlation	-72% to 13% (-30%)
		Interest rate volatility skew	24.02% to 46.50% (35%)
Trade and other payables:			
- Prepaid OTC contracts	(285)	Discounted Cash Flow	
		Recovery Rate	51% to 62% (53%/51%)

(1) A single amount is disclosed for range and average when there is no significant difference between the minimum, maximum and average. Amounts represent weighted averages except where simple averages and the median of the inputs are provided when more relevant.
(2) Net derivative contracts represent trading financial liabilities – derivative contracts net of trading financial assets – derivative contracts.
(3) Includes derivative contracts with multiple risks (i.e. hybrid products).

MORGAN STANLEY & CO. INTERNATIONAL plc

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Six months ended 30 June 2020
16. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

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

31 December 2019	Fair value $millions	Predominant valuation techniques/ Significant unobservable inputs	Range (Average)(1)
ASSETS			
Trading financial assets:			
- Corporate and other debt:			
- Mortgage and asset-backed securities	231	Comparable pricing	
		Comparable bond price	2 to 101 pts (68 pts)
- Corporate bonds	186	Comparable pricing	
		Comparable bond price	65 to 130 pts (105.14 pts)
- Loans and lending commitments	64	Comparable pricing	
		Comparable loan price	25.5 to 100 pts (77.9 pts)
- Corporate equities	28	Comparable pricing	
		Comparable equity price	100% (100%)
Trade and other receivables:			
- Prepaid OTCs	353	Discounted cash flow	
		Recovery Rate	51% to 62% (54%)
Investment securities:			
- Corporate equities	122	Comparable pricing	
		Comparable equity price	96.67% to 100% (98%)
Securities Borrowings:			
- Securities purchased under agreements to resell	257	Consensus data on underlying curves	
		Availability of market price for collateral cusips	14 to 79 (64)
LIABILITIES			
Trading financial liabilities:			
- Net derivatives contracts:(2)			
- Interest rate	707	Option Model	
		Inflation Volatility	24% to 63% (44%/41%)
		Interest rate - Foreign exchange correlation	55% to 58% (56%/56%)
		Interest Rate Curve Correlation	47% to 90% (71%/72%)
		Inflation Curve	1.05% to 1.07% (1.06%/1.06%)
		Interest rate volatility skew	24% to 155% (63%/52%)
		Foreign exchange volatility skew	-0.2% to -0.1% (-0.1%/-0.1%)
		Interest rate – Inflation correlation	-75% to -5% (-39%/-45%)
		Interest rate quanto correlation	-11% to -1% (-5%/-8%)
		Bond volatility	4% to 15% (13%/14%)
- Credit	(52)	Comparable pricing	
		Credit Spread	4bps to 373bps (103bps)
		Comparable bond price	12 to 104 pts (59 pts)
		Funding Spread	46.94bps to 117.09bps (83.9 bps)
- Foreign exchange and gold(3)	(9)	Option Model	
		Interest rate-Foreign exchange correlation	32% to 57% (46%/46%)
		Interest rate volatility skew	24% to 155% (63%/52%)
		Currency basis	10% to 11% (10%/10%)
		Deal Execution Probability	85% to 95% (93%/95%)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Six months ended 30 June 2020
16. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

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

31 December 2019	Fair value $millions	Predominant valuation techniques/ Significant unobservable inputs	Range (Average)[1]
LIABILITIES			
Trading financial liabilities:			
- Net derivative contracts[2]			
- Equity(3)	(726)	Option model	
		At the money volatility	9% to 81% (22%)
		Volatility skew	-3% to 0% (-1%)
		Equity-equity correlation	5% to 98% (69%)
		Equity-FX correlation	-72% to 60% (-43%)
- Commodity	1	Comparable pricing	
		Comparable price	$470 to $1,698 ($1,036)
- Corporate equities	(7)	Comparable pricing	
		Comparable equity price	100%
Debt and other borrowings:			
- Issued structured notes	(314)	Option Model	
		At the money volatility	15% to 44% (22%)
		Volatility skew	-1% to 0% (0%)
		Equity-equity correlation	45% to 91% (77%)
		Equity-FX correlation	-70% to 13% (-29%)
Trade and other payables:			
- Prepaid OTC contracts	(341)	Discounted cash flow	
		Recovery rate	51% to 62% (54%)

(1) A single amount is disclosed for range and average when there is no significant difference between the minimum, maximum and average. Amounts represent weighted averages except where simple averages and the median of the inputs are provided when more relevant.
(2) Net derivative contracts represent trading financial liabilities – derivative contracts net of trading financial assets – derivative contracts.
(3) Includes derivative contracts with multiple risks (i.e. hybrid products).

A description of the significant unobservable inputs and qualitative sensitivity included in the table above for all major categories of assets and liabilities is included within note 29 of Annual Report and Financial Statements.

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

The following tables present the potential impact of both favourable and unfavourable changes, both of which would be reflected in the income statement. The information below is limited to quantitative information and should be read in conjunction with note 29 of the Annual Report and Financial Statements.

16. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

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

	June 30, 2020		December 31, 2019	
in $ millions	**Favourable changes**	**Unfavourable changes**	**Favourable changes**	**Unfavourable changes**
Trading financial assets:				
Corporate and other debt	23	(22)	15	(8)
Corporate equities	1	(4)	-	(8)
Trade and other receivables:				
Prepaid OTC contracts	2	(2)	-	-
Investment securities:				
Corporate equities	30	(17)	30	(13)
Trading financial liabilities:				
Net derivative contracts[(1)(2)]	19	(53)	51	(27)
Debt and other borrowings:				
Issued structured notes	24	(23)	8	(2)
	99	(121)	104	(58)

(1) Net derivative contracts represent financial liabilities classified as held for trading – derivative contracts net of financial assets classified as held for trading – derivative contracts.
(2) CVA and FVA are included in the fair value, but excluded from the effect of reasonably possible alternative assumptions in the table above. CVA is deemed to be a level 3 input when the underlying counterparty credit curve is unobservable. FVA is deemed to be a Level 3 input in its entirety given the lack of observability of funding spreads in the principal market.

16. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

e. Financial instruments valued using unobservable market data

The amounts not recognised in the condensed consolidated income statement relating to the difference between the fair value at initial recognition (the transaction price) and the amounts determined at initial recognition using valuation techniques are as follows:

in $millions	30 June 2020	31 December 2019
At 1 January	342	290
New transactions	71	127
Amounts recognised in the consolidated income statement during the period/year	(41)	(75)
At 30 June 2020 / 31 December 2019	372	342

The balance above predominately relates to derivatives.

f. 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 consolidated statement of financial position in particular circumstances. There were no assets or liabilities measured at fair value on a non-recurring basis during the current or prior period.

17. ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

For all financial instruments not carried at fair value, the carrying value is a reasonable approximation of fair value as at 30 June 2020 owing to their short-term nature, with the exception of $5,000 million of subordinated loan liabilities for which the Level 2 fair value is $5,307 million (31 December 2019: $5,000 million of subordinated loan liabilities for which the Level 2 fair value was $5,357 million). The fair value of subordinated loans has been determined based on the assumption that all subordinated loans are held to maturity.

18. RELATED PARTY DISCLOSURES

The management and execution of business strategies on a global basis results in many Morgan Stanley transactions impacting a number of Morgan Stanley Group entities. The Morgan Stanley Group operates a number of intra-group policies to ensure arm's length pricing.

The Group receives and incurs management charges to and from other Morgan Stanley Group undertakings for infrastructure services, including the provision of staff and office facilities. For the six month period ended 30 June 2020 'management charges from other Morgan Stanley Group undertakings relating to staff costs' were $260 million (30 June 2019: $850 million) and 'management charges from other Morgan Stanley Group undertakings relating to other services' were $700 million (30 June 2019: $656 million). See note 5 for further details.

19. EVENTS AFTER THE REPORTING PERIOD

On 17 September 2020, the Directors approved a $133 million capital infusion into Morgan Stanley Longcross Limited, a direct subsidiary of the Company. This infusion will be passed down to Morgan Stanley Derivative Products Netherlands in order to settle the tax liability disclosed in the "Tax Matters" section of Provisions note 11. The Company will impair its investment in Morgan Stanley Longcross Limited. There is no impact to the Group for these changes.