Registered number: 34161590

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

MORGAN STANLEY B.V.

Interim financial report

30 June 2015

MORGAN STANLEY B.V.

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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 2015.

RESULTS AND DIVIDENDS

The profit for the six months ended 30 June 2015, after tax, was €1,952,000 (30 June 2014: €2,326,000).

During the six months ended 30 June 2015, no dividends were paid or proposed (30 June 2014: €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".

FUTURE OUTLOOK

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

BUSINESS REVIEW

In the first quarter of 2015, global growth decelerated, as slower domestic demand growth in the United States ("US") and in major emerging market economies was partly offset by indications of improving growth in Europe and Japan, a divergence consistent with relative regional equity market performance. Much lower energy prices also resulted in lower inflation in much of the world. Central banks globally responded with over 30 additional easing measures since the start of 2015, including the central banks of Switzerland, Sweden and Denmark moving to negative central bank policy rates to join the European Central Bank ("ECB").

In the second quarter of 2015, global growth was supported by a rebound in the US and firmer growth in the euro zone and the United Kingdom ("UK"), which was partially offset by continued sluggishness in major emerging market economies, including China and Brazil, and slower growth in Japan after a strong first quarter of 2015. Prior declines in energy prices kept developed economies' market inflation running near 0% in the second quarter of 2015 but with a move up from slightly negative to slightly positive annual rates in the US, euro zone and the UK. China continued to experience entrenched producer price index deflation, while other emerging market economies showed mixed inflation trends. Global equity markets showed little change in the aggregate during the second quarter of the year but with mixed trends across regions.

In Europe, favourable financial conditions were aided by the ECB quantitative easing ("QE") program. A weaker euro supported continued improvement in growth during the six months ended 30 June 2015, led by Germany, but protracted negotiations over extending the Greece bailout increased uncertainties in late June 2015. The STOXX Europe 600 index fell 4% in the second quarter of 2015 after rising 16% in the first quarter of 2015 and peaking in April 2015. The 10-year German Bund yield rose to 0.76% on 30 June 2015 after reaching a record low of 0.07% in April 2015, as expectations for how long ECB QE and near zero short-term interest rates would be maintained were paired with the move in euro zone inflation from a slightly negative annual rate to slightly positive.

The condensed statement of comprehensive income for the six months ended 30 June 2015 is set out on page 8. The Company made a profit before income tax of €2,603,000 in the six months ended 30 June 2015, a decrease of €498,000 from the six months ended 30 June 2014. This is due to a decrease in management charges received by the Company which are reflected in 'Other income' in the condensed statement of comprehensive income.

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

Other income also includes a net foreign exchange gain of €14,370,000 in relation to 2014 and 2015 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. This has resulted in an increase in interest expense which primarily relates to the yield payable of €18,990,000 on Convertible Preferred Equity Certificates ("CPECs").

Net gains on financial instruments classified as held for trading and net losses on financial instruments designated at fair value through profit or loss offset to €nil, which is consistent with the Company's function and the prior period. The Company hedges its Structured Notes with derivatives classified as held for trading along with loans designated at fair value and prepaid equity securities contracts. Net losses on financial instruments designated at fair value through profit or loss of €309,733,000 represents fair value movements for the period on the issued Structured Notes, prepaid equity securities contracts and loans designated at fair value (30 June 2014: €428,918,000). This loss has arisen as a result of unfavourable fair value movements on the assets underlying certain Structured Notes issued that are hedged by derivatives classified as held for trading, on which a corresponding gain of €309,733,000 has been recognised (30 June 2014: €428,918,000).

The condensed statement of financial position for the Company is set out on page 10. The Company's total assets at 30 June 2015 are €9,480,695,000, an increase of €1,398,893,000 or 17% when compared to 31 December 2014. Total liabilities of €9,448,673,000 represent an increase of €1,396,941,000 or 17%, when compared to total liabilities at 31 December 2014. These movements are primarily attributable to the value of issued Structured Notes and the related hedging instruments held at 30 June 2015. Structured Notes have increased since 31 December 2014 as a result of new issuances and fair value movements in the period partially offset by maturities. The increase in the value of issued Structured Notes has resulted in a net increase in the value of the related hedging instruments.

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 has developed its own risk management policy framework, which leverages the risk management policies and procedures of the Morgan Stanley Group, and includes escalation to the Company's Board of Directors and to appropriate senior management personnel of the Company as well as oversight through the Company's Board of Directors.

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

Note 8 to the condensed financial statements provides more detailed qualitative and quantitative disclosures about the Company's management of, and exposure to, financial risks.

Market risk

Market risk refers to the risk of losses for a position or portfolio due to changes in rates, foreign exchange, equities, implied volatilities (the price volatility of the underlying instrument implied from option prices), correlations or other market factors.

Market risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to the Company's Board of Directors and appropriate senior management personnel.

The Company manages the market risk associated with its trading activities at both a trading division and an individual product level.

It is the policy and objective of the Company not to be exposed to market risk arising from its principal activity.

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

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 the risk that economic, social and political conditions and events in a foreign country will adversely affect an obligor's ability and willingness to fulfil their obligations.

Credit risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to the Company's Board of Directors and appropriate senior management personnel.

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

Liquidity and funding risk

Liquidity and funding 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 and funding risk also encompasses the Company's ability to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern.

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

The Company continues to actively manage its capital and liquidity position to ensure adequate resources are available to support its activities, to enable it to withstand market stresses.

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. This definition includes legal, regulatory and compliance risks but excludes strategic risk. Operational risk relates to the following risk event categories as defined by Basel II: 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 Company may incur operational risk across the full scope of its business activities. The Company's business is highly dependent on its ability to process, on a daily basis, a large number of transactions across numerous and diverse global markets. In addition, new products or services may be introduced that impact or change business processes, thereby resulting in new operational risks that may not have been fully anticipated or identified. In general, the transactions processed are increasingly complex. The Company relies on the ability of the Morgan Stanley Group employees, internal systems, and systems at technology centres operated by unaffiliated third parties to process a high volume of transactions.

The Company also faces the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or financial intermediaries it uses to facilitate securities/ client transactions. In the event of a breakdown, unauthorised or improper operation of the Company's or a third party's systems the Company could suffer financial loss, an impairment to its liquidity, a disruption of its businesses, regulatory sanctions and/ or reputational damage. In addition, the interconnectivity of multiple financial institutions with central agencies, exchanges and clearing houses, and the increased interconnectivity of these entities, increases the risk that an operational risk failure at one institution or entity may cause an industry-wide operational failure that could materially impact the Company's ability to conduct business.

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Operational risk (continued)

The Company relies on the secure processing, storage and transmission of confidential and other information in its computer systems and the systems of third parties which the Company does business with or that facilitate its business activities, such as external vendors and with third-party suppliers. Like other financial services firms, the Company and its third party providers have been, and continue to be, subject to unauthorised access, mishandling or misuse of information, computer viruses or malware, cyber attacks designed to obtain confidential information, destroy data disrupt or degrade service, sabotage systems or cause other system damage. If one or more of these events occur, these events could have a security impact on the Company's systems and jeopardise the Company's clients', business partners or counterparties' personal, confidential, proprietary or other information processed, stored in, and transmitted through, third party providers' computer systems. Furthermore, such events could cause interruptions or malfunctions in the Company's, and/ or the Company's clients', counterparties' or third parties' operations, which could result in reputational damage with our clients and the market, client dissatisfaction, additional cost to repair systems, add new protective technologies and/ or personnel, regulatory investigations, litigation and/ or regulatory fines, all of which adversely affect the business, financial condition and results of operations.

The Company is exposed to legal, regulatory and compliance risks, which include the risk of legal or regulatory sanctions, material financial loss; such as fines, penalties, judgements, damages and/ or settlements or loss to reputation the Company may suffer as a result of a failure to comply with laws, regulations, rules, self-regulatory organisations standards and codes of conduct applicable to business activities. Legal risk also includes contractual and commercial risks in the event that a counterparty's performance obligations will be unenforceable. The Company is generally subject to extensive regulation in the different jurisdictions in which it conducts its business. In the current environment of rapid and possibly transformational regulatory changes, the Company also views regulatory changes as a component of legal risk.

The Company has established procedures designed to foster compliance with applicable statutory and regulatory requirements. The Company, principally through the Morgan Stanley Group's Legal and Compliance Division, also has established procedures that are designed to require that the Morgan Stanley Group's policies relating to business conduct, ethics and practices are followed globally. In connection with its businesses, the Company continuously develops various procedures addressing issues such as regulatory capital requirements, sales and trading practices, new products, information barriers, potential conflicts of interest, structured transactions, use and safekeeping of customer funds and securities, lending and credit granting, anti-money laundering, privacy and recordkeeping. In addition, the Company has established procedures to mitigate the risk that a counterparty's performance obligations will be unenforceable, including consideration of counterparty legal authority and capacity, adequacy of legal documentation, the permissibility of a transaction under applicable law and whether applicable bankruptcy or insolvency laws limit or alter contractual remedies. The legal and regulatory focus on the financial services industry presents a continuing business challenge for the Company.

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Culture, values and conduct of employees

All employees of the Morgan Stanley Group have accountability for risk management. The Morgan Stanley Group strives to establish a culture of effective risk management through its defined core values, governance framework, management oversight, training and development programmes, policies, procedures, and defined roles and responsibilities within the Morgan Stanley Group. The actions and conduct of each employee are essential to risk management. The Morgan Stanley Group's Code of Conduct (the "Code") has been established to provide a framework and standards for employee conduct that further reinforces the Morgan Stanley Group's commitment to integrity and high ethical standards. Every new hire and every employee annually must certify to their understanding of and adherence to the Code. The employee annual review process includes evaluation of adherence to the Code. The Global Incentive Compensation Discretion Policy sets forth standards that specifically provide that managers must consider whether the employee effectively managed and supervised the risk control practices of his/her employee reports during the performance year. The Morgan Stanley Group has several mutually reinforcing processes to identify incidents of employee conduct that may have an impact on the employment status, current year compensation or prior year compensation. The Morgan Stanley Group's clawback and cancellation provisions permit recovery of deferred incentive compensation where, for example, an employee's act or omission (included with respect to direct supervisory responsibilities) causes a restatement of the Morgan Stanley Group's consolidated financial results, constitutes a violation of the Morgan Stanley Group's global risk management principles, policies and standards, or causes a loss of revenue associated with a position on which the employee was paid and the employee operated outside of internal control policies.

Going concern

Business risks associated with the uncertain market and economic conditions are being actively monitored and managed by the Morgan Stanley Group and the Company. Retaining sufficient liquidity and capital to withstand these market pressures remains central to the Morgan Stanley Group's and the Company's strategy. In particular, the Morgan Stanley Group's capital is deemed sufficient to exceed the minimum capital ratio under the most negative stressed scenario reviewed by the US Federal Reserve. The Morgan Stanley Group regularly performs stress testing to ensure it has sufficient resources at its disposal to absorb losses associated with certain stressed scenarios.

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 management report and condensed financial statements.

INTERIM MANAGEMENT REPORT

DIRECTORS

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

R.H.L. de Groot	(resigned 17 August 2015)
H. Herrmann	
S. Ibanez	(appointed 17 August 2015)
P.J.G. de Reus	
L.P.A. Rolfes	(appointed 21 July 2015)
Z. Wu	(resigned 30 June 2015)
TMF Management B.V.	

The Company has taken notice of Dutch legislation effective as of 1 January 2013, as a consequence of which the Company should take into account as much as possible a balanced composition of the Board of Directors in terms of gender, when nominating or appointing Directors, to the effect that at least 30 percent of the positions should be held by women and at least 30 percent by men. Currently the composition of the Board of Directors deviates from the gender diversity objectives. When appointing a Director, the Board of Directors considers the gender diversity objectives, as appropriate.

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 European Union ("EU") law. Morgan Stanley International Limited, a shareholder in the Company during the current period, has an audit committee that functioned as the audit committee of the Company. On 26 March 2015, Morgan Stanley International Limited disposed of its shareholding in the Company; accordingly, the Company can no longer take the exemption available for groups and has established its own audit committee which complies with the applicable corporate governance rules.

Approved by the Board and signed on its behalf by:

26 August 2015

L.P.A. Rolfes TMF Management 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 and Title 9 of Book 2 of the Dutch Civil Code on the basis of the Company's international connections and give a true and fair view of the assets, liabilities, financial position and result 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 2015 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

26 August 2015

L.P.A. Rolfes TMF Management B.V.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME
Six months ended 30 June 2015

	Note	Six months ended 30 June 2015 €000 (unaudited)	Six months ended 30 June 2014 €000 (unaudited)
Net gains on financial instruments classified as held for trading		309,733	428,918
Net losses on financial instruments designated at fair value through profit or loss		(309,733)	(428,918)
Interest income		10,786	14,784
Interest expense		(25,156)	(14,784)
Other income	2	16,973	3,101
PROFIT BEFORE INCOME TAX		2,603	3,101
Income tax expense		(651)	(775)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		1,952	2,326

All operations were continuing in the current and prior period.

The notes on pages 12 to 41 form an integral part of the condensed financial statements.

CONDENSED STATEMENT OF CHANGES IN EQUITY
Six months ended 30 June 2015

	Share capital €000	Retained earnings €000	Total equity €000
Balance at 1 January 2014 (audited)	15,018	10,059	25,077
Profit and total comprehensive income for the period	-	2,326	2,326
Balance at 30 June 2014 (unaudited)	15,018	12,385	27,403
Balance at 1 January 2015 (audited)	15,018	15,052	30,070
Profit and total comprehensive income for the period	-	1,952	1,952
Balance at 30 June 2015 (unaudited)	15,018	17,004	32,022

The notes on pages 12 to 41 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 2015
(Including Proposed Appropriation of Results)

	Note	30 June 2015 €000 (unaudited)	31 December 2014 €000 (audited)
ASSETS			
Loans and receivables:			
Cash and short-term deposits		477	510
Trade receivables		123,755	24,586
Other receivables		1,646,087	1,486,292
		1,770,319	1,511,388
Financial assets classified as held for trading	4	763,309	527,856
Financial assets designated at fair value through profit or loss	5	6,945,276	6,042,485
Current tax assets		1,791	73
TOTAL ASSETS		9,480,695	8,081,802
LIABILITIES AND EQUITY			
Financial liabilities at amortised cost:			
Convertible preferred equity certificates	3	1,125,281	1,195,354
Trade payables		613,693	296,607
Other payables		34,145	10,024
		1,773,119	1,501,985
Financial liabilities classified as held for trading	4	602,769	503,487
Financial liabilities designated at fair value through profit or loss	5	7,072,785	6,046,260
TOTAL LIABILITIES		9,448,673	8,051,732
EQUITY			
Share capital		15,018	15,018
Retained earnings		17,004	15,052
Equity attributable to owners of the Company		32,022	30,070
TOTAL EQUITY		32,022	30,070
TOTAL LIABILITIES AND EQUITY		9,480,695	8,081,802

These condensed financial statements were approved by the Board and authorised for issue on

Signed on behalf of the Board
26 August 2015

L.P.A. Rolfes TMF Management B.V.

The notes on pages 12 to 41 form an integral part of the condensed financial statements.

CONDENSED STATEMENT OF CASH FLOWS
Six months ended 30 June 2015

	Note	Six months ended 30 June 2015 €000 (unaudited)	Six months ended 30 June 2014 €000 (unaudited)
NET CASH FLOWS FROM/ (USED IN) OPERATING ACTIVITIES	6b	1,956	(1,040)
NET CASH FLOWS FROM INVESTING ACTIVITIES		72,704	-
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(74,693)	-
NET DECREASE IN CASH AND CASH EQUIVALENTS		(33)	(1,040)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		510	1,585
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		477	545

The notes on pages 12 to 41 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 Dutch Law. The condensed financial statements have been prepared in accordance with IAS 34 as adopted by the EU.

Accounting policies

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 2014.

New standards and interpretations adopted during the period

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

As part of the December 2013 Improvements to IFRSs, the IASB made amendments to the following standards that are relevant to the Company's operations: IFRS 13 '*Fair value measurement*' and IAS 24 *'Related party disclosures'* (for application in accounting periods beginning on or after 1 July 2014). The improvements were endorsed by the EU in December 2014.

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

New standards and interpretations not yet adopted

At the date of authorisation of these condensed financial statements, the following standards and amendments to standards relevant to the Company's operations were in issue by the IASB but not yet mandatory. Except where otherwise stated, the Company does not expect that the adoption of the following standards and amendment to standards will have a material impact on the Company's financial statements.

An amendment to IAS 1 '*Disclosure initiative'* was issued by the IASB in December 2014, for application in annual periods beginning on or after 1 January 2016.

IFRS 9 '*Financial instruments'* ("IFRS 9") was issued by the IASB in November 2009, amended in November 2013, and revised and reissued by the IASB in July 2014. IFRS 9 is applicable retrospectively, except where otherwise prescribed by the transitional provisions of the standard, and is effective for annual periods beginning on or after 1 January 2018. Early adoption, either in full or relating to own credit in isolation, is permitted. Although there are expected to be significant changes to the presentation of financial instruments by the Company, it is not expected that they have a significant impact on net assets.

IFRS 15 '*Revenue from Contracts with Customers'* was issued by the IASB in May 2014 for retrospective application in annual periods beginning on or after 1 January 2017.

As part of the September 2014 Improvements to IFRSs, the IASB made amendments to the following standards that are relevant to the Company's operations: IFRS 7 '*Financial instruments: Disclosures'* and IAS 34 (for application in accounting periods beginning on or after 1 January 2016).

Use of estimates and sources of uncertainty

The preparation of the Company's condensed financial statements requires management to make judgements, estimates and assumptions regarding the valuation of certain financial instruments, impairment of assets and other matters that affect the condensed financial statements and related disclosures. The Company believes that the estimates utilised in preparing the condensed financial statements are reasonable, relevant and reliable. Actual results could differ from these estimates.

1. BASIS OF PREPARATION (CONTINUED)

Use of estimates and sources of uncertainty (continued)

For further details on the judgements used in determining fair value of certain assets and liabilities, see note 10.

2. OTHER INCOME

	Six months ended 30 June 2015 €000	Six months ended 30 June 2014 €000
Management charges to other Morgan Stanley Group undertakings	2,603	3,101
Net foreign exchange gains	14,370	-
	16,973	3,101

The Company actively manages its foreign currency exposure risk arising on its assets and liabilities in currencies other than euro, however, net foreign exchange gains 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.

3. CONVERTIBLE PREFERRED EQUITY CERTIFICATES

	€000
At 1 January 2014	1,170,579
Yield payable	24,775
At 1 January 2015	1,195,354
Yield payable	4,620
Yield paid	(74,693)
At 30 June 2015	1,125,281

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.

On 27 March 2015, the Company made a CPEC yield payment of €74,693,000 to Archimedes Investments Coöperatieve U.A.. An amount of €18,990,000 has been accrued for the period from 28 March 2015 to 30 June 2015 and has been recognised in 'Other payables'.

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 charges received from other Morgan Stanley Group undertakings and gains or losses from financial instruments classified as held for trading or designated at fair value through profit or loss are excluded from the calculation.

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.

3. CONVERTIBLE PREFERRED EQUITY CERTIFICATES (CONTINUED)

The maturity date of the CPECs is 150 years from the date of issuance, however, 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.

4. FINANCIAL ASSETS AND FINANCIAL LIABILITIES CLASSIFIED AS HELD FOR TRADING

Financial assets and financial liabilities classified as held for trading are summarised as follows:

	30 June 2015		31 December 2014	
	Assets	Liabilities	Assets	Liabilities
	€000	€000	€000	€000
Derivatives	763,309	602,769	527,856	503,487

5. FINANCIAL ASSETS AND FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments designated at fair value through profit or loss consist primarily of the following financial liabilities and financial assets:

Issued Structured Notes: These relate to financial liabilities which arise from selling structured products generally in the form of notes, certificates and warrants. These instruments contain an embedded derivative which significantly modifies the cash flows of the issuance. The return on the instrument is linked to an underlying that is not clearly and closely related to the debt host including, but not limited to equity-linked notes. The Structured Notes are designated at fair value through profit or loss 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.

Prepaid equity securities contracts: These contracts involve derivatives for which an initial payment is paid at inception. The contracts, along with the loans designated at fair value through profit or loss and the derivative contracts classified as held for trading, are part of the hedging strategy for the obligations arising pursuant to the issuance of the Structured Notes. The prepaid equity securities contracts are designated at fair value through profit or loss as the risks to which the Company is a contractual party are 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 derivatives contracts classified as held for trading, are part of the hedging strategy for the obligations arising pursuant to the issuance of the Structured Notes. These loans are designated at fair value through profit or loss as the risks to which the Company is a contractual party are 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.

	30 June 2015		31 December 2014	
	Assets	Liabilities	Assets	Liabilities
	€000	€000	€000	€000
Issued Structured Notes	-	7,072,785	-	6,046,260
Prepaid equity securities contracts	360,840	-	253,314	-
Loans	6,584,436	-	5,789,171	-
	6,945,276	7,072,785	6,042,485	6,046,260

5. FINANCIAL ASSETS AND FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

The change in fair value of issued Structured Notes recognised through the condensed statement of comprehensive income attributable to own credit risk is a gain of €4,937,000 (30 June 2014: loss of €18,645,000) and cumulatively is a gain of €95,287,000 (31 December 2014: cumulative gain of €90,350,000). This change is determined as the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risk.

The change in fair value of prepaid equity securities contracts and loans recognised through the condensed statement of comprehensive income attributable to own credit risk is a loss of €6,859,000 (30 June 2014: gain of €8,045,000) and cumulatively is a loss of €96,084,000 (31 December 2014: cumulative loss of €89,225,000).

The change in fair value of financial instruments designated at fair value through profit or loss attributable to own credit risk for the period is offset by a net gain of €1,922,000 (30 June 2014: gain of €10,600,000) and cumulatively is a net gain of €797,000 (31 December 2014: cumulative loss of €1,125,000), in changes in the fair value of financial instruments classified as held for trading attributable to own credit risk.

The carrying amount of financial liabilities designated at fair value was €387,709,000 lower than the contractual amount due at maturity (31 December 2014: €300,763,000 lower).

The following tables present the carrying value of the Company's financial liabilities designated at fair value through the profit or loss account, classified according to underlying security type, including, single name equities, equity indices and equity portfolio.

30 June 2015	Single name equities €000	Equity indices €000	Equity portfolio €000	Other €000	Total €000
Certificates and warrants	2,540,984	32,102	494,198	-	3,067,284
Notes	272,236	2,459,356	754,212	519,697	4,005,501
Total financial liabilities designated at fair value through profit or loss	2,813,220	2,491,458	1,248,410	519,697	7,072,785

31 December 2014	Single name equities €000	Equity indices €000	Equity portfolio €000	Other €000	Total €000
Certificates and warrants	1,612,100	34,796	506,710	-	2,153,606
Notes	263,814	2,407,886	751,519	469,435	3,892,654
Total financial liabilities designated at fair value through profit or loss	1,875,914	2,442,682	1,258,229	469,435	6,046,260

The majority of the Company's financial liabilities designated at fair value through the profit or loss provide exposure to an underlying single name equity, an equity index or portfolio of equities. The prepaid equity securities contracts, derivative contracts classified as held for trading and loans that the Company enters into in order to hedge the Structured Notes are valued as detailed in note 10(a), and have similar valuation inputs to the liabilities they hedge.

6. ADDITIONAL CASH FLOW INFORMATION

a. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances, which have less than three months maturity from the date of acquisition:

	30 June 2015 €000	30 June 2014 €000
Cash and short-term deposits	477	570
Bank loans and overdrafts	-	(25)
	477	545

b. Reconciliation of cash flows from operating activities

	Six months ended 30 June 2015 €000	Six months ended 30 June 2014 €000
Profit for the period	1,952	2,326
Adjustments for:		
Interest income	(10,786)	(14,784)
Interest expense	25,156	14,784
Income tax expense	651	775
Operating cash flows before changes in operating assets and liabilities	16,973	3,101
Changes in operating assets		
Increase in loans and receivables, excluding cash and short-term deposits	(320,882)	(599,952)
(Increase)/decrease in financial assets classified as held for trading	(235,453)	114,827
Increase in financial assets designated at fair value through profit or loss	(902,791)	(1,696,916)
	(1,459,126)	(2,182,041)
Changes in operating liabilities		
Increase in financial liabilities at amortised cost	320,708	548,507
Increase in financial liabilities classified as held for trading	99,282	307,649
Increase in financial liabilities designated at fair value through profit or loss	1,026,525	1,323,454
	1,446,515	2,179,610
Interest paid	(37)	(22)
Income taxes paid	(2,369)	(1,688)
	(2,406)	(1,710)
Net cash flows from/ (used in) operating activities	1,956	(1,040)

7. 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.

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.

	EMEA		Americas		Asia		Total	
	30 June 2015 €000	30 June 2014 €000	30 June 2015 €000	30 June 2014 €000	30 June 2015 €000	30 June 2014 €000	30 June 2015 €000	30 June 2014 €000
External revenues net of interest/ profit before income tax	2,240	2,552	198	320	165	229	2,603	3,101

	EMEA		Americas		Asia		Total	
	30 June 2015 €000	31 December 2014 €000	30 June 2015 €000	31 December 2014 €000	30 June 2015 €000	31 December 2014 €000	30 June 2015 €000	31 December 2014 €000
Total assets	7,191,751	5,855,672	1,818,544	1,841,928	470,400	384,202	9,480,695	8,081,802

Of the Company's external revenue, 100% (30 June 2014: 100%) arises from transactions with other Morgan Stanley Group undertakings.

8. FINANCIAL RISK MANAGEMENT

Risk management procedures

Risk is an inherent part of the Company's business activity. The Company seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities in accordance with defined policies and procedures. The Company has developed its own risk management policy framework, which is consistent with and leverages the risk management policies and procedures of the Morgan Stanley Group and includes escalation to the Company's Board of Directors and to appropriate senior management personnel.

The principal activity of the Company is the issuance of financial instruments and the hedging of obligations arising pursuant to such issuances. It is the policy and objective of the Company not to be exposed to market risk arising from its principal activity. On issuance of each financial instrument, the Company enters into hedges of its obligations by purchasing financial instruments from other Morgan Stanley Group undertakings.

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

Credit risk

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

The credit risk management policies and procedures of the Company establish the framework for ensuring transparency of material credit risks, ensuring compliance with established limits and escalating risk concentrations to appropriate senior management.

The Company enters into the majority 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 to be exposed to the credit risk of Morgan Stanley, except where the Company transacts with other Morgan Stanley Group undertakings that have a higher credit rating to that of Morgan Stanley.

Collateral and other credit enhancements

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

Exposure to credit risk

The maximum exposure to credit risk of the Company at the reporting date is the carrying amount of the financial assets held in the condensed statement of financial position. Where the Company enters into credit enhancements to manage the credit exposure on these financial instruments, including receiving cash as collateral and master netting agreements, 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.

8. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Exposure to credit risk by class:

Class	30 June 2015			31 December 2014		
	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
Loans and receivables:						
Cash and short-term deposits	477	-	477	510	-	510
Trade receivables(3)	123,755	-	123,755	24,586	-	24,586
Other receivables	1,646,087	-	1,646,087	1,486,292	-	1,486,292
Financial assets classified as held for trading:						
Derivatives	763,309	(754,893)	8,416	527,856	(527,695)	161
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	360,840	(88,224)	272,616	253,314	(84,475)	168,839
Loans	6,584,436	-	6,584,436	5,789,171	-	5,789,171
	9,478,904	(843,117)	8,635,787	8,081,729	(612,170)	7,469,559

(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 €40,000 (31 December 2014: €nil) to be offset in the event of default by certain Morgan Stanley counterparties.

(3) Trade receivables primarily include cash collateral pledged against the payable on OTC derivative positions. These derivative liabilities are included within financial liabilities classified as held for trading in the condensed statement of financial position.

The impact of master netting arrangements and similar agreements on the Company's ability to offset financial assets and financial liabilities is disclosed in note 9.

Maximum exposure to credit risk by credit rating(1)

Credit rating	Gross credit exposure 30 June 2015	Gross credit exposure 31 December 2014
	€000	€000
AA	-	216
A	9,478,821	8,081,513
BB	83	-
Total	9,478,904	8,081,729

(1) Internal credit rating derived using methodologies generally consistent with those used by external rating agencies.

At 30 June 2015 there were no financial assets past due but not impaired or individually impaired (31 December 2014: none).

8. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk

Liquidity and funding 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 and funding risk also encompasses the Company's ability to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern.

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

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

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

- Sufficient liquid assets should be maintained to cover maturing liabilities and other planned and contingent outflows;
- Maturity profile of assets and liabilities should be aligned, with limited reliance on short-term funding;
- Source, counterparty, currency, region and term of funding should be diversified; and
- Contingency Funding Plan ("CFP") should anticipate, and account for, periods of limited access to finding.

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

Liquidity management policies

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

Contingency Funding Plan

The CFP describes the data and information flows, limits, targets, operating environment indicators, escalation procedures, roles and responsibilities, and available mitigating actions in the event of a liquidity stress. The CFP also sets forth the principal elements of the Morgan Stanley Group's liquidity stress testing which identifies stress events of different severity and duration, assesses current funding sources and uses and establishes a plan for monitoring and managing a potential liquidity stress event.

Liquidity Stress Tests

The Morgan Stanley Group uses Liquidity Stress Tests to model liquidity outflows across multiple scenarios over a range of time horizons. These scenarios contain various combinations of idiosyncratic and systemic stress events.

8. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

Liquidity Stress Tests (continued)

The assumptions underpinning the Liquidity Stress Tests include, but are not limited to, the following:

- no government support;
- no access to equity and unsecured debt markets;
- repayment of all unsecured debt maturing within the stress horizon;
- higher haircuts and significantly lower availability of secured funding;
- additional collateral that would be required by trading counterparties, certain exchanges and clearing organisations related to credit rating downgrades;
- additional collateral that would be required due to collateral substitutions, collateral disputes and uncalled collateral;
- discretionary unsecured debt buybacks;
- drawdowns on unfunded commitments provided to third parties;
- client cash withdrawals and reduction in customer short positions that fund long positions;
- limited access to the foreign exchange swap markets; and
- maturity roll-off of outstanding letters of credit with no further issuance.

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

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

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

Global Liquidity Reserve

The Morgan Stanley Group maintains sufficient liquidity reserves ("the Global Liquidity Reserve") to cover daily funding needs and meet strategic liquidity targets sized by the CFP and Liquidity Stress Tests. The size of the Global Liquidity Reserve is actively managed by the Morgan Stanley Group. The following components are considered in sizing the Global Liquidity Reserve: unsecured debt maturity profile, statement of financial position size and composition, funding needs in a stressed environment inclusive of contingent cash outflows and collateral requirements. Additionally, the Global Liquidity Reserve includes an additional reserve, which is primarily a discretionary surplus based on the Morgan Stanley Group's risk tolerance and is subject to change dependent on market and firm-specific events.

8. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

Global Liquidity Reserve (continued)

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

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

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

Funding management policies

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

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

Balance sheet management

In managing both the Morgan Stanley Group's and the Company's funding risk the composition and size of the entire balance sheet, not just financial liabilities, is monitored and evaluated. A substantial portion of the Morgan Stanley Group's total assets consists of liquid marketable securities arising principally from its Institutional Securities business segment's sales and trading activities. The liquid nature of these assets provides the Morgan Stanley Group and the Company with flexibility in managing the size of its balance sheet.

8. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

Maturity analysis

In the following maturity analysis of financial assets and financial liabilities, derivative contracts, financial assets designated at fair value through profit or loss and financial liabilities designated at fair value through profit or loss 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 2015 and 31 December 2014. 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 2015	On demand €000	Less than one year €000	Equal to or more than one year but less than two years €000	Equal to or more than two years but less than five years €000	Equal to or more than five years €000	Total €000
Financial assets						
Loans and receivables:						
Cash and short-term deposits	477	-	-	-	-	477
Trade receivables	123,755	-	-	-	-	123,755
Other receivables	1,646,087	-	-	-	-	1,646,087
Financial assets classified as held for trading:						
Derivatives	501,225	71,288	29,769	144,053	16,974	763,309
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	4,324	23,274	27,067	202,704	103,471	360,840
Loans	2,582,158	670,066	811,066	1,911,432	609,714	6,584,436
Total financial assets	4,858,026	764,628	867,902	2,258,189	730,159	9,478,904
Financial liabilities						
Financial liabilities at amortised cost:						
Convertible preferred equity certificates	1,125,281	-	-	-	-	1,125,281
Trade payables	613,693	-	-	-	-	613,693
Other payables	34,145	-	-	-	-	34,145
Financial liabilities classified as held for trading:						
Derivatives	340,823	84,136	39,300	121,080	17,430	602,769
Financial liabilities designated at fair value through profit or loss:						
Issued Structured Notes	2,713,853	680,492	828,602	2,137,109	712,729	7,072,785
Total financial liabilities	4,827,795	764,628	867,902	2,258,189	730,159	9,448,673

8. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

31 December 2014	On demand €000	Less than one year €000	Equal to or more than one year but less than two years €000	Equal to or more than two years but less than five years €000	Equal to or more than five years €000	Total €000
Financial assets						
Loans and receivables:						
Cash and short-term deposits	510	-	-	-	-	510
Trade receivables	24,586	-	-	-	-	24,586
Other receivables	1,486,292	-	-	-	-	1,486,292
Financial assets classified as held for trading:						
Derivatives	256,640	42,506	33,669	141,012	54,029	527,856
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	46,758	52,823	94,488	56,284	2,961	253,314
Loans	1,762,868	540,084	581,343	2,155,389	749,487	5,789,171
Total financial assets	3,577,654	635,413	709,500	2,352,685	806,477	8,081,729
Financial liabilities						
Financial liabilities at amortised cost:						
Convertible preferred equity certificates	1,195,354	-	-	-	-	1,195,354
Trade payables	296,607	-	-	-	-	296,607
Other payables	10,024	-	-	-	-	10,024
Financial liabilities classified as held for trading:						
Derivatives	190,310	77,122	91,944	110,315	33,796	503,487
Financial liabilities designated at fair value through profit or loss:						
Issued Structured Notes	1,855,362	558,291	617,556	2,242,370	772,681	6,046,260
Total financial liabilities	3,547,657	635,413	709,500	2,352,685	806,477	8,051,732

Market risk

Market risk is defined by IFRS 7 *'Financial instruments: Disclosures'* as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Sound market risk management is an integral part of the Company's culture. The Company is responsible for ensuring that market risk exposures are well-managed and prudent and more broadly for ensuring transparency of material market risks, monitoring compliance with established limits, and escalating risk concentrations to appropriate senior management.

8. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (continued)

To execute these responsibilities, the Morgan Stanley Group monitors the market risk of the firm against limits on aggregate risk exposures, performs a variety of risk analyses, routinely reports risk summaries and maintains the Value at Risk ("VaR") and scenario analysis methodologies. The Company is managed within the Morgan Stanley Group's global framework. The market risk management policies and procedures of the Company include performing risk analyses and reporting any material risks identified to appropriate key management personnel of the Company.

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 market risk on these financial instruments.

The net foreign exchange gains recognised in 'Other income' 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.

9. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING

In order to manage credit exposure arising from its business activities, the Company applies various credit risk management policies and procedures, see note 8 for further details. Primarily in connection with derivative contracts, prepaid equity securities contracts and issued Structured Notes, the Company enters into master netting arrangements and collateral agreements with its counterparties. These agreements provide the Company with the right, in the ordinary course of business and/or in the event of a counterparty default (such as bankruptcy or a counterparty's failure to pay or perform), to net a counterparty's rights and obligations under such agreement and, in the event of counterparty default, set off collateral held by the Company against the net amount owed by the counterparty. However, in certain circumstances, the Company may not have such an agreement in place; the relevant insolvency regime (which is based on type of counterparty entity and the jurisdiction of organisation of the counterparty) may not support the enforceability of the agreement; or the Company may not have sought legal advice to support the enforceability of the agreement. In cases where the Company has not determined an agreement to be enforceable, the related amounts are not offset in the tabular disclosures. The enforceability of the master netting agreement is taken into account in the Company's risk management practices and application of counterparty credit limits.

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

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

The following tables present information about the offsetting of financial instruments and related collateral amounts. The effect of master netting arrangements, collateral agreements and other credit enhancements on the Company's exposure to credit risk is disclosed in note 8.

	Gross amounts [1]	Amounts offset in the condensed statement of financial position [2]	Net amounts presented in the condensed statement of financial position	Amounts not offset in the condensed statement of financial position [3] [4] [5] [6]		Net exposure[7]
				Financial instruments	Cash collateral	
	€000	€000	€000	€000	€000	€000
30 June 2015						
Assets						
Financial assets classified as held for trading:						
Derivatives	763,309	-	763,309	(525,999)	(228,894)	8,416
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	496,355	(135,515)	360,840	(88,224)	-	272,616
TOTAL	1,259,664	(135,515)	1,124,149	(614,223)	(228,894)	281,032
Liabilities						
Financial liabilities classified as held for trading:						
Derivatives	602,769	-	602,769	(525,999)	(46,154)	30,616
Financial liabilities designated at fair value through profit or loss:						
Issued Structured Notes	7,208,300	(135,515)	7,072,785	(88,224)	-	6,984,561
TOTAL	7,811,069	(135,515)	7,675,554	(614,223)	(46,154)	7,015,177

(1) Amounts include €8,416,000 of financial assets classified as held for trading – derivatives, €272,616,000 of financial assets designated at fair value through profit or loss - prepaid equity securities contracts, €17,967,000 of financial liabilities classified as held for trading - derivatives and €5,550,293,000 of financial liabilities designated at fair value through profit or loss - issued Structured Notes which are either not subject to master netting agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.

(2) Amounts are reported on a net basis in the condensed statement of financial position when there is a legally enforceable master netting arrangement that provides for the current right of offset and there is an intention to either settle on a net basis or to realise the asset and liability simultaneously.

(3) Amounts relate to master netting 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.

(4) The cash collateral is recognised in the condensed statement of financial position within trade payables and trade receivables.

(5) Certain trade receivables and payables that are not presented net within the condensed statement of financial position have legally enforceable master netting agreements or similar arrangements in place which would allow for an additional €72,870,000 to be offset in the event of default.

(6) Amounts relate to intercompany cross-product master netting arrangements, which include those amounts where the Morgan Stanley Group undertaking from which the Company purchased the prepaid equity securities contracts is also the holder of the issued Structured Notes. These arrangements have been determined by the Company to be legally enforceable but do not meet all the criteria required for net presentation within the condensed statement of financial position.

(7) Of the residual net exposure, intercompany cross-product legally enforceable netting arrangements are in place which would allow for an additional €40,000 to be offset in the ordinary course of business and/or in the event of default.

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

	Gross amounts [1]	Amounts offset in the condensed statement of financial position [2]	Net amounts presented in the condensed statement of financial position	Amounts not offset in the condensed statement of financial position [3] [4] [5] [6]		Net exposure[7]
				Financial instruments	Cash collateral	
	€000	€000	€000	€000	€000	€000
31 December 2014						
Assets						
Financial assets classified as held for trading:						
Derivatives	527,856	-	527,856	(483,856)	(43,839)	161
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	343,974	(90,660)	253,314	(84,475)	-	168,839
TOTAL	871,830	(90,660)	781,170	(568,331)	(43,839)	169,000
Liabilities						
Financial assets classified as held for trading:						
Derivatives	503,487	-	503,487	(483,856)	-	19,631
Financial liabilities designated at fair value through profit or loss:						
Issued Structured Notes	6,136,920	(90,660)	6,046,260	(84,475)	-	5,961,785
TOTAL	6,640,407	(90,660)	6,549,747	(568,331)	-	5,981,416

(1) Amounts include €161,000 of financial assets classified as held for trading – derivatives, €168,839,000 of financial assets designated at fair value through profit or loss - prepaid equity securities contracts, €4,875,264,000 of financial liabilities designated at fair value through profit or loss - issued Structured Notes which are either not subject to master netting agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.

(2) Amounts are reported on a net basis in the condensed statement of financial position when there is a legally enforceable master netting arrangement that provides for the current right of offset and there is an intention to either settle on a net basis or to realise the asset and liability simultaneously.

(3) Amounts relate to master netting 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.

(4) The cash collateral is recognised in the condensed statement of financial position within trade payables.

(5) Certain trade receivables and payables that are not presented net within the condensed statement of financial position have legally enforceable master netting agreements or similar arrangements in place which would allow for an additional €22,237,000 to be offset in the event of default.

(6) Amounts relate to intercompany cross-product master netting arrangements, which include those amounts where the Morgan Stanley Group undertaking from which the Company purchased the prepaid equity securities contracts is also the holder of the issued Structured Notes. These arrangements have been determined by the Company to be legally enforceable but do not meet all the criteria required for net presentation within the condensed statement of financial position.

(7) Of the residual net exposure, intercompany cross-product legally enforceable netting arrangements are in place which would allow for an additional €nil to be offset in the ordinary course of business and/or in the event of default.

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 2015	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
Financial assets classified as held for trading:				
Derivatives	-	699,842	63,467	763,309
Financial assets designated at fair value through profit or loss:				
Prepaid equity securities contracts	-	346,510	14,330	360,840
Loans	-	6,584,436	-	6,584,436
Total financial assets measured at fair value	-	7,630,788	77,797	7,708,585
Financial liabilities classified as held for trading:				
Derivatives	-	565,656	37,113	602,769
Financial liabilities designated at fair value through profit or loss:				
Certificates and warrants	-	3,067,284	-	3,067,284
Notes	-	3,677,148	328,353	4,005,501
Total financial liabilities measured at fair value	-	7,310,088	365,466	7,675,554

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

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

31 December 2014	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
Financial assets classified as held for trading:				
Derivatives	-	456,134	71,722	527,856
Financial assets designated at fair value through profit or loss:				
Prepaid equity securities contracts	-	251,342	1,972	253,314
Loans	-	5,789,171	-	5,789,171
Total financial assets measured at fair value	-	6,496,647	73,694	6,570,341
Financial liabilities classified as held for trading:				
Derivatives	-	462,770	40,717	503,487
Financial liabilities designated at fair value through profit or loss:				
Certificates and warrants	-	2,153,606	-	2,153,606
Notes	-	3,481,620	411,034	3,892,654
Total financial liabilities measured at fair value	-	6,097,966	451,751	6,549,747

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 financial instruments recognised at fair value on a recurring basis is as follows:

Financial assets and financial liabilities classified as held for trading

- *Derivatives*

  OTC derivative contracts. OTC derivative contracts include forward, swap and option contracts related to interest rates, foreign currencies, equity prices or commodity prices.

  Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be either observed or modelled using a series of techniques, and model inputs from comparable benchmarks, including closed-form analytic formulas, such as the Black-Scholes option-pricing model, and simulation models or a combination thereof. Many pricing models do not entail material subjectivity because the methodologies employed do not necessitate significant judgement, and the pricing inputs are observed from actively quoted markets, as is the case for generic interest rate swaps, certain 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. A substantial majority of OTC derivative products valued using pricing models fall into this category and are categorised in Level 2 of the fair value hierarchy.

  Other derivative products, including complex products that have become illiquid, require more judgement in the implementation of the valuation technique applied due to the complexity of the valuation assumptions and the reduced observability of inputs. In these instances where significant inputs are unobservable, they are categorised in Level 3 of the fair value hierarchy.

Financial assets and financial liabilities designated at fair value through profit or loss

- *Prepaid equity securities contracts and issued Structured Notes*

  The Company issues Structured Notes and purchases prepaid equity securities contracts that have coupons or repayment terms linked to the performance of debt or equity securities, indices, currencies or commodities. Fair value of Structured Notes and prepaid equity securities contracts is determined using valuation models for the derivative and debt portions of the notes. 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 and commodity or equity prices. Independent, external and traded prices for the notes are considered as well. The impact of own credit spreads is also included based on observed secondary bond market spreads. Most prepaid equity securities contracts are categorised in Level 2 of the fair value hierarchy. In instances where significant inputs are unobservable, they are categorised in Level 3 of the fair value hierarchy. Further detail in relation to the issued Structured Notes is included below.

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*

  Notes. Notes give a risk exposure tailored to market views and risk appetite and mainly provide exposure to the underlying single name equity, equity index or portfolio of equities. Typically, the redemption payment of the note is significantly dependent on the value of embedded equity derivatives. In general, call and put options, digital options, straddles and callability features are combined to create a bespoke coupon rate or redemption payoff for each note issuance, with risk exposure to one or more equity underlyings or indices. The Company values the embedded derivatives using market standard models, which are assessed for appropriateness at least annually. Model inputs, such as equity forward rates, equity implied volatility and equity correlations, are marked such that the fair value of the derivatives match prices observable in the inter-dealer markets. In arriving at fair value, the Company uses discount rates appropriate to the funding rates specific to the instrument. In general, this results in overnight rates being used to discount the Company assets and liabilities. In addition, since the notes bear Morgan Stanley's credit risk, the Company considers this when assessing the fair value of the notes, by adjusting the discount rates to reflect the prevailing credit spread at the reporting date.

  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. Most notes are categorised in Level 2 of the fair value hierarchy. In instances where significant inputs are unobservable, they are categorised in Level 3 of the fair value hierarchy.

  Certificates and warrants. Certificates and warrants provide exposure to the underlying single name equity, equity index or portfolio of equities. They therefore provide risk exposure to the value of the underlying position and to the dividends paid or received. The Company values the underlying position using observable data where available (for instance, exchange closing prices), or alternatively using information from third parties (for example net asset values obtained from fund administrators) or using Morgan Stanley's own valuation assumptions if required. The Company estimates future dividend payments using a variety of available data, including market prices for forwards and futures, analytical review and estimates of future tax rates, incorporating the Company's own assumptions where required. The certificates and warrants can typically be redeemed at short notice and so the certificates and warrants provide minimal exposure to the credit risk of Morgan Stanley. The certificates and warrants are categorised in Level 2 of the fair value hierarchy.

- *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. The loans are categorised in Level 2 of the fair value hierarchy.

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.

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

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 2015 and year ended 31 December 2014. Level 3 instruments may be hedged with instruments classified in Level 2. As a result, the realised and unrealised gains/(losses) for assets and liabilities within the Level 3 category presented in the tables below 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.

Additionally, both observable and unobservable inputs may be used to determine the fair value of positions that the Company has classified within the Level 3 category. As a result, the unrealised gains/(losses) during the period for assets and liabilities within the Level 3 category presented in the tables below may include changes in fair value during the period that were attributable to both observable (e.g. changes in market interest rates) and unobservable (e.g. changes in unobservable long-dated volatilities) inputs.

The Morgan Stanley Group operates a number of intra-group policies to ensure that, where possible, revenues and related costs are matched. Where the trading positions included in the tables below are risk managed using financial instruments held by other Morgan Stanley Group undertakings, these policies potentially result in the recognition of offsetting gains or losses in the Company.

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 2015

	Balance at 1 January 2015 €000	Total gains or (losses) recognised in condensed statement of comprehensive income [(1)] €000	Purchases €000	Issuances €000	Settlements €000	Net transfers in and/ or out of Level 3 [(2)] €000	Balance at 30 June 2015 €000	Unrealised gains or (losses) for level 3 assets /(liabilities) outstanding as at 30 June 2015 [(3)] €000
Financial assets classified as held for trading:								
Net derivative contracts: [(4)]								
Equity	31,005	(2,542)	-	-	(8,240)	6,131	26,354	1,017
Financial assets designated at fair value through profit or loss:								
Prepaid equity securities contracts	1,972	955	13,200	-	(1,545)	(252)	14,330	(634)
Total financial assets measured at fair value	32,977	(1,587)	13,200	-	(9,785)	5,879	40,684	383
Financial liabilities designated at fair value through profit or loss:								
Notes	(411,034)	9,052	-	(74,549)	63,739	84,439	(328,353)	(2,118)
Total financial liabilities measured at fair value	(411,034)	9,052	-	(74,549)	63,739	84,439	(328,353)	(2,118)

(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 annual financial statements for the year ended 31 December 2014.

(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 2015 related to assets and liabilities still outstanding at 30 June 2015. 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 annual financial statements for the year ended 31 December 2014.

(4) Net derivative contracts represent Financial assets classified as held for trading – derivative contracts net of Financial liabilities classified as held for trading – derivative contracts.

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 six months ended 30 June 2015, the Company reclassified approximately €790,000 of net derivative contracts, €973,000 of prepaid equity securities contracts and €8,365,000 of issued Structured Notes from Level 2 to Level 3. The reclassifications were due to a reduction in the volume of recently executed transactions or a lack of available broker quotes for these instruments, such that certain significant inputs became unobservable.

During the six months ended 30 June 2015, the Company reclassified approximately €6,921,000 of net derivative contracts, €1,225,000 of prepaid equity securities contracts and €92,804,000 of issued Structured Notes from Level 3 to Level 2. The reclassifications were due to the availability of market quotations for these or comparable instruments, or available broker quotes, or consensus data such that certain significant inputs became observable.

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)

31 December 2014

	Balance at 1 January 2014	Total gains or (losses) recognised in condensed statement of comprehensive income (1)	Purchases	Issuances	Settlements	Net transfers in and/ or out of Level 3 (2)	Balance at 31 December 2014	Unrealised gains or (losses) for level 3 assets /(liabilities) outstanding as at 31 December 2014 (3)
	€000	€000	€000	€000	€000	€000	€000	€000
Financial assets classified as held for trading:								
Net derivative contracts: (4)								
Equity	91,815	(19,577)	-	-	(39,885)	(1,348)	31,005	(16,810)
Financial assets designated at fair value through profit or loss:								
Prepaid equity securities contracts	26,697	461	962	-	(23,239)	(2,909)	1,972	(153)
Total financial assets measured at fair value	118,512	(19,116)	962	-	(63,124)	(4,257)	32,977	(16,963)
Financial liabilities designated at fair value through profit or loss:								
Notes	(421,704)	8,334	-	(153,682)	105,346	50,672	(411,034)	(121)
Total financial liabilities measured at fair value	(421,704)	8,334	-	(153,682)	105,346	50,672	(411,034)	(121)

(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 annual financial statements for the year ended 31 December 2014.

(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 year ended 31 December 2014 related to assets and liabilities still outstanding at 31 December 2014. 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 annual financial statements for the year ended 31 December 2014.

(4) Net derivative contracts represent Financial assets classified as held for trading – derivative contracts net of Financial liabilities classified as held for trading – derivative contracts.

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 year ended 31 December 2014, the Company reclassified approximately €312,000 of net derivative contracts and €40,214,000 of issued Structured Notes from Level 2 to Level 3. The reclassifications were due to a reduction in the volume of recently executed transactions or a lack of available broker quotes for these instruments, such that certain significant inputs became unobservable.

During the year ended 31 December 2014, the Company reclassified approximately €1,660,000 of net derivative contracts, €2,909,000 of prepaid equity securities contracts and €90,886,000 of issued Structured Notes from Level 3 to Level 2. The reclassifications were due to the availability of market quotations for these or comparable instruments, or available broker quotes, or consensus data such that certain significant inputs became observable.

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

The disclosures below 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 tables below provide information on the valuation techniques, significant unobservable inputs and their ranges and averages for each major category of assets and liabilities measured at fair value on a recurring basis with a significant Level 3 balance.

   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.

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)

30 June 2015	**Fair Value €000**	**Valuation technique(s)**	**Significant unobservable input(s)/ Sensitivity of the fair value to changes in the unobservable inputs**	**Range** [2]	**Averages** [3]
ASSETS					
Financial assets classified as held for trading:					
Net derivative contracts: [1]					
Equity [4]	26,354	Option model	At the money volatility / (B) (C)	6% to 54%	25%
			Volatility skew / (B) (C)	-1% to 0%	-1%
			Equity - Equity correlation / (A) (C)	41% to 81%	57%
			Equity - Foreign exchange correlation / (A) (C)	-85% to 30%	9%
		Net asset value ("NAV")	NAV value / (A) (C)	100%	100%
Financial assets designated at fair value through profit or loss:					
Prepaid equity securities contracts	14,330	Option model	At the money volatility / (B) (C)	7% to 29%	27%
			Volatility skew / (B) (C)	-3% to 0%	0%
LIABILITIES					
Financial liabilities designated at fair value through profit or loss:					
Notes	(328,353)	Option model	At the money volatility / (B) (C)	21% to 33%	32%
			Volatility skew / (B) (C)	-1% to 0%	-1%
			Equity - Equity correlation / (A) (C)	32% to 90%	65%
			Equity - Foreign exchange correlation / (B) (C)	-70% to 50%	-12%
		NAV	NAV value / (A) (C)	100%	100%

(1) Net derivative contracts represent financial assets classified as held for trading – derivative contracts net of financial liabilities classified as held for trading – derivative contracts.

(2) The ranges of significant unobservable inputs are represented in percentages.

(3) Amounts represent weighted averages which are calculated by weighting each input by the fair value of the respective financial instruments except for derivative instruments where inputs are weighted by risk.

(4) Includes derivative contracts with multiple risks (i.e. hybrid products)

Sensitivity of the fair value to changes in the unobservable inputs:

(A) Significant increase/ (decrease) in the unobservable input in isolation would result in a significantly higher/ (lower) fair value measurement.
(B) Significant increase/ (decrease) in the unobservable input in isolation would result in a significantly lower/ (higher) fair value measurement.
(C) There are no predictable relationships between the significant unobservable inputs.

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 2014	Fair Value €000	Valuation technique(s)	Significant unobservable input(s)/ Sensitivity of the fair value to changes in the unobservable inputs	Range [2]	Averages [3]
ASSETS					
Financial assets classified as held for trading:					
Net derivative contracts: [1]					
Equity [4]	31,005	Option model	At the money volatility / (B) (C)	20% to 39%	27%
			Volatility skew / (B) (C)	-1% to 1%	-1%
			Equity - Equity correlation / (B) (C)	40% to 90%	60%
			Equity - Foreign exchange correlation / (B) (C)	-70% to 56%	-27%
		NAV	NAV value / (A) (C)	100%	100%
Financial assets designated at fair value through profit or loss:					
Prepaid equity securities contracts	1,972	Option model	At the money volatility / (A) (C)	15% to 31%	20%
			Volatility skew / (A) (C)	-1% to 0%	0%
LIABILITIES					
Financial liabilities designated at fair value through profit or loss:					
Notes	(411,034)	Option model	At the money volatility / (B) (C)	15% to 39%	27%
			Volatility skew / (B) (C)	-1% to 1%	-1%
			Equity - Equity correlation / (B) (C)	40% to 90%	60%
			Equity - Foreign exchange correlation / (B) (C)	-70% to 56%	-27%
		NAV	NAV value / (A) (C)	100%	100%

(1) Net derivative contracts represent financial assets classified as held for trading – derivative contracts net of financial liabilities classified as held for trading – derivative contracts.

(2) The ranges of significant unobservable inputs are represented in percentages.

(3) Amounts represent weighted averages which are calculated by weighting each input by the fair value of the respective financial instruments except for derivative instruments where inputs are weighted by risk.

(4) Includes derivative contracts with multiple risks (i.e. hybrid products)

Sensitivity of the fair value to changes in the unobservable inputs:

(A) Significant increase/ (decrease) in the unobservable input in isolation would result in a significantly higher/ (lower) fair value measurement.
(B) Significant increase/ (decrease) in the unobservable input in isolation would result in a significantly lower/ (higher) fair value measurement.
(C) There are no predictable relationships between the significant unobservable inputs.

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 provides a description of significant unobservable inputs included in the table above for all major categories of assets and liabilities:

- *Correlation* – a pricing input where the payoff is driven by more than one underlying risk. Correlation is a measure of the relationship between the movements of two variables (i.e. how the change in one variable influences a change in the other variable). The correlation ranges may be wide since any two underlying inputs may be highly correlated (either positively or negatively) or weakly correlated.
- *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 (e.g. the volatility of a particular underlying equity security may be significantly different from that of a particular underlying commodity index), 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. The implied volatility for an option with a strike price that is above or below the current price of an underlying asset will typically deviate from the implied volatility for an option with a strike price equal to the current price of that same underlying asset.
- *Funding spread* – the difference between the interbank funding rate and a specific bank funding rate. Embedded within this spread is the cost of the optionality for the client to put back certificates at any time to be repaid at par.

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

All financial instruments are valued in accordance with the techniques outlined in the fair value hierarchy. Some of these techniques, including those used to value instruments categorised in Level 3 of the fair value hierarchy, are dependent on unobservable parameters and the fair value for these financial instruments has been determined using parameters appropriate for the valuation methodology based on prevailing market evidence. It is recognised that the unobservable parameters could have a range of reasonably possible alternative values.

In estimating the change in fair value, to provide information about the variability of the fair value measurement, the unobservable parameters were varied to the extremes of the ranges of reasonably possible alternatives using statistical techniques, such as dispersion in comparable observable external inputs for similar asset classes, historic data or judgement if a statistical technique is not appropriate. Where a financial instrument has more than one unobservable parameter, the sensitivity analysis reflects the greatest reasonably possible increase or decrease to fair value by varying the assumptions individually. It is unlikely that all unobservable parameters would be concurrently at the extreme range of possible alternative assumptions and therefore the sensitivity shown below is likely to be greater than the actual uncertainty relating to the financial instruments.

The following tables present the sensitivity of the fair value of Level 3 financial assets and financial liabilities as at 30 June 2015 and 31 December 2014 to reasonably possible alternative assumptions, providing quantitative information on the potential variability of the fair value measurement.

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 tables present the sensitivity of the fair value of Level 3 financial assets and financial liabilities to reasonably possible alternative assumptions, providing quantitative information on the potential variability of the fair value measurement.

30 June 2015		**Effect of reasonably possible alternative assumptions**	
	Fair value	**Increase in fair value**	**Decrease in fair value**
	€000	**€000**	**€000**
Financial assets classified as held for trading:			
Net derivative contracts:[(1)]			
Equity	26,354	1,961	(2,679)
Financial assets designated at fair value through profit or loss:			
Prepaid equity securities contracts	14,330	238	(91)
Financial liabilities designated at fair value through profit or loss:			
Notes	(328,353)	(2,199)	2,770

(1) Net derivative contracts represent financial assets classified as held for trading – derivative contracts net of financial liabilities classified as held for trading – derivative contracts.

31 December 2014		**Effect of reasonably possible alternative assumptions**	
	Fair value	**Increase in fair value**	**Decrease in fair value**
	€000	**€000**	**€000**
Financial assets classified as held for trading:			
Net derivative contracts:[(1)]			
Equity	31,005	425	(2,271)
Financial assets designated at fair value through profit or loss:			
Prepaid equity securities contracts	1,972	2	(90)
Financial liabilities designated at fair value through profit or loss:			
Notes	(411,034)	(427)	2,361

(1) Net derivative contracts represent financial assets classified as held for trading – derivative contracts net of financial liabilities classified as held for trading – derivative contracts.

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

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.

REVIEW REPORT TO THE SHAREHOLDERS OF MORGAN STANLEY B.V.

Introduction

We have reviewed the accompanying interim financial report of Morgan Stanley B.V., Amsterdam, which comprises the condensed statement of financial position as at 30 June 2015, the condensed statement of comprehensive income, condensed statement of changes in equity, and condensed statement of cash flows for the period of six months ended 30 June 2015, and the notes. Management is responsible for the preparation and presentation of this Company's condensed interim financial report in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope

We conducted our review in accordance with Dutch law including standard 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of an interim financial report 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 auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial report as at 30 June 2015 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Amsterdam,
Deloitte Accountants B.V.

M. van Luijk

Deloitte Accountants B.V. is registered with the Trade Register of the Chamber of Commerce and Industry in Rotterdam number 24362853.

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