Registered number: 34161590

Registered office:
Luna Arena
Herikerbergweg 238
1101 CM
Amsterdam
The Netherlands

MORGAN STANLEY B.V.

Interim financial report

30 June 2023

MORGAN STANLEY B.V.

CONTENTS **PAGE**

Interim management report	1
Directors' responsibility statement	7
Condensed statement of comprehensive income	8
Condensed statement of changes in equity	9
Condensed statement of financial position	10
Condensed statement of cash flows	11
Notes to the condensed financial statements	12
Review report to the shareholders of Morgan Stanley B.V.	37

INTERIM MANAGEMENT REPORT

The Directors present their interim management report, Directors' responsibility statement and the condensed financial statements for Morgan Stanley B.V. (the "Company") for the six months ended 30 June 2023.

RESULTS AND DIVIDENDS

The profit for the six months ended 30 June 2023, after tax, was €645,000 (30 June 2022: €628,000).

During the six months ended 30 June 2023, no dividends were paid or proposed (30 June 2022: €nil).

PRINCIPAL ACTIVITY

The principal activity of the Company is the issuance of financial instruments including notes, certificates and warrants ("structured notes") and the hedging of the obligations arising pursuant to such issuances.

The Company was incorporated under Dutch law on 6 September 2001 and has its statutory seat in Amsterdam, The Netherlands. The business office of the Company is at Luna Arena, Herikerbergweg 238, 1101 CM, Amsterdam, The Netherlands.

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".

There have not been any significant changes in the Company's principal activity in the period under review and no significant change in the Company's principal activity is expected.

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 activity. The Company seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities, in accordance with defined policies and procedures.

The 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 and Operational Risks which are discussed in the Risk Management section.

The key risk factors impacting the Company are consistent with those outlined in the 2022 Annual Report and Financial Statements ("2022 annual financial statements"), with the exception of the updates below.

Business environment

During the period ended 30 June 2023, the global economic and geopolitical environment continues to be characterised by inflationary pressures, high interest rates and uncertainty regarding the possibility of a recession, driving muted activity. This environment had limited impact on the Company however, it continues to remain uncertain and could adversely impact client confidence and related activity in the future.

In addition to the aforementioned conditions, certain institutions came under significant stress in early 2023. There has been limited impact on the results and financial condition of the Company.

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

Overview of 2023 interim period

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 Euros, the risk of changes in exchange rates between the Euro and the other relevant currencies. The Company enters into derivative transactions with 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 for the six months ended 30 June 2023 is set out on page 8. The Company reported a profit before income tax for the six months ended 30 June 2023 of €814,000 compared to €847,000 recognised for the six months ended 30 June 2022. The decrease in profit before income tax is driven by a decrease in the Company’s share of Morgan Stanley’s derivatives business revenues. The profit before income tax of the Company represents fees received in relation to intermediary services.

The condensed statement of financial position for the Company is set out on page 10. The Company’s total assets at 30 June 2023 are €9,900,397,000, a decrease of €544,269,000 or 5% when compared to 31 December 2022. Total liabilities of €9,866,842,000 represent a decrease of €544,914,000 or 5% when compared to total liabilities at 31 December 2022. The decrease in assets is majorly due to net redemptions of structured notes proceeds to another Morgan Stanley group undertaking. The decrease in liabilities is mainly driven by decrease in trading financial liabilities which is on account of market movements in the value of issued structured notes and the related movement of the hedging instruments. Structured notes within debt and other borrowing has increased mainly due to market movements partially offset by exchange rate fluctuations during the period. Further, the majority of the redemptions were offset by the issuances.

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 activity. The Company seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities, in accordance with defined policies and procedures. The Company 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 19 to the 2022 annual financial statements provides more detailed qualitative disclosures on the Company’s exposure to financial risks. Note 14 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.

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Market risk (continued)

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.

The Morgan Stanley Group's market risk management policy framework, of which the Company is a part, 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 14.

Country risk exposure

Country risk exposure is the risk that events in, or affecting, a foreign country might adversely affect the Company. "Foreign country" means any country other than The Netherlands. 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 other Morgan Stanley Group undertakings, primarily in Luxembourg, the United Kingdom ("UK") and the United States of America ("USA"). 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'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 4 of the Directors' report of the Company's 2022 annual financial statements.

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Liquidity risk

Liquidity risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity risk also 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. 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.

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

For further discussion on the Company's liquidity risk refer to pages 4 and 5 of the Directors' report in the Company's 2022 annual financial statements.

Operational risk

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

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

For further discussion on the Company's operational risk refer to pages 5, 6 and 7 of the Directors' report in the Company's 2022 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, anti-corruption and terrorist financing rules and regulations. The Company is generally subject to extensive regulation in the different jurisdictions in which it conducts its business.

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Culture, values and conduct of employees

Employees of the Morgan Stanley Group are accountable for conducting themselves in accordance with the Morgan Stanley Group's core values *Put Clients First, Do the Right Thing, Lead with Exceptional Ideas, Commit to Diversity and Inclusion and Give Back*. The Morgan Stanley Group's core values drive a shared set of behaviours and attributes that help employees make decisions consistent with the expectations of our clients, shareholders, regulators, Board of Directors and the public. 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 Culture, Values and Conduct Committee, along with the Compliance and Conduct Risk Committee, are the senior management committees that oversee the Morgan Stanley-wide culture, values and conduct program, report regularly to the Morgan Stanley Group Board; and complement ongoing business and region-specific culture initiatives. A fundamental building block of this program 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.

For further discussion on the Company's culture, values and conduct of employees risk management, refer to page 8 of the Directors' report in the Company's 2022 annual financial statements.

Going concern

Business risks associated with the uncertain market and economic conditions are being actively monitored and managed by the Company. Retaining sufficient capital and liquidity to withstand these 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 all of these factors into consideration, the Directors believe it is reasonable to assume that the Company will have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Interim Report and Condensed Financial statements.

INTERIM MANAGEMENT REPORT

DIRECTORS

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

A. Doppenberg	
H. Herrmann	(Resigned on 19 July 2023)
S. Ibanez	
P.J.G. de Reus	
B. A Carey	(Appointed on 19 July 2023)
TMF Management B.V.	

The Company has taken notice of newly adopted Dutch Gender Balance Act, which entered into force on 1 January 2022. The Company has established appropriate and ambitious target figures for Board diversity and an action plan to reach the target. Appropriate in this case means one that takes into consideration and is dependent upon the size of the relevant Board and the current gender ratios. Ambitious is defined as one that aims to achieve a more balanced composition as compared to the existing state of affairs. The aim is that the Board of Directors comprises of at least 30% male and at least 30% female members. Currently, the composition of the Board of Directors deviates from the gender diversity objectives. Once there is a vacancy, the Company will aim at appointing a female Director to the Board.

EVENTS AFTER THE REPORTING DATE

There have been no significant events since the reporting date.

AUDIT COMMITTEE

The Company qualifies as an organisation of public interest pursuant to Dutch and EU law and has established its own audit committee which complies with the applicable corporate governance rules and composition requirements as detailed in the Articles of Association of the Company.

Approved by the Board and signed on its behalf by:

Date: 22 September 2023

A. Doppenberg	S. Ibanez	
P.J.G. de Reus	B. A Carey	TMF Management B.V.

MORGAN STANLEY B.V.

DIRECTORS' RESPONSIBILITY STATEMENT

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

– the condensed financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 'Interim Financial Reporting' ("IAS 34") as adopted by the EU on the basis of the Company's international connections and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

– the interim management report includes a fair review of the important events that have occurred during the six months ended 30 June 2023 and the impact on the condensed financial statements and provides a description of the principal risks and uncertainties that the Company faces for the remaining six months of the financial year.

Approved by the Board and signed on its behalf by:

Date: 22 September 2023

A. Doppenberg	S. Ibanez	
P.J.G. de Reus	B. A Carey	TMF Management B.V.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME
Six months ended 30 June 2023

	Note	Six months ended 30 June 2023 €'000 (unaudited)	Six months ended 30 June 2022 €'000 (unaudited)
Net trading expense on financial assets		(17,114)	(320,411)
Net trading income / (expense) on financial liabilities		505,983	(862,937)
Net trading income / (expense)		488,869	(1,183,348)
Net income / (expense) on other financial assets held at fair value		197,950	(75,432)
Net (expense) / income on other financial liabilities held at fair value		(686,819)	1,258,780
Net (expense) / income on other financial instruments held at fair value	2	(488,869)	1,183,348
Other revenue	3	991	1,507
Total non-interest revenue		991	1,507
Interest income		23,486	3,227
Interest expense		(22,119)	(2,071)
Net interest income	4	1,367	1,156
Net revenues		2,358	2,663
Non-interest expense:			
Other expense	5	(1,535)	(1,816)
Net impairment loss on financial instruments	6	(9)	—
PROFIT BEFORE INCOME TAX		814	847
Income tax expense	7	(169)	(219)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		645	628

All operations were continuing in the current and prior period.

The notes on pages 12 to 36 form an integral part of the condensed financial statements.

CONDENSED STATEMENT OF CHANGES IN EQUITY
Six months ended 30 June 2023

	Share capital €'000	Retained earnings €'000	Total equity €'000
Balance as at 1 January 2022 (audited)	15,018	16,574	31,592
Profit and total comprehensive income for the period	—	628	628
Balance at 30 June 2022 (unaudited)	15,018	17,202	32,220
Balance as at 1 January 2023 (audited)	15,018	17,892	32,910
Profit and total comprehensive income for the period	—	645	645
Balance at 30 June 2023 (unaudited)	15,018	18,537	33,555

The notes on pages 12 to 36 form an integral part of the condensed financial statements.

MORGAN STANLEY B.V.

Registered number: 34161590

CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 June 2023
(Including Proposed Appropriation of Results)

	Note	30 June 2023	31 December 2022
		€'000	**€'000**
ASSETS		**(unaudited)**	**(audited)**
Cash and short-term deposits	8	3,827	5,102
Trade and other receivables	9	1,193,907	1,481,379
Trading financial assets	8	345,848	201,565
Loans and advances	8	8,355,078	8,756,464
Current tax assets		1,737	156
TOTAL ASSETS		9,900,397	10,444,666
LIABILITIES AND EQUITY			
LIABILITIES			
Trade and other payables	10	14,847	326,452
Trading financial liabilities	8	769,166	1,222,037
Debt and other borrowings	11	7,957,548	7,737,986
Convertible preferred equity certificates	12	1,125,281	1,125,281
TOTAL LIABILITIES		9,866,842	10,411,756
EQUITY			
Share capital		15,018	15,018
Retained earnings		18,537	17,892
Equity attributable to owners of the Company		33,555	32,910
TOTAL EQUITY		33,555	32,910
TOTAL LIABILITIES AND EQUITY		9,900,397	10,444,666

These financial statements were approved by the Board and authorised for issue on 22 September 2023.

Signed on behalf of the Board

A. Doppenberg S. Ibanez

P.J.G. de Reus B. A Carey TMF Management B.V.

The notes on pages 12 to 36 form an integral part of the condensed financial statements.

CONDENSED STATEMENT OF CASH FLOWS
Six months ended 30 June 2023

	Six months ended 30 June 2023 €'000 (unaudited)	Six months ended 30 June 2022 €'000 (unaudited)
NET CASH FLOWS (USED IN) / FROM OPERATING ACTIVITIES	(1,275)	80
INVESTING ACTIVITY		
Repayment of interest from another Morgan Stanley Group undertaking	20,820	8,938
NET CASH FLOWS FROM INVESTING ACTIVITY	20,820	8,938
FINANCING ACTIVITIES		
Yield paid on convertible preferred equity certificates	(21,870)	(8,150)
Financing received / (paid) to another Morgan Stanley Group undertaking	1,050	(788)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(20,820)	(8,938)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(1,275)	80
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	5,102	2,060
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	3,827	2,140

The notes on pages 12 to 36 form an integral part of the condensed financial statements.

1. BASIS OF PREPARATION

Statement of compliance

The Company prepares its annual financial statements in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") as adopted by the EU, Interpretations issued by the IFRS Interpretations Committee and Part 9 of Book 2 of the Dutch Civil Code. The condensed financial statements have been prepared in accordance with ("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 2022.

New standards and interpretations adopted during the period

The following amendments to standards relevant to the Company's operations were adopted during the period. Except where otherwise stated, these amendments to standards did not have a material impact on the Company's condensed financial statements.

Amendments to IAS 8 *'Accounting Policies, Changes in Accounting Estimates and Errors'*: Definition of Accounting Estimates were issued by the IASB in February 2021, for prospective application in accounting periods beginning on or after 1 January 2023. Early application is permitted. The amendments were endorsed by the EU in March 2022.

Amendments to IAS 1 *'Presentation of Financial Statements'*: Disclosure of Accounting Policies were issued by the IASB in February 2021, for prospective application in accounting periods beginning on or after 1 January 2023. Early application is permitted. The amendments were endorsed by the EU in March 2022.

Amendments to IAS 12 *'Income Taxes'*: Deferred Tax related to Assets and Liabilities arising from a Single Transaction were issued by the IASB in May 2021, for retrospective application in accounting periods beginning on or after 1 January 2023. Early application is permitted. The amendments were endorsed by the EU in August 2022.

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

New standards and interpretations not yet adopted

At the date of authorisation of these condensed 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 2023. 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 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.

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.

1. BASIS OF PREPARATION (CONTINUED)

New standards and interpretations not yet adopted (continued)

At the date of authorisation of these condensed financial statements, amendments to IAS 12 'Income Taxes': International Tax Reform – Pillar Two Model Rules, issued by the IASB in May 2023, were not yet adopted by the EU. The Company is currently assessing the potential impact of the IAS 12 amendments on its condensed financial statements.

Critical accounting judgements and key sources of estimation uncertainty

In preparing the condensed 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 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 financial statements.

The key source of estimation uncertainty is the valuation of Level 3 financial instruments. For further detail refer to note 21 and accounting policy note 3(d) of the Company's 2022 annual financial statements.

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 Interim management report on pages 1 to 6. In addition, the notes to the 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.

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

2. NET (EXPENSE) / INCOME ON OTHER FINANCIAL INSTRUMENTS HELD AT FAIR VALUE

	Six months ended 30 June 2023 €'000	Six months ended 30 June 2022 €'000
Net (expense) / income on:		
Non-trading financial assets at fair value through profit or loss ("FVPL"):		
Trade and other receivables:		
Prepaid equity securities contracts	5,655	(10,208)
Financial assets designated at FVPL:		
Loans and advances:		
Loans	192,295	(65,224)
Financial liabilities designated at FVPL:		
Debt and other borrowings:		
Issued structured notes	(686,819)	1,258,780
	(488,869)	1,183,348

3. OTHER REVENUE

	Six months ended 30 June 2023 €'000	Six months ended 30 June 2022 €'000
Management recharges to other Morgan Stanley Group undertakings	991	1,507
	991	1,507

Management recharges to other Morgan Stanley Group undertakings represents the amount of fees received in relation to intermediary services of €814,000 (six months ended 30 June 2022: €847,000) and the amount of fees received on recovery of residual financing expenses of €177,000 (six months ended 30 June 2022: €660,000). These are in line with the transfer pricing principles of the Morgan Stanley Group.

4. INTEREST INCOME AND INTEREST EXPENSE

'Interest income' represents total interest generated from financial assets at amortised cost, while 'interest expense' represents total interest arising on financial liabilities at amortised cost, recognised using the effective interest rate ("EIR") method.

No other gains or losses have been recognised in respect of financial assets measured at amortised cost other than as disclosed as 'Interest income', foreign exchange differences disclosed in 'Other expense' (note 5) and 'Net impairment loss on financial instruments' (note 6).

4. INTEREST INCOME AND INTEREST EXPENSE (CONTINUED)

No other gains or losses have been recognised in respect of financial liabilities at amortised cost other than as disclosed as ‘Interest expense’ and foreign exchange differences disclosed in ‘Other expense’ (note 5).

‘Interest expense’ includes the yield payable on Convertible Preferred Equity Certificates (“CPECs”) (see note 12).

5. OTHER EXPENSE

	Six months ended 30 June 2023 €'000	Six months ended 30 June 2022 €'000
Net foreign exchange losses	1,517	1,799
Other	18	17
	1,535	1,816

The Company employed no staff during the period (2022: none).

The Company actively manages its foreign currency exposure risk arising on its assets and liabilities in currencies other than Euro. Net foreign exchange losses include translation differences that have arisen due to foreign exchange exposure created as a result of hedging assets and liabilities recognised for Morgan Stanley Group reporting purposes.

6. NET IMPAIRMENT LOSS ON FINANCIAL INSTRUMENTS

The following table shows the net Expected Credit Loss (“ECL”) charge for the period.

	Six months ended 30 June 2023 €'000	Six months ended 30 June 2022 €'000
Trade and other receivables	(9)	—
	(9)	—

There were no write-offs during the current or prior period.

All of the above impairment losses were calculated on an individual basis. No collective impairment assessments were made during the current or prior period.

7. INCOME TAX EXPENSE

	Six months ended 30 June 2023 €'000	Six months ended 30 June 2022 €'000
Current tax expense	210	219
Adjustments in respect of prior years	(41)	—
Income Tax	169	219

Reconciliation of effective tax rate

The current period income tax expense is lower than (30 June 2022: equal to) that resulting from applying the average standard rate of corporation tax in The Netherlands of 25.8% (30 June 2022: 25.8%), as shown below:

	Six months ended 30 June 2023 €'000	Six months ended 30 June 2022 €'000
Profit before income tax	814	847
Income tax expense using the average standard rate of corporation tax in The Netherlands of 25.8% (30 June 2022: 25.8%)	210	219
Impact on tax of:		
Tax over provided in prior years	(41)	—
Total income tax in the statement of comprehensive income	169	219

The Company is included in a fiscal unity with Archimedes Investments Coöperatieve U.A. and is not a stand-alone taxpayer for Dutch corporate income tax purposes. If, and to the extent that, the Company would benefit from losses of other members of the fiscal unity, these may be settled via inter-company mechanisms.

8. FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY

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

30 June 2023	FVPL (mandatorily)	FVPL (designated)	Amortised cost	Total
	€'000	€'000	€'000	€'000
Cash and short-term deposits	—	—	3,827	3,827
Trade and other receivables:				
Trade receivables	—	—	22,803	22,803
Other receivables	—	—	1,157,812	1,157,812
Prepaid equity securities contracts	13,292	—	—	13,292
Trading financial assets:				
Derivatives	345,848	—	—	345,848
Loans and advances:				
Loans	—	8,355,078	—	8,355,078
Total financial assets	359,140	8,355,078	1,184,442	9,898,660
Trade and other payables:				
Trade payables	—	—	4,253	4,253
Other payables	—	—	10,594	10,594
Trading financial liabilities:				
Derivatives	769,166	—	—	769,166
Debt and other borrowings:				
Issued structured notes	—	7,957,548	—	7,957,548
Convertible preferred equity certificates	—	—	1,125,281	1,125,281
Total financial liabilities	769,166	7,957,548	1,140,128	9,866,842

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

31 December 2022	FVPL (mandatorily)	FVPL (designated)	Amortised cost	Total
	€'000	€'000	€'000	€'000
Cash and short-term deposits	—	—	5,102	5,102
Trade and other receivables:				
Trade receivables	—	—	334,470	334,470
Other receivables	—	—	1,138,890	1,138,890
Prepaid equity securities contracts	8,019	—	—	8,019
Trading financial assets:				
Derivatives	201,565	—	—	201,565
Loans and Advances:				
Loans	—	8,756,464	—	8,756,464
Total financial assets	209,584	8,756,464	1,478,462	10,444,510
Trade and other payables:				
Trade payables	—	—	83,319	83,319
Other payables	—	—	243,133	243,133
Trading financial liabilities:				
Derivatives	1,222,037	—	—	1,222,037
Debt and other borrowings:				—
Issued structured notes	—	7,737,986	—	7,737,986
Convertible preferred equity certificates	—	—	1,125,281	1,125,281
Total financial liabilities	1,222,037	7,737,986	1,451,733	10,411,756

Financial assets and liabilities designated at FVPL

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

Structured notes: These relate to financial liabilities which arise from selling structured products generally in the form of notes, certificates and warrants. These instruments contain an embedded derivative which significantly modifies the cash flows of the issuance. The return on the instrument is linked to various underliers 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 prepaid equity securities contracts and 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.

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

Financial assets and liabilities designated at FVPL (continued)

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

The carrying amount of financial liabilities designated at FVPL was €37,249,000 lower than the contractual amount due at maturity (31 December 2022: €65,371,000 lower).

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 statement of comprehensive income. If financial instruments, such as prepaid equity securities contracts, derivatives and loans held at FVPL, for which changes in fair value incorporating counterparty credit risk are reflected within the statement of comprehensive income, 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 statement of comprehensive income.

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 2023	Six months ended 30 June 2022	30 June 2023	31 December 2022
	€'000	€'000	€'000	€'000
Issued structured notes	(18,826)	80,263	(19,972)	(1,146)
Loans	18,826	(80,263)	19,972	1,146
	—	—	—	—

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

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 2023	Single name equities	Equity indices	Equity portfolio	Other [(1)]	Total
	€'000	€'000	€'000	€'000	€'000
Certificates and warrants	26,308	12,861	17,451	—	56,620
Notes	1,929,819	3,832,973	1,567,345	570,791	7,900,928
Total debt and other borrowings	1,956,127	3,845,834	1,584,796	570,791	7,957,548

31 December 2022	Single name equities	Equity indices	Equity portfolio	Other [(1)]	Total
	€'000	€'000	€'000	€'000	€'000
Certificates and warrants	23,584	1,607	11,813	—	37,004
Notes	2,063,242	3,822,142	1,243,451	572,147	7,700,982
Total debt and other borrowings	2,086,826	3,823,749	1,255,264	572,147	7,737,986

[(1)] Other includes structured notes that have coupon or repayment terms linked to the performance of funds, debt securities, currencies or commodities.

The majority of the Company's financial liabilities designated at FVPL provide exposure to an underlying single name equity, an equity index or portfolio of equities. The prepaid equity securities contracts, 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 21(a) of the Company's 2022 annual financial statements, and have similar valuation inputs to the liabilities they hedge.

9. TRADE AND OTHER RECEIVABLES

	30 June 2023	31 December 2022
	€'000	€'000
Trade and other receivables (amortised cost)		
Trade receivables:		
Amounts due from other Morgan Stanley Group undertakings	22,803	334,470
Other receivables:		
Amounts due from other Morgan Stanley Group undertakings	1,157,854	1,138,923
Less: ECL allowance	(42)	(33)
	1,157,812	1,138,890
Total trade and other receivables (amortised cost)	1,180,615	1,473,360
Other receivables (non-trading at FVPL)		
Prepaid equity securities contracts	13,292	8,019
Total	1,193,907	1,481,379

10. TRADE AND OTHER PAYABLES

	30 June 2023	31 December 2022
	€'000	€'000
Trade and other payables (amortised cost)		
Trade payables:		
Amounts due to other Morgan Stanley Group undertakings	4,253	83,319
Other payables:		
Amount due to the Company's direct and indirect parent undertakings	10,594	243,133
Total	14,847	326,452

11. DEBT AND OTHER BORROWINGS

	30 June 2023	31 December 2022
	€'000	€'000
Debt and other borrowings (designated at FVPL)		
Issued structured notes	7,957,548	7,737,986

Refer to note 8 for details of issued structured notes included within debt and other borrowings designated at FVPL.

12. CONVERTIBLE PREFERRED EQUITY CERTIFICATES

On 30 March 2012, the Company issued 11,252,813 of CPECs of €100 each, classified as financial liabilities at amortised cost. The CPECs were issued to one of the Company's shareholders, Archimedes Investments Coöperatieve U.A. (a Morgan Stanley Group undertaking), in exchange for cash consideration of €1,125,281,000.

The CPECs carry no voting rights. The Company and the holder have the right to convert each issued CPEC into one ordinary share with a nominal value of €100.

On 27 February 2018, the maturity date of the CPECs was amended from 150 years to 49 years from the date of issuance. The CPECs may be redeemed earlier at the option of the Company or on liquidation of the Company.

The CPECs rank ahead of the ordinary shares in the event of liquidation.

The holder of the CPECs is entitled to receive an annual yield on a date agreed by the Company and the holder. The yield for each CPEC is calculated as income deriving from the Company's activities less the necessary amounts to cover the costs of the Company divided by the number of CPECs then in issue. Other income relating to management recharges received from other Morgan Stanley Group undertakings and gains or losses from financial instruments designated or mandatorily at fair value through profit or loss are excluded from the calculation.

On 29 March 2023, the Company paid the accrued yield of €21,870,000 (29 March 2022: €8,150,000) to the holders of the CPECs. An accrued yield for the period ended 30 June 2023 of €21,136,000 has been recognised in the condensed statement of comprehensive income in ‘Interest expense’ (30 June 2022: €2,129,000). The liability to the holders of the CPECs at 30 June 2023, recognised within ‘Trade and other payables’, is €10,239,000 (31 December 2022: €10,973,000).

13. SEGMENT REPORTING

Segment information is presented in respect of the Company’s business and geographical segments. The business segments 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 condensed statement of comprehensive income and condensed statement of financial position information of the Company’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 Company’s operations, on a managed basis. The basis for attributing external revenues (net of interest expense) and total assets is determined by trading desk location.

13. SEGMENT REPORTING (CONTINUED)

Geographical segments (continued)

	EMEA		Americas		Asia		Total	
	30 June 2023	30 June 2022	30 June 2023	30 June 2022	30 June 2023	30 June 2022	30 June 2023	30 June 2022
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
External revenues net of interest	1,978	2,224	276	284	104	155	2,358	2,663
Profit before income tax	434	408	276	284	104	155	814	847

	EMEA		Americas		Asia		Total	
	30 June 2023	31 December 2022	30 June 2023	31 December 2022	30 June 2023	31 December 2022	30 June 2023	31 December 2022
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Total assets	4,169,321	4,516,431	4,192,260	4,177,300	1,538,816	1,750,935	9,900,397	10,444,666

All of the Company's external revenue (30 June 2022: 100%) arises from transactions with other Morgan Stanley Group undertakings.

14. FINANCIAL RISK MANAGEMENT

Risk management procedures

The company's risk management procedures are consistent with those disclosed in the Company's 2022 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 19 of the Company's 2022 annual financial statements.

Credit risk

Exposure to credit risk

The maximum exposure to credit risk ('gross credit exposure') of the Company as at 30 June 2023 is disclosed below, based on the carrying amounts of the financial assets which the Company believes are subject to credit risk. 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. This table does not include receivables arising from pending securities transactions with market counterparties as credit risk is considered insignificant. Where the Company 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 also disclosed below. The net credit exposure represents the credit exposure remaining after the effect of the credit enhancements.

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

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk management procedures (continued)

Credit risk (continued)

Collateral and other credit enhancements

The Company has entered into collateral arrangements with other Morgan Stanley Group undertakings to mitigate credit risk. Collateral held is managed in accordance with the Morgan Stanley Group's guidelines and the relevant underlying agreements.

Exposure to credit risk by class

	30 June 2023			31 December 2022		
Class	**Gross credit exposure(1)**	**Credit enhancements**	**Net credit exposure(2)**	**Gross credit exposure(1)**	**Credit enhancements**	**Net credit exposure(2)**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Subject to ECL:						
Cash and short-term deposits	3,827	—	3,827	5,102	—	5,102
Trade and other receivables(3)	1,180,615	—	1,180,615	1,473,360	—	1,473,360
Not subject to ECL:						
Trade and other receivables(3):						
Prepaid equity securities contracts	13,292	(13,292)	—	8,019	(8,019)	—
Trading financial assets(3)	345,848	(294,166)	51,682	201,565	(180,006)	21,559
Loans and advances	8,355,078	—	8,355,078	8,756,464	—	8,756,464
	9,898,660	(307,458)	9,591,202	10,444,510	(188,025)	10,256,485

(1) The carrying amount recognised in the condensed statement of financial position best represents the Company's maximum exposure to credit risk.
(2) Of the residual net credit exposure, intercompany cross product netting arrangements are in place which would allow for an additional €6,972,000 (31 December 2022: €13,000) to be offset in the event of default by certain Morgan Stanley counterparties.
(3) At 30 June 2023, net cash collateral pledged of €9,883,000 was recognised in trade and other receivables in the condensed statement of financial position against derivatives classified as trading financial assets/liabilities and prepaid equity securities contract. At 31 December 2022, trade and other receivables included net cash collateral pledged of €262,280,000 Cash collateral is determined and settled on a net basis.

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

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk management procedures (continued)

Credit risk (continued)

Exposure to credit risk by internal rating grades (continued)

The tables below shows gross carrying amounts and, in the case of unrecognised financial instruments, nominal amounts by internal rating grade. All exposures subject to ECL are Stage 1.

30 June 2023		**Investment grade**				
	AA	**A**	**BBB**	**Total**	**Loss allowance**	**Net of ECL**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Subject to ECL:						
Cash and short term deposits	430	3,397	—	3,827	—	3,827
Trade and other receivables[1]	—	1,180,653	4	1,180,657	(42)	1,180,615
Total subject to ECL	**430**	**1,184,050**	**4**	**1,184,484**	**(42)**	**1,184,442**
Not subject to ECL:						
Trade and other receivables:						
Prepaid equity securities contracts	—	13,292	—	13,292	—	13,292
Trading financial assets – derivatives	—	337,239	8,609	345,848	—	345,848
Loans and advances	—	8,355,078	—	8,355,078	—	8,355,078
Total not subject to ECL	**—**	**8,705,609**	**8,609**	**8,714,218**	**—**	**8,714,218**

31 December 2022		**Investment grade**				
	AA	**A**	**BBB**	**Total**	**Loss allowance**	**Net of ECL**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Subject to ECL:						
Cash and short term deposits	420	4,682	—	5,102	—	5,102
Trade and other receivables[1]	—	1,468,932	4,461	1,473,393	(33)	1,473,360
Total subject to ECL	**420**	**1,473,614**	**4,461**	**1,478,495**	**(33)**	**1,478,462**
Not subject to ECL:						
Trade and other receivables:						
Prepaid equity securities contracts	—	8,019	—	8,019	—	8,019
Trading financial assets – derivatives	—	193,734	7,831	201,565	—	201,565
Loans and advances	—	8,756,464	—	8,756,464	—	8,756,464
Total not subject to ECL	**—**	**8,958,217**	**7,831**	**8,966,048**	**—**	**8,966,048**

(1) At 30 June 2023, there were no financial assets past due but not impaired or individually impaired (31 December 2022: €nil).

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk management procedures (continued)

Liquidity risk

Maturity analysis

In the following maturity analysis of financial assets and financial liabilities, derivative contracts and other financial instruments held at FVPL are disclosed according to their earliest contractual maturity; all such amounts are presented at their fair value, consistent with how these financial instruments are managed. All other amounts represent undiscounted cash flows receivable and payable by the Company arising from its financial assets and financial liabilities to earliest contractual maturities as at 30 June 2023 and 31 December 2022. Receipts of financial assets and repayments of financial liabilities that are subject to immediate notice are treated as if notice were given immediately and are classified as on demand. This presentation is considered by the Company to appropriately reflect the liquidity risk arising from these financial assets and financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial assets and financial liabilities is managed by the Company.

30 June 2023	On demand	Less than 1 year	1 year - 2 years	2 years - 5 years	Greater than 5 years	Total
	€'000	€'000	€'000	€'000	€'000	€'000
Financial assets						
Cash and short-term deposits	3,827	—	—	—	—	3,827
Trade and other receivables:						
Trade receivables	22,803	—	—	—	—	22,803
Other receivables	1,157,812	—	—	—	—	1,157,812
Prepaid equity securities contracts	13,292	—	—	—	—	13,292
Trading financial assets:						
Derivatives	5,716	71,389	135,818	110,120	22,805	345,848
Loans and advances:						
Loans	4,676	3,060,378	1,862,422	2,251,322	1,176,280	8,355,078
Total financial assets	**1,208,126**	**3,131,767**	**1,998,240**	**2,361,442**	**1,199,085**	**9,898,660**
Financial liabilities						
Bank overdraft						
Trade and other payables:						
Trade payables	4,253	—	—	—	—	4,253
Other payables	10,594	—	—	—	—	10,594
Trading financial liabilities:						
Derivatives	4,846	337,814	264,348	97,328	64,830	769,166
Debt and other borrowings:						
Issued structured notes	31,334	2,793,953	1,733,892	2,264,114	1,134,255	7,957,548
Convertible preferred equity certificates	1,125,281	—	—	—	—	1,125,281
Total financial liabilities	**1,176,308**	**3,131,767**	**1,998,240**	**2,361,442**	**1,199,085**	**9,866,842**

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk management procedures (continued)

Liquidity risk (continued)

Maturity analysis (continued)

31 December 2022	On demand	Less than 1 year	1 year - 2 years	2 years - 5 years	Greater than 5 years	Total
	€'000	€'000	€'000	€'000	€'000	€'000
Financial assets						
Cash and short-term deposits	5,102	—	—	—	—	5,102
Trade and other receivables:						
Trade receivables	334,470	—	—	—	—	334,470
Other receivables	1,138,890	—	—	—	—	1,138,890
Prepaid equity securities contracts	8,019	—	—	—	—	8,019
Trading financial assets:						
Derivatives	3,694	90,520	26,218	68,182	12,951	201,565
Loans and advances:						
Loans	26,679	3,396,456	1,624,590	2,506,056	1,202,683	8,756,464
Total financial assets	**1,516,854**	**3,486,976**	**1,650,808**	**2,574,238**	**1,215,634**	**10,444,510**
Financial liabilities						
Trade and other payables:						
Trade payables	83,319	—	—	—	—	83,319
Other payables	243,133	—	—	—	—	243,133
Trading financial liabilities:						
Derivatives	8,910	527,254	340,659	286,197	59,017	1,222,037
Debt and other borrowings:						
Issued structured notes	23,457	2,959,722	1,310,149	2,288,041	1,156,617	7,737,986
Convertible preferred equity certificates	1,125,281	—	—	—	—	1,125,281
Total financial liabilities	**1,484,100**	**3,486,976**	**1,650,808**	**2,574,238**	**1,215,634**	**10,411,756**

Market risk

Equity price sensitivity analysis

The sensitivity analysis below is determined based on the exposure to equity price risk at 30 June 2023 and 31 December 2022 respectively.

The market risk related to such equity price risk is measured by estimating the potential reduction in total comprehensive income associated with a 10% decline in the underlying equity price as shown in the table below.

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk management procedures (continued)

Market risk (continued)

Equity price sensitivity analysis (continued)

	Impact on Total Comprehensive Income Gains / (Losses)	
	30 June 2023	**31 December 2022**
	€'000	**€'000**
Trading financial instruments	(794,426)	(772,997)
Trade and other receivables – at FVPL	(1,329)	(802)
Debt and other borrowings	795,755	773,799
	—	—

The Company's equity price risk is on equity securities spread across EMEA, 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 Euros, the risk of changes in rates of exchange between the Euro and the other relevant currencies. The Company uses the contracts that it purchases from other Morgan Stanley Group undertakings to hedge the market price, interest rate and foreign currency risks associated with the issuance of the structured notes, consistent with the Company's risk management strategy. As such, the Company is not exposed to any net market risk on these financial instruments.

The net foreign exchange losses recognised in 'Other expense'(2022: net foreign exchange losses recognised in 'Other expense') have arisen as a result of exposure to hedging on assets and liabilities recognised for Morgan Stanley Group purposes, under the Morgan Stanley Group's local reporting requirements.

15. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING

In the following table:

– 'Gross amounts' include transactions which are not subject to master netting agreements or collateral agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.

– 'Amounts not offset in the condensed statement of financial position' are transactions where master netting arrangements and collateral arrangements have been determined by the Company to be legally enforceable, but do not meet all criteria required for net presentation.

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

	Gross and net amounts presented in the statement of financial position(1)	Amounts not offset in the statement of financial position(2) (4)	Net exposure
		Cash collateral(3)	
	€'000	€'000	€'000
30 June 2023			
Assets			
Trade and other receivables:			
Prepaid equity securities contracts	13,292	(13,292)	—
Trading financial assets:			
Derivatives	345,848	(294,166)	51,682
TOTAL	359,140	(307,458)	51,682
Liabilities			
Trading financial liabilities:			
Derivatives	769,166	(317,341)	451,825
Debt and other borrowings:			
Issued structured notes	7,957,548	—	7,957,548
TOTAL	8,726,714	(317,341)	8,409,373
31 December 2022			
Assets			
Trade and other receivables:			
Prepaid equity securities contracts	8,019	(8,019)	—
Trading financial assets:			
Derivatives	201,565	(180,006)	21,559
TOTAL	209,584	(188,025)	21,559
Liabilities			
Trading financial liabilities:			
Derivatives	1,222,037	(450,291)	771,746
Debt and other borrowings:			
Issued structured notes	7,737,986	—	7,737,986
TOTAL	8,960,023	(450,291)	8,509,732

(1) Amounts include €51,195,000 (31 December 2022: €21,559,000) of trading financial assets – derivatives, €nil (31 December 2022: €nil) of trade and other receivables – prepaid equity securities contracts, €341,294,000 (31 December 2022: €709,985,000) of trading financial liabilities – derivatives and €7,768,403,000 (31 December 2022: €7,646,305,000) of debt and other borrowings – issued structured notes which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.

(2) Amounts relate to master netting arrangements and collateral arrangements which have been determined by the Company to be legally enforceable but do not meet all criteria required for net presentation within the condensed statement of financial position.

(3) Cash collateral used to mitigate credit risk on exposures arising under derivatives contracts and prepaid equity securities contracts is determined and settled on a net basis and has been recognised in the condensed statement of financial position within 'Trade and other receivables' in 2023 (2022: within 'Trade and other receivables' and 'Trade and other payables).

(4) In addition to the balances disclosed in the table above, certain 'Trade and other receivables' of €3,043,000 (31 December 2022: €18,903,000) of 'Trade and other receivables') not presented net within the condensed statement of financial position have legally enforceable master netting agreements in place and can be offset in the ordinary course of business and/or in the event of default.

16. 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. The information below is limited to quantitative information and should be read in conjunction with note 21 of the Company's 2022 annual financial statements.

30 June 2023	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
Trade and other receivables:				
Prepaid equity securities contracts	—	13,292	—	13,292
Trading financial assets:				
Derivatives				
Interest rate contracts	—	8,840	2,903	11,743
Equity contracts	—	325,160	8,945	334,105
	—	334,000	11,848	345,848
Loans and advances:				
Loans	—	8,355,078	—	8,355,078
Total financial assets measured at fair value	—	8,702,370	11,848	8,714,218
Trading financial liabilities:				
Derivatives				
Interest rate contracts	—	41,843	1,086	42,929
Equity contracts	—	673,401	52,568	725,969
Foreign exchange contracts	—	268	—	268
	—	715,512	53,654	769,166
Debt and other borrowings:				
Certificates and warrants	—	56,620	—	56,620
Notes	—	7,757,257	143,671	7,900,928
Total debt and other borrowings	—	7,813,877	143,671	7,957,548
Total financial liabilities measured at fair value	—	8,529,389	197,325	8,726,714

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

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

31 December 2022	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
Trade and other receivables:				
Prepaid equity securities contracts	—	8,019	—	8,019
Trading financial assets:				
Derivatives				
Interest rate contracts	—	4,094	3,949	8,043
Equity contracts	—	184,804	8,718	193,522
	—	188,898	12,667	201,565
Loans and advances:				
Loans	—	8,756,464	—	8,756,464
Total financial assets measured at fair value	—	8,953,381	12,667	8,966,048
Trading financial liabilities:				
Derivatives				
Interest rate contracts	—	50,489	14,492	64,981
Equity contracts	—	1,090,482	66,371	1,156,853
Foreign exchange contracts	—	203	—	203
	—	1,141,174	80,863	1,222,037
Debt and other borrowings:				
Certificates and warrants		33,038	3,966	37,004
Notes		7,596,454	104,528	7,700,982
Total debt and other borrowings	—	7,629,492	108,494	7,737,986
Total financial liabilities measured at fair value	—	8,770,666	189,357	8,960,023

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

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 2023 and year ended 31 December 2022. Level 3 instruments may be hedged with instruments classified in 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 2 category.

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.

30 June 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 Level3 (2)	Balance at 30 June 2023	Unrealised gains or (losses) for Level 3 assets/ (liabilities) outstanding as at 30 June 2023(3)
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Trading financial liabilities:								
Net derivative contracts (4)	(68,196)	15,094	543	(5,806)	7,179	9,380	(41,806)	8,888
Debt and other borrowings:								
Issued structured notes	(108,494)	(4,105)		(43,699)	27,162	(14,535)	(143,671)	(3,543)
Net financial liabilities measured at fair value	**(176,690)**	**10,989**	**543**	**(49,505)**	**34,341**	**(5,155)**	**(185,477)**	**5,345**

(1) The total gains or (losses) are recognised in the condensed statement of comprehensive income as detailed in the financial instruments accounting policy in the Company's 2022 annual financial statements.
(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 2023 related to assets and liabilities still outstanding at 30 June 2023. The unrealised gains or (losses) are recognised in the condensed statement of comprehensive income as detailed in the financial instruments accounting policy in the Company's 2022 annual financial statements.
(4) Net derivative contracts represent trading financial assets – derivative contracts net of trading financial liabilities – derivative contracts.

16. 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 approximately €9,000,000 net derivative contracts (31 December 2022: €nil) and €42,872,000 of issued structured notes (31 December 2022: €38,348,000) from Level 2 to Level 3. The reclassifications were due to positions where the unobservable inputs are now significant.

During the period, the Company reclassified approximately €18,380,000 of net derivative contracts (31 December 2022: €22,418,000) and €28,377,000 of issued structured notes (31 December 2022: €31,790,000) from Level 3 to Level 2. The reclassifications were due to the availability of market data for these or comparable instruments, or available broker quotes, or consensus data such that certain significant inputs became observable.

31 December 2022

	Balance at 1 January 2022	Total gains or (losses) recognised in statement of comprehensive income [(1)]	Purchases	Issuances	Settlements	Net transfers in and / or out of Level3 [(2)]	Balance at 31 December 2022	Unrealised gains or (losses) for Level 3 assets/ (liabilities) outstanding as at 31 December 2022 [(3)]
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Trading financial liabilities:								
Net derivative contracts [(4)]	(31,806)	(47,066)	388	(1,284)	(10,846)	22,418	(68,196)	(53,666)
Debt and other borrowings:								
Issued structured notes	(120,901)	6,520	—	(28,810)	41,255	(6,558)	(108,494)	6,521
Net financial liabilities measured at fair value	**(152,707)**	**(40,546)**	**388**	**(30,094)**	**30,409**	**15,860**	**(176,690)**	**(47,145)**

(1) The total gains or (losses) are recognised in the condensed statement of comprehensive income as detailed in the financial instruments accounting policy in the Company’s 2022 annual financial statements.
(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 31 December 2022 related to assets and liabilities still outstanding at 31 December 2022. The unrealised gains or (losses) are recognised in the condensed statement of comprehensive income as detailed in the financial instruments accounting policy in the Company’s 2022 annual financial statements..
(4) Net derivative contracts represent trading financial assets – derivative contracts net of trading financial liabilities – derivative contracts.

16. 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

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 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 firms in the financial services industry because of diversity in the types of products included in each firm'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 2023	Fair value €'000	Predominant valuation techniques/ Significant unobservable inputs	Range (2) (Averages)(3)
LIABILITIES			
Net derivative contracts: (1)			
– Interest rate	1,817	Net asset value ("NAV") NAV	146-146
		Interest rate – Foreign exchange correlation	29% to 57% (39%)
		Interest rate – Interest rate curve correlation	56% to 93% (78%)
– Equity	(43,623)	Equity volatility	6% to 79% (22%)
		Equity volatility skew	-3% to 0%(-1%)
		Equity – Equity correlation	40% to 96% (73%)
		Equity – Foreign exchange correlation	-66% to 30%(-27%)
Debt and other borrowings:			
– Issued structured notes	(143,671)	Equity volatility	6% to 79%(22%)
		Equity Volatility skew	'-1%(-1%)
		Equity – Equity correlation	50% to 94% (77%)
		Equity – Foreign exchange correlation	-55% to 25% (-30%)
		Interest rate curve correlation	0%(0%)

(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.

16. 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 2022	Fair value €'000	Predominant valuation techniques/ Significant unobservable inputs	Range [2] (Averages)[3]
LIABILITIES			
Net derivative contracts:[1]			
– Interest rate	(10,543)	Option model	
		Interest rate – Interest rate curve correlation	76% to 95% (mean 88%, median 86%)
		Net asset value ("NAV") NAV	149%-149% (149%)
– Equity	(57,653)	Option	
		Equity volatility	7% to 75% (25%)
		Volatility skew	-2% to 0% (-1%)
		Equity – Equity correlation	35% to 98% (74%)
		Equity – Foreign exchange correlation	-68% to 40% (-22%)
Debt and other borrowings:			
– Issued structured notes	(108,494)	Option model	
		Equity volatility	18% to 66% (28%)
		Volatility skew	-1% (-1%)
		Equity – Equity correlation	'-52% to 97% (85%)
		Equity – Foreign exchange correlation	-33% to 0% (18%)

(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.

A description of significant unobservable inputs included in the tables above for all major categories of assets and liabilities is included within note 21 of the Company's 2022 annual financial statements.

16. 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)

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

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 2023 [(2)]		31 December 2022 [(2)]	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	€'000	€'000	€'000	€'000
Trading financial liabilities:				
Net derivatives contracts[(1)]	1,742	(2,169)	4,735	(12,265)
Debt and other borrowings:				
Issued structured notes	1,527	(878)	7,412	(10,667)
	3,269	(3,047)	12,147	(22,932)

[(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.

17. 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.

Regarding the CPECs, their carrying value including the accrued yield in 'Trade and other payables', as detailed in note 10, are considered in aggregate as an approximation of their fair value.

18. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events since the reporting date.

Deloitte.

Deloitte Accountants B.V.
Gustav Mahlerlaan 2970
1081 LA Amsterdam
P.O.Box 58110
1040 HC Amsterdam
Netherlands

Tel: +31 (0)88 288 2888
Fax: +31 (0)88 288 9737
www.deloitte.nl

INDEPENDENT AUDITOR'S REVIEW REPORT

To the shareholder of Morgan Stanley B.V.

Our conclusion

We have reviewed the accompanying interim financial information for the period from 1 January 2023 to 30 June 2023 of Morgan Stanley B.V. based in Amsterdam.

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information for the period from 1 January 2023 to 30 June 2023 of Morgan Stanley B.V. is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union.

The interim financial information comprises:

- The condensed balance sheet as at 30 June 2023.
- The condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cashflows for the half year ended 30 June 2023.
- The notes comprising of a summary of the accounting policies and other explanatory information.

Basis for our conclusion

We conducted our review in accordance with Dutch law, including the Dutch Standard 2410, 'Het beoordelen van tussentijdse financiële informatie door de accountant van de entiteit' (Review of interim financial information performed by the independent auditor of the entity). A review of interim financial information in accordance with the Dutch Standard 2410 is a limited assurance engagement. Our responsibilities under this standard are further described in the 'Our responsibilities for the review of the interim financial information' section of our report.

We are independent of Morgan Stanley B.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Responsibilities of management for the interim financial information

Management is responsible for the preparation and presentation of the interim financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the interim financial information that are free from material misstatement, whether due to fraud or error.

Our responsibilities for the review of the interim financial information

Our responsibility is to plan and perform the review in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusion.

The level of assurance obtained in a limited assurance engagement is substantially less than the level of assurance obtained in an audit conducted in accordance with the Dutch Standards on Auditing. Accordingly, we do not express an audit opinion.

We have exercised professional judgement and have maintained professional scepticism throughout the review, in accordance with Dutch Standard 2410.

Our review included among others:

- Updating our understanding of the entity and its environment, including its internal control, and the applicable financial reporting framework, in order to identify areas in the interim financial information where material misstatements are likely to arise due to fraud or error, designing and performing procedures to address those areas, and obtaining assurance evidence that is sufficient and appropriate to provide a basis for our conclusion.

- Making inquiries of management and others within the entity.

- Applying analytical procedures with respect to information included in the interim financial information.

- Obtaining assurance evidence that the interim financial information agrees with or reconciles to the entity's underlying accounting records.

- Evaluating the assurance evidence obtained.

- Considering whether there have been any changes in accounting principles or in the methods of applying them and whether any new transactions have necessitated the application of a new accounting principle.

- Considering whether management has identified all events that may require adjustment to or disclosure in the interim financial information.

- Considering whether the interim financial information has been prepared in accordance with the applicable financial reporting framework and represents the underlying transactions free from material misstatement.

Amsterdam, 22 September 2023

Deloitte Accountants B.V.

Signed on the original: J. Penon