Registered number: 35857

Registered office:
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St. Helier
JE1 0BD
Jersey

MORGAN STANLEY FINANCE II LIMITED

Report and Interim Financial Statements

30 June 2024

MORGAN STANLEY FINANCE II LIMITED

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MORGAN STANLEY FINANCE II LIMITED

INTERIM DIRECTORS' REPORT

The Directors present their interim report and condensed interim financial statements (which comprise the condensed statement of comprehensive income, the condensed statement of changes in equity, the condensed statement of financial position, the condensed statement of cash flows, and the related notes, 1 to 12) for Morgan Stanley Finance II Limited (the "Company") for the period ended 30 June 2024.

RESULTS AND DIVIDENDS

The profit for the period, after tax was $341,000 (period ended June 2023: $301,000).

During the period, no dividends were paid or proposed (year ended December 2023: $nil).

PRINCIPAL ACTIVITY

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

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

BUSINESS REVIEW

Exposure to risk factors and the current business environment in which it operates may impact business results of the Company's operations.

Risk factors

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

The Morgan Stanley Group Risk Appetite Statement articulates the aggregate level and type of risk that the Group is willing to accept in order to execute its business strategy.

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

The primary risk areas for the Company include Market, Credit, Liquidity, Valuation and Operational Risks which are discussed in the Risk Management section.

Business environment

The market environment, client and investor confidence and overall market sentiment improved in the first half of 2024. However, geopolitical risks, inflation and uncertainty regarding the U.S. political cycle and the future path of interest rates, which have remained high relative to recent years, present ongoing risks to the economic environment. These factors have impacted, and could continue to impact capital markets and the Company, as discussed further in 'Overview of 2024 Financial Results'.

MORGAN STANLEY FINANCE II LIMITED

INTERIM DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Overview of the period to June 2024

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

The condensed statement of comprehensive income is set out on page 10. The profit for the period is $341,000, which primarily represents net interest income from intercompany funding (period ended June 2023: $301,000). The net trading income and the net expense from other financial instruments held at fair value through profit and loss for the period is $nil (period ended June 2023: $nil) which is consistent with the Company's principal activity.

The condensed statement of financial position is set out on page 12. Total assets and total liabilities as at 30 June 2024 were $618,045,000 (year ended December 2023: $498,450,000) and $606,436,000 (year ended December 2023: $487,182,000), respectively. The increase in total assets and total liabilities from 31 December 2023 is due to the net issuance of structured notes, classified as debt and other borrowings, and the related hedging instruments, classified as trading financial assets and liabilities.

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

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

Risk management

Risk is an inherent part of the Company's business activities. The Company seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities, in accordance with defined policies and procedures. The Company is managed as part of the policies and procedures of the Morgan Stanley Group's risk management policy framework. The risk management policy framework includes escalation to the appropriate senior management personnel when necessary.

Note 17 to the 2023 annual financial statements provides more detailed qualitative disclosures on the Company's exposure to financial risks. Note 9 to the condensed financial statements provides more detailed quantitative disclosures.

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

Market risk

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

The Company's market risk associated with its trading activities at a legal entity, trading division and at an individual product level, is managed as part of the Morgan Stanley Group's market risk management policy framework.

INTERIM DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Market risk (continued)

The Morgan Stanley Group's market risk management policy framework ensures transparency of material market risks, monitors compliance with established limits, and escalates risk concentrations to appropriate senior management when necessary.

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

Credit risk

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

The Morgan Stanley Group's credit risk management policies and procedures, of which the Company is a part, includes escalation to the appropriate senior management personnel when necessary.

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 and compliance with established limits and escalating risk concentrations to appropriate senior management.

Additional information on the primary credit exposures, credit risk management and mitigation, exposure to credit risk, including the maximum exposure to credit risk by credit rating is presented in note 9.

Country risk exposure

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

The Company enters into the majority of its financial asset transactions with the parent entity, Morgan Stanley, in the United States of America ("USA"). As a result of the implicit support that would be provided by Morgan Stanley, the Company's country risk is considered a component of the Morgan Stanley Group's credit risk.

For further information on how the Company identifies, monitors and manages country risk exposure refer to page 3 of the Directors' report of the Company's 2023 annual financial statements.

Liquidity risk

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

INTERIM DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Liquidity risk (continued)

For further discussion on the Company's liquidity risk refer to page 4 of the Directors' report in the Company's 2023 annual financial statements.

Valuation risk

Valuation risk represents the possibility that a valuation estimate of a position would differ from the price in an actual close-out transaction due to uncertainty around the actual price that could be obtained.

Valuation Control ("VC") within Finance is responsible for the Company's fair value valuation policies, processes and procedures. VC implements valuation control processes designed to validate the fair value of the Company's financial instruments measured at fair value including those derived from pricing models.

Operational risk

Operational risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes, people and systems, or from external events (e.g. fraud, theft, legal, regulatory and compliance risks, cyberattacks or damage to physical assets). Operational risk relates to the following risk event categories as defined by Basel Capital Standards: internal fraud; external fraud; employment practices and workplace safety; clients, products and business practices; business disruption and system failure; damage to physical assets; and execution, delivery and process management. The scope also includes oversight of technology risk, cybersecurity risk, information security risk, and third party risk management (supplier and affiliate risk).

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

For further discussion on the Company's operational risk refer to pages 4, 5 and 6 of the Directors' report in the Company's 2023 annual financial statements.

Legal, regulatory and compliance risk

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

For further discussion on the Company's legal, regulatory and compliance risk refer to pages 6 and 7 of the Directors' report in the Company's 2023 annual financial statements.

INTERIM DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Culture, values and conduct of employees

The Company's culture is built on the core values of the Morgan Stanley Group - *Put Clients First, Do the Right Thing, Lead with Exceptional Ideas, Commit to Diversity and Inclusion and Give Back*. Leadership, including from the Board, sets the tone for the Company, and the executive team drive a culture that is central to how the Company serves clients, advances and develops the workforce, and how the Company supports the communities around it. The Morgan Stanley Group is committed to reinforcing and confirming adherence to the core values through our governance framework, tone from the top, management oversight, risk management and controls, and a three lines of defence structure.

The Morgan Stanley Group's Board is responsible for overseeing the Morgan Stanley Group's practices and procedures relating to culture, values and conduct. The Morgan Stanley Group's Senior management committees oversee the Morgan Stanley-wide culture, values and conduct program and report regularly to the Morgan Stanley Group Board. A fundamental building block of these programs is the Morgan Stanley Group's Code of Conduct (the "Code") which establishes standards for employee conduct that further reinforce the Morgan Stanley Group's commitment to integrity and ethical conduct. Every new hire and every employee annually is required to attest to their understanding of and adherence to the Code of Conduct. Morgan Stanley's Global Conduct Risk Management Policy also sets out a consistent global framework for managing conduct risk (i.e., the risk arising from misconduct by employees or contingent workers) and conduct risk incidents.

Morgan Stanley's remuneration policies and practices ensure that there is an alignment between reward, risk, culture and conduct. Conduct, culture, and core values are considered in the employee annual performance evaluation process. The performance review process also includes evaluation of employee conduct related to risk management practices and the Morgan Stanley Group's expectations. The Morgan Stanley Group also has several mutually reinforcing processes to identify employee conduct that may have an impact on employment status, current year compensation and/or prior year compensation.

Going concern

Business risks associated with the uncertain market and economic conditions are being actively monitored and managed by the Company. Retaining sufficient liquidity and capital to withstand market pressures remains central to the Company's strategy.

The effect of relevant macroeconomic scenarios on the business of the Company have been considered as part of the going concern analysis, including impact on operational capacity, access to capital and liquidity, contractual obligations, asset valuations and other critical accounting judgements and key sources of estimation uncertainty.

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

EVENTS AFTER THE REPORTING DATE

There have been no significant events since the reporting date.

MORGAN STANLEY FINANCE II LIMITED

INTERIM DIRECTORS' REPORT

DIRECTORS

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

J Liu	Director
S Marriott	Director
S Kerr	Director

Approved by the Board and signed on its behalf by:

Signed by:

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S Kerr - Director

25 September 2024

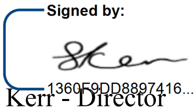
DIRECTORS' RESPONSIBILITY STATEMENT

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 Company; and

(b) the interim management report includes a fair review of the important events that have occurred during the period and their impact on the condensed set of interim financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year.

Approved by the Board and signed on its behalf by:



S Kerr - Director

25 September 2024

Board of Directors

J Liu	Director
S Marriott	Director
S Kerr	Director

INDEPENDENT REVIEW REPORT TO MORGAN STANLEY FINANCE II LIMITED

Conclusion

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 2024 which comprises the condensed statement of comprehensive income, the condensed statement of changes in equity, the condensed statement of financial position, the condensed statement of cash flows and related notes 1 to 12.

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 2024 is not prepared, in all material respects, in accordance with European Union adopted International Accounting Standard 34.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 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 (ISRE (UK) 2410). 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.

As disclosed in note 2, the annual financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and Interpretations issued by the IFRS Interpretations Committee ("IFRIC"). The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard ("IAS") 34 'Interim Financial Reporting', as adopted by the EU.

Conclusion Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE (UK) 2410; however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with IFRSs as adopted by the EU and Interpretations issued by the IFRIC.

In preparing the half-yearly financial report, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT REVIEW REPORT TO MORGAN STANLEY FINANCE II LIMITED

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly financial report, we are responsible for expressing to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report. Our Conclusion, including our Conclusion Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the company in accordance with ISRE (UK) 2410. 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

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Deloitte LLP

Statutory Auditor

London, United Kingdom

25 September 2024

CONDENSED STATEMENT OF COMPREHENSIVE INCOME
Six months ended 30 June 2024

	Note	(Unaudited) Six months ended 30 June 2024 $'000	(Unaudited) Six months ended 30 June 2023 $'000
Net trading (expense)/income on trading financial assets		(4,723)	13,966
Net trading (expense)/income on trading financial liabilities		18,612	32,426
Net trading income / (expense)		13,889	46,392
Net income on other financial assets held at fair value		3,773	8,209
Net expense on other financial liabilities held at fair value		(17,662)	(54,601)
Net expense on other financial instruments held at fair value	3	(13,889)	(46,392)
Interest income	4	342	300
Net interest income		342	300
Other income		2	3
Other expenses		(3)	(2)
PROFIT BEFORE INCOME TAX		341	301
Income tax	5	—	—
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		341	301

All results were derived from continuing operations.

The notes on pages 14 to 31 form an integral part of the condensed interim financial statements.

CONDENSED STATEMENT OF CHANGES IN EQUITY
Six months ended 30 June 2024

	2024	2023
	$'000	$'000
Share capital – at 1 January and 30 June (unaudited)	14	14
Capital contribution reserve - at 1 January and 30 June (unaudited)	10,000	10,000
Retained earnings - at 1 January	1,254	386
Profit and total comprehensive income for the period (unaudited)	341	301
Retained earnings - at 30 June (unaudited)	1,595	687
Total equity at 30 June (unaudited)	11,609	10,701

The notes on pages 14 to 31 form an integral part of the condensed interim financial statements.

MORGAN STANLEY FINANCE II LIMITED

Registered number: 35857

CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 June 2024

	Note	(unaudited) As at 30 June 2024 $'000	(audited) As at 31 December 2023 $'000
ASSETS			
Cash and short-term deposits	6	399	317
Loans and advances	6	591,866	474,709
Trading financial assets	6	14,974	12,439
Trade and other receivables	6	10,806	10,985
TOTAL ASSETS		618,045	498,450
LIABILITIES AND EQUITY			
LIABILITIES			
Trading financial liabilities	6	11,556	9,670
Trade and other payables	6	—	1,819
Debt and other borrowings	7	594,880	475,693
TOTAL LIABILITIES		606,436	487,182
EQUITY			
Share capital		14	14
Capital contribution reserve		10,000	10,000
Retained earnings		1,595	1,254
Equity attributable to owners of the Company		11,609	11,268
TOTAL EQUITY		11,609	11,268
TOTAL LIABILITIES AND EQUITY		618,045	498,450

These condensed financial statements were approved by the Board and authorised for issue on 25 September 2024.

Signed on behalf of the Board

Signed by:

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S Kerr - Director

The notes on pages 14 to 31 form an integral part of the condensed interim financial statements.

MORGAN STANLEY FINANCE II LIMITED

CONDENSED STATEMENT OF CASH FLOWS
Six months ended 30 June 2024

	(unaudited) Six months ended 30 June 2024 $'000	(unaudited) Six months ended 30 June 2023 $'000
NET CASH FLOWS FROM / (USED) IN OPERATING ACTIVITIES	**82**	**(726)**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**82**	**(726)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**317**	**1,795**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**399**	**1,069**

The notes on pages 14 to 31 form an integral part of the condensed interim financial statements.

NOTES TO THE FINANCIAL STATEMENTS
Six months ended 30 June 2024

1. CORPORATE INFORMATION

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

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

2. BASIS OF PREPARATION

Statement of compliance

The Company has prepared its annual financial statements in accordance with IFRSs as adopted by the EU, Interpretations issued by the IFRS Interpretations Committee ("IFRIC") and Companies (Jersey) Law 1991.

The condensed financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 'Interim Financial Reporting', as adopted by the EU.

In preparing these condensed financial statements, the Company has applied consistently the accounting policies and methods of computation used in the Company's annual financial statements for the year ended 31 December 2023, except where otherwise stated.

New standards and interpretations adopted during the period

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

Amendments to IAS 1 *'Presentation of Financial Statements'* ('IAS 1'): Disclosure of Accounting Policies were issued by the IASB in February 2021, for prospective application in accounting periods beginning on or after 1 January 2023. The amendments were adopted by the UK in July 2023/ endorsed by the EU in January 2024.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current were issued by the IASB in January 2020 and revised in July 2020 and October 2022, for retrospective application in accounting periods beginning on or after 1 January 2024. Earlier application is permitted. The amendments were endorsed by the EU in January 2024.

Amendments to IAS 1: Non-current Liabilities with Covenants were issued by the IASB in October 2022 for application in accounting periods beginning on or after 1 January 2024. Earlier application is permitted. The amendments were endorsed by the EU in January 2024.

Amendments to IAS 12: International Tax Reform — Pillar Two Model Rules were issued by the IASB in May 2023, for application in accounting periods beginning on or after 1 January 2023. The amendments were endorsed by the EU in November 2023.

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

2. BASIS OF PREPARATION (CONTINUED)

New standards and interpretations not yet adopted during the period

At the date of authorisation of these condensed financial statements, the following amendments to standards relevant to the Company's operations were issued by the IASB but not mandatory for accounting periods beginning 1 January 2024. The Company does not expect that the adoption of the following standards, amendments to standards and interpretations will have a material impact on the Company's condensed financial statements.

Amendments to IAS 21 'The Effects of Changes in Foreign Exchange Rates': Lack of Exchangeability were issued by the IASB in August 2023 for prospective application in accounting periods beginning on or after 1 January 2025. Earlier application is permitted.

Amendments to IFRS 9 'Financial Instruments' ("IFRS 9") and IFRS 7 'Financial Instruments: Disclosures' ("IFRS 7") was issued by the IASB in May 2024 for retrospective application in annual periods beginning on or after 1 January 2026. Earlier application is permitted. The Company is currently assessing the impact of IFRS 9 and IFRS 7 on its financial statements.

IFRS 18 'Presentation and Disclosure in Financial Statements' ("IFRS 18") was issued by the IASB in April 2024 for retrospective application in annual periods beginning on or after 1 January 2027. Earlier application is permitted. The Company is currently assessing the impact of IFRS 18 on its financial statements.

Critical accounting judgements and key sources of estimation uncertainty

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

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

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

No critical accounting judgements have been made in the process of applying the Company's accounting policies that have had a significant effect on the amounts recognised in the condensed interim financial statements.

The key source of estimation uncertainty is the unobservable inputs associated with the valuation of Level 3 financial instruments . For further detail refer to note 10

The Company evaluates the critical accounting judgements and key sources of estimation uncertainty on an ongoing basis and believes that these are reasonable.

The going concern assumption

The Company's business activities, together with the factors likely to affect its future development, performance and position, are reflected in the Business Review section of the Directors' report on pages 1 to 6. In addition, the notes to the condensed interim financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

As set out in the Directors' report, retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy.

NOTES TO THE FINANCIAL STATEMENTS
Six months ended 30 June 2024

2. BASIS OF PREPARATION (CONTINUED)

The going concern assumption (Continued)

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

3. NET EXPENSE ON OTHER FINANCIAL INSTRUMENTS HELD AT FAIR VALUE

	(unaudited) Six months ended 30 June 2024 $'000	(unaudited) Six months ended 30 June 2023 $'000
Net expense on:		
Financial assets designated at fair value through profit or loss ("FVPL"):		
Loans and advances:		
Loans	3,773	8,209
Financial liabilities designated at FVPL		
Debt and other borrowings:		
Issued structured notes	(17,662)	(54,601)
	(13,889)	(46,392)

4. INTEREST INCOME

All interest income relates to financial asset at amortised cost and is calculated using the effective interest rate ("EIR") method.

5. INCOME TAX

The Company is subject to Jersey income tax at the rate 0.00% (2023: 0.00%).

The Company has no current tax exposure in relation to the OECD Pillar Two Model Rules because the Pillar Two legislation is not yet effective at the reporting date. The Company has applied the exception to deferred tax recognition and disclosure as provided in the amendments to IAS 12: International Tax Reforms- Pillar Two Model Rules. Based on preliminary assessments of potential future exposure, the financial impact is expected to be immaterial.

6. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY

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

30 June 2024	FVPL (mandatorily) $'000	FVPL (designated) $'000	Amortised cost $'000	Total $'000
Cash and short-term deposits	—	—	399	399
Loans and advances:				
Loans	—	591,866	—	591,866
Trading financial assets:				
Derivatives	14,974	—	—	14,974
Trade and other receivables:				
Trade receivables	—	—	1,884	1,884
Other receivables	—	—	8,922	8,922
Total financial assets	14,974	591,866	11,205	618,045
Trading financial liabilities:				
Derivatives	11,556	—	—	11,556
Debt and other borrowings:				
Issued structured notes	—	594,880	—	594,880
Total financial liabilities	11,556	594,880	—	606,436

31 December 2023	FVPL (mandatorily) $'000	FVPL (designated) $'000	Amortised cost $'000	Total $'000
Cash and short-term deposits	—	—	317	317
Loans and advances:				
Loans	—	474,709	—	474,709
Trading financial assets:				
Derivatives	12,439	—	—	12,439
Trade and other receivables:				
Trade receivables	—	—	2,436	2,436
Other receivables	—	—	8,549	8,549
Total financial assets	12,439	474,709	11,302	498,450
Trading financial liabilities:				
Derivatives	9,670	—	—	9,670
Debt and other borrowings:				
Issued structured notes	—	475,693	—	475,693
Trade and other payables:				
Trade payables	—	—	1,819	1,819
Total financial liabilities	9,670	475,693	1,819	487,182

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

There are no terms and conditions of any trading financial assets or liabilities that may individually significantly affect the amount, timing and certainty of future cash flows for the Company.

Financial assets and financial liabilities designated at FVPL

The financial assets and financial liabilities shown in the tables above which are designated at FVPL consist primarily of the following financial assets and financial liabilities:

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

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

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

The carrying amount of financial liabilities held at fair value was $11,000 lower than the contractual amount due at maturity (31 December 2023: $12,000 lower in value).

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

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

Financial assets and financial liabilities designated at FVPL (continued)

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

	Gain or (loss) recognised in the statement of comprehensive income		Cumulative gain or (loss) recognised in the statement of comprehensive income	
	Six months ended 30 June 2024	Six months ended 30 June 2023	30 June 2024	31 December 2023
	$'000	$'000	$'000	$'000
Issued structured notes	(2,286)	(609)	1,289	3,575
Loans	2,286	609	(1,289)	(3,575)
	—	—	—	—

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

30 June 2024	Single name equities	Equity indices	Equity portfolio	Total
	$'000	$'000	$'000	$'000
Issued Structured Notes	305,511	21,546	267,823	594,880
Total debt and other borrowings	305,511	21,546	267,823	594,880

31 December 2023	Single name equities	Equity indices	Equity portfolio	Total
	$'000	$'000	$'000	$'000
Issued Structured Notes	308,995	17,073	149,625	475,693
Total debt and other borrowings	308,995	17,073	149,625	475,693

The derivative contracts and loans held at FVPL that the Company enters into in order to hedge the structured notes are valued as detailed in note 3(d) and note 18(a) of the Company's 2023 annual financial statements, and have similar valuation inputs to the liabilities they hedge.

7. DEBT AND OTHER BORROWINGS

	(unaudited) 30 June 2024 $'000	(audited) 31 December 2023 $'000
Debt and other borrowings		
Issued structured notes (designated FVPL)	594,880	475,693
	594,880	475,693

Refer to note 6 for details of issued structured notes included within debt and other borrowings designated at FVPL.

8. SEGMENT REPORTING

Segment information is presented in respect of the Company's business and geographical segments. The business and geographical segments are based on the Company'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 Company's own business segments are consistent with those of Morgan Stanley.

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

Geographical segments

The Company operates in three geographic regions as listed below:

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

The following table presents selected statement of financial position information of the Company's operations by geographic area. The total assets disclosed in the following table reflect the regional view of the Company's operations, on a managed basis. The attribution of total assets is determined by trading desk location.

	Americas		Asia		Total	
	30 Jun 2024 $'000	31 Dec 2023 $'000	30 Jun 2024 $'000	31 Dec 2023 $'000	30 Jun 2024 $'000	31 Dec 2023 $'000
External revenues net of interest	—	—	—	—	—	—
Profit before income tax	341	868	—	—	341	868
Total assets	228,205	241,454	389,840	256,996	618,045	498,450

All of the Company's external revenue (2023: 100%) arises from transactions with other Morgan Stanley group undertakings. Although there are no revenues and assets in EMEA, the entity could operate in the region in the future and has in the past.

9. FINANCIAL RISK MANAGEMENT

Risk management procedures

The Company's risk management procedures are consistent with those disclosed in the Company's 2023 annual financial statements. This disclosure is limited to quantitative data for each risk category and should be read in conjunction with the risk management procedures detailed in note 17 of the Company's 2023 annual financial statements.

Credit risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company. Primarily its concentration of exposure is to other Morgan Stanley Group undertakings.

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

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

Exposure to credit risk

The maximum exposure to credit risk ("gross credit exposure") of the Company as at 30 June 2024 is the carrying amounts of the financial assets held in the condensed statement of financial position. The table includes financial instruments subject to ECL and not subject to ECL. Those financial instruments that bear credit risk but are not subject to ECL are subsequently measured at fair value.

The Company does not have any significant exposure arising from items not recognised on the condensed statement of financial position. The Company has not entered into any credit enhancements to manage its exposure to credit risk.

Exposure to credit risk by class

	Gross and net credit exposure(1)	
Class	**30 June 2024 $'000**	**31 December 2023 $'000**
Subject to ECL:		
Cash and short-term deposits	399	317
Trade and other receivables	10,806	10,985
Not subject to ECL(2):		
Loans and advances	591,866	474,709
Trading financial assets	14,974	12,439
	618,045	498,450

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

9. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Exposure to credit risk (continued)

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

Exposure to credit risk by internal rating grades

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

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

All gross carrying amounts have an internal rating grade of A and are not impacted by ECL. All exposures subject to ECL are Stage 1.

Liquidity risk

Liquidity risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to capital markets or difficulty in liquidating its assets. Liquidity risk encompasses the Company's ability (or perceived ability) to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten the Company's viability as a going concern. Liquidity risk also encompasses the associated funding risks triggered by the market or idiosyncratic stress events that may cause unexpected changes in funding needs or an inability to raise new funding. Generally, the Company incurs liquidity risk as a result of its trading, lending, investing and client facilitation activities. For further details please refer note 17 of 2023 annual financial statements.

Maturity analysis

In the following maturity analysis of financial assets and financial liabilities, derivative contracts and other financial instruments measured at fair value are presented at fair value, consistent with how these financial instruments are managed, and disclosed as on demand. All other amounts represent undiscounted cash flows payable by the Company arising from its financial assets and financial liabilities to earliest contractual maturities as at 30 June 2024 and as at 31 December 2023. Receipts of financial assets and repayments of financial liabilities that are subject to immediate notice are treated as if notice were given immediately and are classified as on demand. This presentation is considered by the Company to appropriately reflect the liquidity risk arising from those financial assets and financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial assets and financial liabilities is managed by the Company.

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Six months ended 30 June 2024

9. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Maturity analysis (continued)

30 June 2024	On demand $'000	Less than 1 Year $'000	1-2 Years $'000	2-5 Years $'000	Over 5 Years $'000	Total $'000
Financial assets						
Cash and short-term deposits	399	—	—	—	—	399
Loans and advances:						
Loans	—	14,069	215,568	145,143	217,086	591,866
Trading financial assets:						
Derivatives	—	132	13,346	524	972	14,974
Trade and other receivables:						
Intercompany funding	1,884	—	—	—	—	1,884
Other receivables	—	—	8,922	—	—	8,922
Total financial assets	2,283	14,201	237,836	145,667	218,058	618,045
Financial liabilities						
Trading financial liabilities:						
Derivatives	—	344	613	5,908	4,691	11,556
Debt and other borrowings:						
Issued structured notes	—	13,453	228,301	139,759	213,367	594,880
Total financial liabilities	—	13,797	228,914	145,667	218,058	606,436

31 December 2023	On demand $'000	Less than 1 Year $'000	1-2 Years $'000	2-5 Years $'000	Over 5 Years $'000	Total $'000
Financial assets						
Cash and short-term deposits	317	—	—	—	—	317
Loans and advances:						
Loans	—	38,848	230,767	198,866	6,228	474,709
Trading financial assets:						
Derivatives	—	467	10,875	1,097	—	12,439
Trade and other receivables:						
Intercompany funding	2,436	—	—	—	—	2,436
Other receivables	—	—	8,549	—	—	8,549
Total financial assets	2,753	39,315	250,191	199,963	6,228	498,450
Financial liabilities						
Trading financial liabilities:						
Derivatives	—	235	2,163	6,982	290	9,670
Trade and other payables:						
Trade payables	1,819	—	—	—	—	1,819
Debt and other borrowings:						
Issued structured notes	—	37,295	239,479	192,981	5,938	475,693
Total financial liabilities	1,819	37,530	241,642	199,963	6,228	487,182

9. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk

Equity price sensitivity analysis

It is the strategy of the Company not to be exposed to net equity price risk. A decline in underlying equity price would have an equal and offsetting impact on the structured notes (recorded in Debt and other borrowings) and hedging derivatives (recorded in Trading financial assets and liabilities). Due to the Company's hedging strategy there would be no significant impact to the Company's Profit before income tax.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
Six months ended 30 June 2024

10. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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

The following tables present the carrying value of the Company's financial assets and financial liabilities recognised at fair value on a recurring basis, classified according to the fair value hierarchy.

30 June 2024	**Quoted prices in active market (Level 1) $'000**	**Valuation techniques using observable inputs (Level 2) $'000**	**Valuation techniques with significant unobservable inputs (Level 3) $'000**	**Total $'000**
Trading financial assets:				
Derivatives				
Equity contracts	—	14,572	402	14,974
Loans and advances:				
Loans	—	591,866	—	591,866
Total financial assets measured at fair value	—	606,438	402	606,840
Trading financial liabilities:				
Derivatives				
Equity contracts	—	9,552	2,004	11,556
Debt and other borrowings:				
Issued structured notes	—	594,305	575	594,880
Total financial liabilities measured at fair value	—	603,857	2,579	606,436

31 December 2023	**Quoted prices in active market (Level 1) $'000**	**Valuation techniques using observable inputs (Level 2) $'000**	**techniques with significant unobservable inputs (Level 3) $'000**	**Total $'000**
Trading financial assets:				
Derivatives				
Equity contracts	—	12,344	95	12,439
Loans and advances:				
Loans	—	474,709	—	474,709
Total financial assets measured at fair value	—	487,053	95	487,148
Trading financial liabilities:				
Derivatives				
Equity contracts	—	5,343	4,327	9,670
Debt and other borrowings:				
Issued structured notes	—	472,246	3,447	475,693
Total financial liabilities measured at fair value	—	477,589	7,774	485,363

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

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

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

Derivatives	
Asset and Liability / Valuation Techniques	**Valuation Hierarchy Classification**
Derivatives	
Over the counter ("OTC") Derivative Contracts • OTC derivative contracts include forward, swap and option contracts related to interest rates, foreign currencies, credit standing of reference entities, equity prices or commodity prices. • Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be modeled using a series of techniques, including closed-form analytic formulas, such as the Black-Scholes option-pricing model, simulation models or a combination thereof. Many pricing models do not entail material subjectivity as the methodologies employed do not necessitate significant judgement, since model inputs may be observed from actively quoted markets, as is the case for generic interest rate swaps, many equity, commodity and foreign currency option contracts and certain credit default swaps. In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry. • More complex OTC derivative products are typically less liquid and require more judgement in the implementation of the valuation technique since direct trading activity or quotes are unobservable. This includes certain types of interest rate derivatives with both volatility and correlation exposure, commodity derivatives that are either longer-dated or include exposure to multiple underlyings and credit derivatives, including credit default swaps on certain mortgage or asset-back securities, basket CDS. Where these inputs are unobservable, relationships to observable data points, based on historic and/or implied observations, may be employed as a technique to estimate the model input values.	• Generally Level 2 - OTC derivative products valued using observable inputs, or where the unobservable input is not deemed significant. • Level 3 - OTC derivatives products for which the unobservable input is deemed significant
Issued structured notes	
Issued structured notes designated at fair value through profit or loss • The Company issues structured notes which are primarily composed of instruments whose payments and redemption values are linked to the performance of a specific index, a basket of stocks, a specific security, a commodity, a credit exposure or basket of credit exposures, and instruments with various interest-rate-related features including step-ups, step-downs, and zero coupons. • Fair value of structured notes is determined using valuation models for the derivative and debt portions of the structured notes and traded prepaid equity securities contracts. These models incorporate observable inputs referencing identical or comparable securities, including prices to which the notes are linked, interest rate yield curves, option volatility and currency rates, and commodity or equity prices. • Independent, external and traded prices for the notes are considered as well as the impact of the Company's own credit spreads which are based on observed secondary bond market spreads.	• Generally Level 2 • Level 3 - in instances where the unobservable inputs are deemed significant

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

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

Issued structured notes (continued)	
Issued structured notes designated at fair value through profit or loss (continued) • Notes give a risk exposure tailored to market views and risk appetite and mainly provide exposure to the underlying single name equity, equity index or portfolio of equities. Typically, the redemption payment of the note is significantly dependent on the value of embedded equity derivatives. In general, call and put options, digital options, straddles and callability features are combined to create a bespoke coupon rate or redemption payoff for each note issuance, with risk exposure to one or more equity underlyings or indices. The Company values the embedded derivatives using market standard models, which are assessed for appropriateness at least annually. Model inputs, such as equity forward rates, equity implied volatility and equity correlations are marked such that the fair value of the derivatives match prices observable in the inter-dealer markets. In arriving at fair value, the Company uses discount rates appropriate to the funding rates specific to the instrument. In general, this results in overnight rates being used to discount the Company assets and liabilities. In addition, since the notes bear Morgan Stanley's credit risk, the Company considers this when assessing the fair value of the notes, by adjusting the discount rates to reflect the prevailing credit spread at the reporting date. • The Company has a small number of notes where the cash flows due on the notes is dependent on embedded derivatives linked to the interest rate, foreign exchange or commodity markets. The Company values these notes in the same way as for equity-linked notes, by using market standard models and marking the inputs to match prices observed in the inter-dealer OTC markets. Similarly to equity-linked notes, these issuances bear Morgan Stanley's credit risk, and the valuation is assessed accordingly.	
Loans • The fair value of loans to other Morgan Stanley Group undertakings is estimated based on the present value of expected future cash flows using its best estimate of interest rate yield curves.	• Level 2 – if value based on observable market data supported by market liquidity for comparable instruments

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

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

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

The following tables present the changes in the fair value of the Company's Level 3 financial assets and financial liabilities for the period ended 30 June 2024 and 31 December 2023. Level 3 instruments may be hedged with instruments classified in Level 1 and Level 2. The realised and unrealised gains/(losses) for assets and liabilities within the Level 3 category presented in the following tables do not reflect the related realised and unrealised gains/(losses) on hedging instruments that have been classified by the Company within the Level 1 and/ or Level 2 categories.

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

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Six months ended 30 June 2024

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

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

30 June 2024

	Balance at 1 January 2024	Total gains or (losses) recognised in statement of comprehensive income (1)	Purchases	Issuances	Settlements	Net transfers in and/ or out of Level 3 (2)	Balance at 30 June 2024	Unrealised gains or (losses) for Level 3 assets/ (liabilities) outstanding as at 30 June 2024 (3)
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Trading financial liabilities:								
Net derivative contracts (4)	(4,232)	1,629	—	(1)	(1,127)	2,129	(1,602)	(595)
Debt and other borrowings:								
Issued structured notes	(3,447)	85	—	(660)	—	3,447	(575)	85
Total financial liabilities measured at fair value	**(7,679)**	**1,714**	**—**	**(661)**	**(1,127)**	**5,576**	**(2,177)**	**(510)**

31 December 2023

	Balance at 1 January 2023	Total gains or (losses) recognised in statement of comprehensive income (1)	Purchases	Issuances	Settlements	Net transfers in and/ or out of Level 3 (2)	Balance at 31 December 2023	Unrealised gains or (losses) for Level 3 assets/ (liabilities) outstanding as at 31 December 2023 (3)
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Trading financial liabilities:								
Net derivative contracts (4)	—	(3,267)	—	(557)	(167)	(241)	(4,232)	(3,646)
Debt and other borrowings:								
Issued structured notes	—	14	—	(3,461)	—	—	(3,447)	14
Total financial liabilities measured at fair value	**—**	**(3,253)**	**—**	**(4,018)**	**(167)**	**(241)**	**(7,679)**	**(3,632)**

(1) The total gains or (losses) are recognised in the condensed statement of comprehensive income.
(2) For financial assets and financial liabilities that were transferred into and out of Level 3 during the period, gains or (losses) are presented as if the assets or liabilities had been transferred into or out of Level 3 as at the beginning of the period.
(3) Amounts represent unrealised gains or (losses) for the period ended 30 June related to assets and liabilities still outstanding at 30 June. The unrealised gains or (losses) are recognised in the statement of comprehensive income.
(4) Net derivative contracts represent trading financial assets – derivative contracts net of trading financial liabilities – derivative contracts.

NOTES TO THE FINANCIAL STATEMENTS
Six months ended 30 June 2024

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

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

During the period, the Company reclassified $2,129,000 of net derivative contracts (31 December 2023: $241,000) from Level 3 to Level 2. The reclassifications were due to positions where the unobservable inputs are no longer significant.

During the period, the Company reclassified $3,447,000 of issued structured notes (31 December 2023: $Nil) from Level 3 to Level 2. The reclassifications were due to positions where the unobservable inputs are no longer significant.

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

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

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

The following table provides information on the valuation techniques, significant unobservable inputs and the 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 of financial instruments. Further, the range of unobservable inputs may differ across groups 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 2024	**Fair value $'000**	**Predominant valuation techniques/ Significant unobservable inputs**	**Range [2] (Averages)[3]**
LIABILITIES			
Net derivative and other contracts: [1]			
- Equity	(1,602)	Option model	
		Equity volatility	17% to 45% (26%)
		Equity volatility skew	-1% to 0% (0%)
Debt and other borrowings:			
- Issued Structured Notes	(575)	Option model	
		Equity volatility	18% to 20% (19%)
		Equity volatility skew	-0.5% to -0.18% (-0.34%)

[1] Net derivative contracts represent trading financial liabilities – derivative contracts net of trading financial assets – derivative contracts.

[2] The ranges of significant unobservable inputs are represented in percentages.

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

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

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

31 December 2023	**Fair value $'000**	**Predominant valuation techniques/ Significant unobservable inputs**	**Range [2] (Averages)[3]**
LIABILITIES			
Net derivative and other contracts: [1]			
- Equity	(4,232)	Option model	
		Equity volatility	17% to 35% (24%)
		Equity volatility skew	-0.8% to 0.0% (-0.3%)
Debt and other borrowings:			
- Issued Structured Notes	(3,447)	Option model	
		Equity volatility	22% to 24% (23%)
		Equity volatility skew	-0.4% to -0.2% (-0.3%)

[1] Net derivative contracts represent trading financial liabilities – derivative contracts net of trading financial assets – derivative contracts.

[2] The ranges of significant unobservable inputs are represented in percentages.

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

- Volatility: The measure of the variability in possible returns for an instrument given how much that instrument changes in value over time. Volatility is a pricing input for options, and, generally, the lower the volatility, the less risky the option. The level of volatility used in the valuation of a particular option depends on a number of factors, including the nature of the risk underlying that option, the tenor and the strike price of the option.
- Volatility skew: The measure of the difference in implied volatility for options with identical underliers and expiry dates but with different strikes.

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

As detailed in note 2, the valuation of Level 3 financial instruments requires the application of critical accounting judgement, involving estimations and assumptions and it is recognised that there could be a range of reasonably possible alternative values.

The Company has reviewed the unobservable parameters to identify those which would change the fair value measurement significantly if replaced by a reasonably possible alternative assumption.

In estimating the potential variability, the unobservable parameters were varied individually using statistical techniques and historic data. The potential variability estimated is likely to be greater than the actual uncertainty relating to the financial instruments as any diversification effect has been excluded.

NOTES TO THE FINANCIAL STATEMENTS
Six months ended 30 June 2024

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

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

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

	30 June 2024[2]		31 December 2023	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	$'000	$'000	$'000	$'000
Trading financial liabilities:				
Net derivatives contracts[1]	(78)	1	(688)	555
Debt and other borrowings:				
Issued structured notes	(8)	—	(56)	81
	(86)	1	(744)	636

[1] Net derivative contracts represent trading financial assets – derivative contracts net of trading financial liabilities – derivative contracts. The reasonably possible alternative assumptions are applied to derivative assets and derivative liabilities separately when assessing potential variability of the fair value measurement.
[2] The difference between the total favourable and total unfavourable changes is primarily a result of net derivative contracts classified as Level 3 in the fair value hierarchy hedging issued structured notes which can be classified as either Level 2 or Level 3 in the fair value hierarchy.

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

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

11. ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

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

12. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events since the reporting date.