Registered Number: 02068222

Registered Office:
25 Cabot Square
Canary Wharf
London E14 4QA

Morgan Stanley & Co. International plc

Half-yearly financial report

30 June 2021

CONTENTS

Table of Contents

MORGAN STANLEY & CO. INTERNATIONAL plc

INTERIM MANAGEMENT REPORT

The Directors present their Interim Management Report and the condensed consolidated financial statements ("Interim Financial Statements") of Morgan Stanley & Co. International plc (the "Company") and all of its subsidiary undertakings (together the "Group"), for the six month period ended 30 June 2021.

These Interim Financial Statements should be read in conjunction with, and as an update to the Group's 31 December 2020 Report and Financial Statements.

The Interim Management Report contains certain forward-looking statements. These statements are made by the Directors in good faith, based on the information available at the time of their approval of this report, and should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information. In particular, the effect on the Group of the Coronavirus disease ("COVID-19") and the related global economic crisis continues to be a key area of principal risk and uncertainty.

Group and Company overview

The Company, governance, supervision and regulation

The Company operates within the financial services industry and, as such, is subject to extensive supervision and regulation. In certain circumstances, this supervision may be applied to Morgan Stanley International Limited ("MSI"), an intermediate parent undertaking and the ultimate United Kingdom ("UK") parent undertaking. The Company also shares elements of its Corporate Governance with MSI. Throughout the Interim Management Report, the Directors refer to policies, procedures and practices which the Company and/or the Group share with MSI and the "MSI Group" (MSI together with all of its subsidiary undertakings).

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

Principal activity

The principal activity of the Group is the provision of financial services to a global client base consisting of corporations, governments and financial institutions. There have not been any changes in the Group's principal activity during the period and no significant change in the Group's principal activity is expected.

The Company conducts business from its headquarters in London, UK and operates branches in the Dubai International Financial Centre, France, the Qatar Financial Centre, South Korea and Switzerland. The French branch was established in April 2021 as a "third country" branch in the European Union ("EU").

Supervision and Regulation

As a UK-based financial services provider, the Company is authorised by the Prudential Regulation Authority ("PRA") as an Investment Firm and is regulated by the PRA and the Financial Conduct Authority ("FCA"). In addition, the Company is a provisionally-registered swap dealer and is regulated by the United States Commodity Futures Trading Commission ("CFTC") and expected to be registered as a security-based swap dealer ("SBSD") with the Securities and Exchange Commission ("SEC") when new SBSD rules become effective in October 2021.

Risk factors and business environment

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

Risk factors

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

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

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

The primary risk areas for the Group include Market, Credit, Operational, and Liquidity and Funding risks. A description of the principal risks and how these risks are managed within the Group is outlined in detail within the relevant risk's section of 'Risk management'.

The key risk factors impacting the Group are outlined in the 2020 Annual Report and Financial Statements, with the exception of the updates below.

INTERIM MANAGEMENT REPORT

Business environment

During 2021, the Group has continued to be impacted by factors in the global environment in which it operates. In particular, the COVID-19 pandemic introduced risks and uncertainties that may adversely affect the results of operations of the Group. Another factor which the Group continues to monitor is the Group's transition to alternative reference rates.

COVID-19

Since its onset, the COVID-19 pandemic has had a significant impact on global economic conditions and the environment in which the businesses operate, and it may continue to do so in the future. Though many employees have been working from home for some time, the Group is preparing for employees to return to work in the Group's offices in certain locations. The Group continues to be fully operational, with the majority of employees working from home. Recognising that local conditions vary for offices around the world and that the trajectory of the virus continues to be uncertain, the Group may adjust its plans for employees returning to offices as deemed necessary.

Planned replacement of London Interbank Offered Rate and replacement or reform of other interest rate benchmarks (collectively, the "IBORs")

The Morgan Stanley Group continues to implement its Morgan Stanley-wide transition plan for IBOR exposures. The Group's primary IBOR exposures arise on its derivative contracts with clients and other counterparties. As at 30 June 2021, the substantial majority of the Group's external derivative IBOR exposures are centrally cleared, have adhered to updated fallback provisions which are designed to facilitate the transition to alternative reference rates, or have already been transitioned to alternative reference rates. The Group's IBOR exposures on external non-derivative financial assets and financial liabilities are not considered to be significant. See also 'Planned replacement of LIBOR and replacement or reform of other interest rate benchmarks', note 2.

DocuSign Envelope ID: 06B80A33-A7E0-49DA-BA03-5DCB7D499FC5

Table of contents

INTERIM MANAGEMENT REPORT

Overview of financial performance and condition

Financial performance indicators

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

Key performance indicators

Return on shareholders' equity (Group)

in $ millions	At 30 June 2021	2020
Ordinary shareholders' equity at beginning of the period	21,021	20,561
Profit after tax	923	592
Return on shareholders' equity - annualised	8.8%	5.8%

Leverage ratio (Company)

in $ millions	At 30 June 2021	At 31 December 2020
Leverage exposure	502,756	474,169
Tier 1 capital	19,919	19,606
Leverage ratio	3.96%	4.13%

Tier 1 capital ratio (Company)

in $ millions	At 30 June 2021	At 31 December 2020
Risk-weighted assets ("RWAs")	145,032	155,535
Tier 1 capital	19,919	19,606
Tier 1 capital ratio	13.7%	12.6%

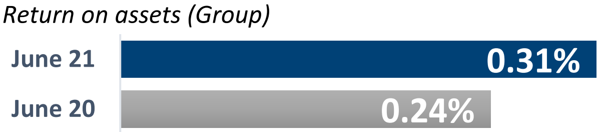
Liquidity coverage ratio[1] (Company)

in $ millions	At 30 June 2021	At 31 December 2020
Liquidity buffer - High quality liquid assets	39,286	38,193
Liquidity coverage ratio	191%	201%

1. Calculated as the average of the preceding twelve months

Other performance indicator

Return on assets (Group)



in $ millions	At 30 June 2021	2020
Return on assets (Group)		
Total assets at beginning of the year	597,789	502,508
Profit after tax	923	592
Return on assets - annualised	0.31%	0.24%

Movements in Key performance and other performance indicators are primarily explained by movements in the financial statement components in the following 'Overview of 2021 financial results', 'Capital resources' and the 'Liquidity and funding management' sections.

INTERIM MANAGEMENT REPORT

Overview of 2021 financial results

Income statement

Set out below is an overview of the Group's financial results for the periods ended 30 June 2021 ("the period") and 30 June 2020 ("the prior year period").

in $ millions	Six months ended 2021	2020	Increase/ (decrease)	Variance %
Investment banking	939	596	343	58%
Sales and trading	3,169	3,024	145	5%
Other	30	31	(1)	-3%
Net revenue	**4,138**	**3,651**	**487**	**13%**
Staff related expenses	1,213	1,064	149	14%
Non-staff related expenses	1,673	1,463	210	14%
Operating expenses	**2,886**	**2,527**	**359**	**14%**
Profit before tax	**1,252**	**1,124**	**128**	**11%**
Income tax expense	329	532	(203)	-38%
Profit after tax	**923**	**592**	**331**	**56%**

The condensed consolidated income statement for the period is set out on page 16 and the geographical split is in 'Segment reporting' note 13.

The Group reported a 56% increase in profit after tax for the period, driven by higher levels of equity product trading activity and higher capital markets activity. The Europe, Middle East, and Africa ("EMEA") equity product revenues in the prior year period were negatively impacted by lower company dividends received on sales and trading positions. This returned to more normal levels in the current period. This was partially offset by a reduction in fixed income product revenues as those markets normalised compared to the prior year period. The Group also benefited from a significantly lower tax expense with the prior year period having been negatively impacted by a specific tax item. Allowances for credit losses for the Group were immaterial in both periods.

The increased activity levels referred to above were primarily seen in the EMEA and Asia geographic segments of the Group's business, resulting in an increase in their contribution to the Group's profit before tax to 57% (prior year period 48%) and 35% (prior year period 30%), respectively.

For a description of the activities included in the line items in the Income Statement table above, refer to 'Overview of 2020 financial results – Income statement' in the Strategic Report to the 2020 Annual Report and Financial Statements.

Net revenues

Investment banking

Investment banking activity revenue increased 58%, reflecting higher equity and fixed income underwriting volumes and higher advisory revenues primarily due to an increase in the number of completed transactions.

Sales and trading

Sales and trading income is comprised of commission income of $685 million (30 June 2020: $610 million) and net trading income of $2,484 million (30 June 2020: $2,414 million).

Sales and trading commission income increased 12%, primarily in equity products, particularly within the Asia segment of the Group's business, from higher client activity.

Sales and trading net trading income, which largely derives from client activity, is comprised of 'Net trading income', 'Net income from other financial instruments held at fair value' and 'Net interest expense', as set out in the condensed consolidated income statement on page 16.

Sales and trading net trading income increased by 3%, reflecting an increase from equity products partially offset by a decrease from fixed income products.

- The equity product revenues increased mainly in the EMEA and Asia Segments from higher client activity, and in EMEA, a recovery in corporate dividend levels.
- The decrease in fixed income product revenues was primarily as a result of tighter bid-offer spreads and lower client activity across product types, primarily within the EMEA segment.
- Within net trading income, the Group benefitted from a decrease in 'Net interest expense' as a result of decreased interest rates following the emergence of COVID-19 in the first quarter of 2020.

Operating expenses

Staff-related expenses

Staff-related expenses increased by 14% from $1,064 million to $1,213 million for the period. The increase in staff-related expenses was primarily driven by an increase in the mark-to-market on deferred equity compensation primarily due to the increase in the Morgan Stanley share price during the period.

INTERIM MANAGEMENT REPORT

Non-staff related expenses

Non-staff related expenses increased by 14% from $1,463 million to $1,673 million. This increase reflects an increase in volume-related expenses including brokerage fees and transaction taxes, from increased client activity primarily in the Asia region. Refer to 'Operating expenses' note 6 for further detail.

Income tax expense

The Group's tax expense for the period was $329 million, compared to $532 million for the prior year period. This represents an effective tax rate ("ETR") of 26.3% (30 June 2020: 47.3%), compared to the average standard rate of UK corporation tax (inclusive of the UK Banking surcharge) of 27% (30 June 2020: 27%). The higher ETR in the prior year period is primarily due to a prior year period specific $212 million tax expense, resulting in an increase to prior year period ETR of 18.9%. This was driven by remeasurement of provisions in relation to uncertain tax positions, principally following a Dutch Court judgement in relation to an ongoing matter.

Balance sheet

in $ millions	30 June 2021	31 December 2020 (audited)	Increase/ (decrease)	Variance %
Cash and short term deposits	31,498	24,934	6,564	26%
Trading financial assets	341,484	375,009	(33,525)	-9%
Secured financing	95,542	113,797	(18,255)	-16%
Trade and other receivables	87,987	83,143	4,844	6%
Other assets	717	906	(189)	-21%
Total Assets	**557,228**	**597,789**	**(40,561)**	**-7%**
Trading financial liabilities	294,529	340,392	(45,863)	-13%
Secured borrowing	91,102	88,350	2,752	3%
Trade and other payables	96,108	92,443	3,665	4%
Debt and other borrowings	52,927	54,928	(2,001)	-4%
Other liabilities	604	655	(51)	-8%
Total Liabilities	**535,270**	**576,768**	**(41,498)**	**-7%**
Total Equity	**21,958**	**21,021**	**937**	**4%**

Assets and liabilities

The decrease in 'Trading financial assets' and 'Trading financial liabilities' was primarily driven by derivatives, as a result of fair value movements caused by interest rates increasing in the period across most major markets, and by foreign exchange rates as the USD strengthened against major currencies including the Euro. Partially offsetting the decrease in derivative assets noted above, corporate equities increased largely due to new activity on the Company's French branch.

The increase in 'Cash and short-term deposits' is mainly due to an increase in cash held with central banks as part of the Group's liquidity reserve. Linked to this is a decrease in 'Secured financing' assets due to a decrease in repurchase agreements previously held for the liquidity reserve. A decrease in secured financing provided to another Morgan Stanley group entity is also driving the decrease in 'Secured financing' assets.

The increases in 'Trade and other receivables' and 'Trade and other payables' are driven by an increase in Prime Brokerage receivable and payable balances, partially offset by a reduction in derivative collateral pledged and received due to a decrease in derivative assets and liabilities.

Equity

Total Equity increased by $937 million, primarily reflecting profit after tax of $923 million.

No dividends were paid during the period ended 30 June 2021 (30 June 2020: $119 million).

Liquidity and capital resource management and regulation

The Company views the management of capital and liquidity as an important source of financial strength and manages its resources based upon, among other things, business opportunities, risks, availability and rates of return together with internal policies, regulatory requirements and rating agency guidelines.

Further information is available in the Pillar 3 Regulatory Disclosures Report of the MSI Group, available at https://www.morganstanley.com/about-us-ir/pillar-uk. The MSI Group's Pillar 3 disclosure includes specific disclosure of the Company as a significant subsidiary.

Capital management

Regulatory capital and leverage requirements

As at 30 June 2021 the Company's Total Capital Requirement ("TCR") was $16.5 billion, equivalent to 11.4% of RWAs.

The Company's capital is monitored on an ongoing basis to ensure compliance with these requirements. The Company complied with all of its capital requirements throughout the period.

INTERIM MANAGEMENT REPORT

Capital resources

Set out below are details of the Company's Capital Resources, as at 30 June 2021 and 31 December 2020:

$ millions	30 June 2021	31 December 2020
Balance sheet equity	22,104	21,152
Regulatory adjustments	(2,185)	(1,546)
Tier 1 Capital	19,919	19,606
Of which		
Common Equity Tier 1	*16,419*	*16,106*
Additional Tier 1	*3,500*	*3,500*
Tier 2 Capital	4,480	4,975
Total Capital Resources	24,399	24,581
RWAs	145,032	155,535
CET1 Ratio	11.3%	10.4%
Tier 1 Capital Ratio	13.7%	12.6%
Total Capital Ratio	16.8%	15.8%

RWAs decreased by $10,503 million over the period, primarily reflecting lower market risk measures as prior year elevated market volatility moved out of the one year time series window, and to reduced equity risk. In addition, concentration risk RWA decreased, due to reduced affiliate exposures and an increase in eligible capital.

Leverage ratio

The Company's leverage ratio is detailed in the table below.

in $ millions	30 June 2021	31 December 2020
Tier 1 Capital	19,919	19,606
Leverage Exposure	502,756	474,169
Leverage Ratio	3.96%	4.13%

Leverage exposure increased over the period, primarily due to higher client activity and balances. The Company will be subject to a binding leverage ratio of 3% from 1 January 2022 as part of the UK's implementation of the outstanding prudential standards included in the EU's amendment of the Capital Requirements Regulation ("CRR II").

Liquidity and funding management

Regulatory liquidity requirements

The Company complied with all liquidity requirements during the period.

$ millions	30 June 2021	31 December 2020
High quality liquid assets ("HQLA")	39,286	38,193
Liquidity coverage ratio[1]	191%	201%

1. Calculated as the average of the preceding twelve months

The Company manages HQLA to exceed Pillar 1 and Pillar 2 requirements. HQLA increased during the period as the Pillar 1 requirement increased. As Pillar 2 is a fixed requirement, the minimum LCR % is variable.

Credit ratings

At 30 June 2021, the Company's senior unsecured ratings are unchanged from 31 December 2020.

Collateral impact of a downgrade

As at 30 June 2021, the future potential collateral amounts and termination payments that could be called or required by counterparties or exchanges and clearing organisations in the event of one-notch or two-notch downgrade scenarios (from the lower of Moody's or S&P ratings) based on the relevant contractual downgrade triggers, were $77 million and an incremental $127 million, respectively.

Regulatory developments

Regulatory developments are in line with those outlined in the 'Regulatory developments' section of the Strategic report to the 2020 Annual Report and Financial Statements'. An additional development of significant importance is:

Temporary Transitional Power ("TTP")

Following the end of the transition period of the UK's withdrawal from the EU on 31 December 2020, Her Majesty's Treasury decided to retain the regulators' TTP, which was introduced through the Financial Services and Markets Act 2000 (Amendment) (EU Exit) Regulations 2019.

The TTP will allow the Bank of England ("BOE"), the PRA and the FCA to phase-in changes to UK regulatory requirements so that firms can adjust to the UK's post-Transition Period regime in an orderly way.

The TTP, effective from 1 January 2021, is expected to end by 31 March 2022. During this period prudential regulatory rules as implemented by the EU will largely continue to apply in the UK in the same way as prior to 31 December 2020.

Risk management

Risk is an inherent part of the Group's business activity and effective risk management is vital to the Group's success. The Group has an established Risk Management Framework, which leverages the risk management policies and procedures of the MSI Group and Morgan Stanley Group to support the identification, monitoring, management and mitigation of the various types of risk involved in its business activities.

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

This section and note 14 'Financial risk management' provide detailed qualitative disclosures on the Group's risk strategy and appetite, risk management framework, and exposure to financial risks.

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

Market risk

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

The Group manages the market risk associated with its trading activities at both a division and an individual product level, and includes consideration of market risk at the legal entity level.

The Group uses the statistical technique known as Value at Risk ("VaR") as one of its tools to measure, monitor and review the market risk exposures of its trading portfolios. The Market Risk Department calculates and distributes daily VaR-based risk measures to various levels of management. The following table shows the Group's Management VaR at the total level, as well as the contribution from primary risk categories for the six month period ended 30 June 2021 and for the year ended 31 December 2020.

	95% / one-day VaR			
	for the six months ended 30 June 2021		for the year ended 31 December 2020	
in $ millions	**Period end**	**Average**	**Period end**	**Average**
Primary Risk Categories	22	29	39	27
Credit Portfolio[1]	8	8	12	9
Less diversification benefit[2]	(7)	(7)	(9)	(9)
Total Management VaR	**23**	**30**	**42**	**27**

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

The increase in average VaR is primarily driven by increased exposures in equities. Elevated 2020 period end VaR was mainly driven by a short term increase in equity exposures.

Credit risk

Credit risk management framework

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

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

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

INTERIM MANAGEMENT REPORT

Exposure to credit risk

Counterparty risk exposure

The table below shows the Group's maximum exposure for those financial assets the Group believes are subject to credit risk. The net credit exposure represents the credit exposure remaining after the effect of the credit enhancements. Exposure to other Morgan Stanley Group undertakings is included in this table.

	30 June 2021		
in $ millions	**Gross credit exposure (1)**	**Credit enhance-ments**	**Net credit exposure**
Financial instruments -			
Trading financial assets:			
Derivatives	233,520	(217,147)	16,373
Secured financing	95,542	(94,589)	953
Trade and other receivables	2,844	(2,478)	366
Unrecognised financial instruments			
Loan commitments	9	(2)	7
	331,915	(314,216)	17,699

	31 December 2020		
in $ millions	**Gross credit exposure (1)**	**Credit enhance-ments**	**Net credit exposure**
Financial instruments -			
Trading financial assets:			
Derivatives	284,748	(272,107)	12,641
Secured financing	113,797	(113,286)	511
Trade and other receivables	1,654	(1,386)	268
Unrecognised financial instruments			
Loan commitments	1,766	(459)	1,307
	401,965	(387,238)	14,727

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

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

Country and Sovereign risk exposure

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

For further information on how the Group identifies, monitors and manages country risk exposure refer to 'Credit risk – Country and sovereign risk exposure' in the 2020 Annual Report and Financial Statements.

The Group's sovereign exposures consist of financial instruments entered into with sovereign and local governments. Its non-sovereign exposures consist of exposures to primarily corporations and financial institutions. The table on the next page shows the Group's five largest non-UK country net exposures as at 30 June 2021. Exposure to other Morgan Stanley Group undertakings has been excluded from this table.

INTERIM MANAGEMENT REPORT

Five largest non-UK country risk net exposures:

in $ millions Country	Net inventory[1]	Net counterparty exposure[2]	Funded lending	Unfunded commitments	Exposure before hedges	Hedges[3]	Net exposure 30 June 2021[4]	Net exposure 31 December 2020
United States								
Sovereigns	(530)	23	-	-	(507)	1	(506)	
Non-sovereigns	253	5,985	25	-	6,263	3	6,266	
United States	(277)	6,008	25	-	5,756	4	5,760	4,691
Korea								
Sovereigns	406	143	-	-	549	(26)	523	
Non-sovereigns	43	1,431	-	-	1,474	-	1,474	
Total Korea	449	1,574	-	-	2,023	(26)	1,997	745
Japan								
Sovereigns	118	23	-	-	141	(42)	99	
Non-sovereigns	92	1,121	-	-	1,213	(74)	1,139	
Total Japan	210	1,144	-	-	1,354	(116)	1,238	1,936
China								
Sovereigns	(258)	24	-	-	(234)	(51)	(285)	
Non-sovereigns	603	668	-	-	1,271	(39)	1,232	
Total China	345	692	-	-	1,037	(90)	947	638
Germany								
Sovereigns	(337)	14	-	-	(323)	(362)	(685)	
Non-sovereigns	(248)	2,040	-	-	1,792	(165)	1,627	
Total Germany	(585)	2,054	-	-	1,469	(527)	942	1,671

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

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

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

(4) In addition, as at 30 June 2021, the Group had exposure to these countries for overnight deposits with banks of approximately $3,429 million.

Liquidity and funding risk

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

For a further discussion on the Group's liquidity risk, refer to 'Liquidity and funding risk' in the 2020 Annual Report and Financial Statements.

Operational risk

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

For further information on the Group's operational risk including conduct risk and legal, regulatory and compliance risk, refer to 'Operational risk' in the 2020 Annual Report and Financial Statements.

Climate risk

The integration of climate financial risk into Group risk management continued in the first half of 2021 across the areas of risk identification, scenario analysis, metrics and risk appetite. The Group is on track to materially embed its enhanced climate risk management framework by the end of 2021.

Goingconcern

Business risks associated with the uncertain market and economic conditions are being actively monitored and managed by the Group. Retaining sufficient capital and liquidity to withstand these market pressures remains central to the Group's strategy. In particular, the Group's capital and liquidity is deemed sufficient to exceed regulatory minimums under both a normal and in a stressed market environment, including the current and potential stresses of the COVID-19 pandemic for the foreseeable future. The existing and potential effects of COVID-19 on the business of the Group have been considered as part of the going concern analysis, including impact on operational capacity, access to liquidity and capital, contractual obligations, asset valuations and other critical accounting judgements and key sources of estimation uncertainty. Additionally, the specific impact of Brexit on the business of the Group has been considered. The Group has access to further Morgan Stanley Group capital and liquidity as required.

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

Approved by the Board and signed on its behalf by

DocuSigned by:
Kim Lazaroo
DE3D3BFF099E494...

K Lazaroo

Director

24 September 2021

MORGAN STANLEY & CO. INTERNATIONAL plc

DIRECTORS' RESPONSIBILITY STATEMENT

In accordance with Article 4(2)(c) of the Luxembourg Law of 11 January 2008, as amended, there are certain transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market (the "Transparency Law").

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

(a) the condensed set of interim financial statements, which has been prepared in accordance with International Accounting Standard ("IAS") 34 '*Interim Financial Reporting*' as adopted by the EU, gives a true and fair view of the assets, liabilities, financial position and result of the Group; and

(b) the interim management report includes a fair review of the information required by Article 4(4) of the Transparency Law, being an indication of the important events that have occurred during the period and their impact on the condensed consolidated interim financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year.

By order of the Board on 24 September 2021

DocuSigned by:
Kim Lazaroo
DE3D3BFF099E494...

K Lazaroo

Director

Board of Directors:

S Ball	(resigned 30 April 2021)
J Bloomer	(Chairman)
D O Cannon	
T Duhon	
A Kohli	
K Lazaroo	
S Orlacchio	
M C Phibbs	(resigned 31 March 2021)
M Richards	(appointed 8 July 2021)
D A Russell	
A V Sekhar	
P D Taylor	
N P Whyte	
C Woodman	

INDEPENDENT REVIEW REPORT TO MORGAN STANLEY & CO. INTERNATIONAL plc

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated statement of financial position, the condensed consolidated statement of cash flows and related notes 1 to 19. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Article 4 of the Luxembourg Transparency Law.

As disclosed in note 1, the annual financial statements of the group will be prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with the article 4 of the Luxembourg Transparency Law and in accordance with International Accounting Standard 34 '*Interim Financial Reporting*', as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 is not prepared, in all material respects, in accordance with the article 4 of the Luxembourg Transparency Law and in accordance with International Accounting Standard 34 '*Interim Financial Reporting*', as adopted by the EU.

Use of our report

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

DocuSigned by:
Deloitte LLP
B9969F665DC34C0...

Deloitte LLP
Statutory Auditor
London
24 September 2021

MORGAN STANLEY & CO. INTERNATIONAL plc

CONDENSED CONSOLIDATED INCOME STATEMENT
Six months ended 30 June 2021

in $ millions	Note	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)
Net trading income		2,708	2,540
Net income from other financial instruments held at fair value	3	(22)	233
Fee and commission income	4	1,654	1,237
Other revenue		6	1
Interest income	5	(199)	362
Interest expense	5	(9)	(722)
Net interest expense		(208)	(360)
Net revenue		4,138	3,651
Non-interest expenses:			
Operating expenses	6	(2,886)	(2,527)
PROFIT BEFORE TAX		1,252	1,124
Income tax expense	7	(329)	(532)
PROFIT FOR THE PERIOD		923	592

All operations were continuing in the current and prior periods.

The notes on pages 21 to 49 form an integral part of the Interim Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Six months ended 30 June 2021

in $ millions	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)
PROFIT FOR THE PERIOD	923	592
OTHER COMPREHENSIVE INCOME, NET OF TAX		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of net defined benefit liability	(2)	(2)
Changes in fair value attributable to own credit risk on financial liabilities designated at fair value	30	70
Items that may be reclassified subsequently to profit or loss:		
Currency translation reserve:		
Foreign currency translation differences arising on foreign operations during the period	(14)	(7)
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX	14	61
TOTAL COMPREHENSIVE INCOME	937	653

For the six month period to 30 June 2021 and for the six month period to 30 June 2020, all Total Comprehensive Income was attributable to owners of the parent.

The notes on pages 21 to 49 form an integral part of the Interim Financial Statements.

MORGAN STANLEY & CO. INTERNATIONAL plc

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Six months ended 30 June 2021

in $ millions	Six months ended 30 June 2021	Six months ended 30 June 2020
Share capital and Other equity instruments – at 1 January and 30 June	**15,965**	**15,965**
Share premium – at 1 January and 30 June	**513**	**513**
Currency translation reserve – at 1 January	**140**	**107**
Foreign currency translation differences arising on foreign operations	(14)	(7)
Currency translation reserve – at 30 June	**126**	**100**
Capital contribution reserve – at 1 January and 30 June	**3**	**3**
Capital redemption reserve – at 1 January and 30 June	**1,400**	**1,400**
Debt valuation adjustment reserve – at 1 January	**(339)**	**(141)**
Changes in fair value attributable to own credit risk on financial liabilities designated at fair value	30	70
Transfer of realised debt valuation losses/(gains)	9	(1)
Debt valuation adjustment reserve – at 30 June	**(300)**	**(72)**
Retained earnings and pension reserve – at 1 January	**3,339**	**2,714**
Profit for the year	923	592
Remeasurement of defined benefit liability	(2)	(2)
Realised debt valuation (losses)/gains	(9)	1
Dividends	-	(119)
Retained earnings and pension reserve – at 30 June	**4,251**	**3,186**
Equity attributable to the owners of the parent - at 30 June	**21,958**	**21,095**
Non-controlling interest – at 1 January and 30 June	**-**	**56**
Total equity at 30 June	**21,958**	**21,151**

The notes on pages 21 to 49 form an integral part of the Interim Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2021

in $ millions	Note	30 June 2021 (unaudited)	31 December 2020
ASSETS			
Cash and short term deposits		31,498	24,934
Trading financial assets (of which $44,386 million (2020: $37,401 million) were pledged to various parties)	9	341,484	375,009
Secured financing	8	95,542	113,797
Loans and advances		68	116
Investment securities		150	151
Trade and other receivables		87,987	83,143
Current tax assets		219	404
Deferred tax assets		215	171
Property, plant and equipment		30	26
Other assets		35	38
TOTAL ASSETS		557,228	597,789
LIABILITIES AND EQUITY			
Bank loans and overdrafts		17	1
Trading financial liabilities	9	294,529	340,392
Secured borrowing	8	91,102	88,350
Trade and other payables		96,108	92,443
Debt and other borrowings		52,927	54,928
Provisions		22	10
Current tax liabilities		123	145
Accruals and deferred income		433	492
Post-employment benefit obligations		9	7
TOTAL LIABILITIES		535,270	576,768
EQUITY			
Share capital		12,465	12,465
Other equity instruments		3,500	3,500
Share premium account		513	513
Currency translation reserve		126	140
Capital contribution reserve		3	3
Capital redemption reserve		1,400	1,400
Pension reserve		(4)	(2)
Debt valuation adjustment reserve		(300)	(339)
Retained earnings		4,255	3,341
TOTAL EQUITY		21,958	21,021
TOTAL LIABILITIES AND EQUITY		557,228	597,789

The notes on pages 21 to 49 form an integral part of the Interim Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
As at 30 June 2021

in $ millions	Six months ended 30 June 2021 (unaudited)	Six months ended 30 June 2020 (unaudited)
NET CASH FLOWS FROM OPERATING ACTIVITIES	6,945	4,525
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(6)	(1)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(6)	(1)
FINANCING ACTIVITIES		
Dividends paid	-	(119)
Interest on senior subordinated loan liabilities	(53)	(75)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(53)	(194)
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,886	4,330
Currency translation differences on foreign currency cash balances	(338)	(340)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	24,933	28,794
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	31,481	32,784

The notes on pages 21 to 49 form an integral part of the Interim Financial Statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Six months ended 30 June 2021

1. BASIS OF PREPARATION

a. General information

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

Statutory accounts for the year ended 31 December 2020 were approved by the Board of Directors on 21 April 2021 and delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2016. Other comparative information for the six months ended 30 June 2020 is included in certain instances.

b. Accounting policies

The Group has prepared its annual consolidated financial statements in accordance with IFRSs issued by the International Accounting Standards Board ("IASB") as adopted by the EU, Interpretations issued by the IFRS Interpretations Committee ("IFRIC") and the Companies Act. The Interim Financial Statements have been prepared in accordance with Article (4)(2)(c) of the Luxembourg Transparency Law and in accordance with IAS 34 '*Interim Financial Reporting*', as adopted by the EU.

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

c. New standards and interpretations adopted during the period

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

Interest Rate Benchmark Reform Phase 2 amendments to IFRS 9 '*Financial Instruments*', IAS 39 '*Financial Instruments: Recognition and Measurement*', IFRS 7 '*Financial Instruments: Disclosures*', IFRS 4 '*Insurance Contracts*' and IFRS 16 '*Leases*' were issued by the IASB in August 2020. The amendments outline the accounting and disclosure requirements for the financial instruments which are transitioned to alternative benchmark rates. The amendments are applicable retrospectively and are effective from, and applied for periods beginning on or after 1 January 2021. The amendments were adopted by the UK and endorsed by the EU in January 2021.

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

d. New standards and interpretations not yet adopted

At the date of authorisation of these condensed consolidated financial statements, the following amendments to standards relevant to the Group's operations had been issued by the IASB but were not mandatory for accounting periods beginning 1 January 2021. The Group does not expect that the adoption of the following amendments to standards will have a material impact on the Group's condensed consolidated financial statements.

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

As part of the 2018-2020 Annual Improvements Cycle published in May 2020, the IASB made an amendment to IFRS 9 '*Financial Instruments*', relating to the treatment of fees in the assessment of whether financial liabilities are modified or exchanged, where such transactions occur on or after 1 January 2022. Early application is permitted.

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

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

e. Critical accounting judgements and sources of estimation uncertainty

In preparing these condensed consolidated financial statements, the critical judgements made in applying the Group's accounting policies and the Group's critical sources of estimation uncertainty are consistent with those applied to the consolidated financial year ended 31 December 2020. The Group evaluates the critical accounting judgements and accounting estimates on an ongoing basis and believes that these are reasonable.

2. PLANNED REPLACEMENT OF LIBOR AND REPLACEMENT OR REFORM OF OTHER INTEREST RATE BENCHMARKS

Central banks around the world, including the Bank of England, have commissioned committees and working groups of market participants and official sector representatives to replace LIBOR and replace or reform other interest rate benchmarks (collectively, the "IBORs"). On 5 March 2021, ICE Benchmark Administration, which administers LIBOR publication, announced that it will cease the publication of most LIBOR rates as of the end of December 2021, except for the publication until 30 June 2023 of the most widely used US dollar LIBOR tenors, and the UK FCA, which regulates LIBOR publication, announced that it would not compel panel banks to submit to LIBOR beyond those dates.

Subsequently, the International Swaps and Derivatives Association ("ISDA") confirmed that the FCA announcement constituted an "Index Cessation Event" as defined in the ISDA IBOR Fallbacks Supplement, which amended ISDA's interest rate definitions to include robust fallbacks for derivatives linked to the IBORs, by automatically incorporating the fallbacks into legacy non-cleared derivatives entered into between adherents with matching transactions under the ISDA IBOR Fallbacks Protocol (the "ISDA Protocol").

The FCA has stated that LIBOR in all its currencies (USD, GBP, EUR, JPY and CHF) will either cease or become non-representative and that new transactions linked to LIBOR should cease as soon as possible (other than for hedging or risk management purposes). The first major milestone in the UK market occurred on 31 March 2021 with the target of no new GBP LIBOR-linked loans, bonds, securitisations and linear derivatives that expire after the end of 2021.

To support the phase-out of LIBOR, the FCA may, under powers introduced to the Financial Services Act 2021 which supplements existing powers under the UK Benchmarks Regulation ("BMR"), take action to procure the continued publication of certain LIBOR currencies and/or tenors deemed critical benchmarks after the end of 2021 with a substantially revised methodology (sometimes referred to as "synthetic LIBOR"), solely for use in "tough legacy" contracts (i.e., contracts that cannot realistically be amended before the end of 2021, which may be defined in more detail by the FCA). The FCA has also, in the second quarter of 2021, begun consultations on using these legislative powers to create a synthetic LIBOR for certain settings of GBP and JPY LIBOR, whilst also continuing to monitor USD LIBOR and its transition progress in conjunction with US authorities and stakeholders. The FCA had published market consultations in November 2020 with respect to the proposed methodology for synthetic LIBOR, and it is not yet known whether there will be any product or other restrictions to its potential use among legacy contracts. In addition, the impact of a synthetic LIBOR on contracts, particularly those not governed by English law and/or where one or more parties are not regulated entities in the UK, may require an analysis of the governing law and applicable regulatory obligations of the parties.

The Morgan Stanley Group IBOR transition plan is overseen by a global steering committee, with senior management oversight. Our transition plan is designed to identify, assess and monitor risks associated with the expected discontinuation or unavailability of one or more of the IBORs, and includes continued engagement with central bank and industry working groups and regulators (including participation and leadership on key committees), active client engagement, internal operational readiness, and risk management, among other things.

The market transition away from IBORs to alternative reference rates is complex and could have a range of adverse impacts on our business, financial condition and results of operations. In particular, such transition or reform could:

- Adversely impact the pricing, liquidity, value of, return on and trading for a broad array of financial products, including any IBOR-linked securities, loans and derivatives that are included in the financial assets and liabilities;
- Require extensive changes to documentation that governs or references IBOR or IBOR-based products, including, for example, pursuant to time-consuming renegotiations of existing documentation to modify the terms of outstanding securities and related hedging transactions;
- Result in a population of products with documentation that governs or references IBOR or IBOR-based products but that cannot be amended due to an inability to obtain sufficient consent from counterparties or product owners;
- Result in inquiries or other actions from regulators in respect of the Group's (or the market's) preparation and readiness for the replacement of an IBOR with one or more alternative reference rates;
- Result in disputes, litigation or other actions with clients, counterparties and investors, in various scenarios, such as regarding the interpretation and enforceability of provisions in IBOR-based products such as fallback language or other related provisions, including in the case of fallbacks to the alternative reference rates, any economic, legal, operational or other impact resulting from the fundamental differences between the IBORs and the various alternative reference rates;
- Require the transition and/or development of appropriate systems and analytics to effectively transition risk management processes from IBORs to those based on one or more alternative reference rates in a timely manner, including by quantifying value and risk for various alternative reference rates, which may prove challenging given the limited history of the proposed alternative reference rates; and
- Cause the Group to incur additional costs in relation to any of the above factors.

Other factors include the pace of the transition to the alternative reference rates, timing mismatches between cash and derivative markets, the specific terms and parameters for and market acceptance of any alternative reference rate, market conventions for the use of any alternative reference rate in connection with a particular product (including the timing and market adoption of any conventions proposed or recommended by any industry or other group), prices of and the liquidity of trading markets for products based on alternative reference rates, and the Group's ability to transition and develop appropriate systems and analytics for one or more alternative reference rates.

The Group remains party to a number of LIBOR-linked contracts, many of which extend beyond 2021 and, in the case of US dollar LIBOR, 30 June 2023, composed of derivatives, floating rate notes and loans, and the Group continues to execute against the Morgan Stanley Group IBOR transition plan to promote the transition to alternative reference rates in accordance with industry transition timelines. The Group's review of these LIBOR-linked contracts includes assessing the impact of applicable fallbacks and any amendments that may be warranted or appropriate. Morgan Stanley is also taking steps to update operational processes (including to support alternative reference rates), models, and associated infrastructure, as well as conducting certain client outreach to amend fallbacks, including by utilisation of the ISDA Protocol or through bilaterally-negotiated voluntary conversions of outstanding LIBOR products where practicable. Intra group exposures which reference IBORs are not reliant on third party consent.

The Group's primary IBOR exposures arise on its derivative contracts. Key Morgan Stanley Group entities, including the Company, have adhered to the ISDA Protocol. As of 30 June 2021, 63% of the Company's external bilateral IBOR-referencing derivative counterparties have adhered to the ISDA Protocol, representing 93% of the Company's nominal exposure to IBOR-referencing bilateral derivative contracts.

As of 30 June 2021, the Group's maximum nominal exposure to bilateral external derivatives which mature after the expected cessation of the referenced IBOR, and which have neither transitioned to alternative reference rates nor adopted updated fallback provisions was $49 billion, representing approximately 3% of the Group's total nominal exposure to bilateral external derivatives which referenced IBORs at the end of the reporting period. This is not considered to be a significant residual amount. Where a single trade references multiple IBORs, each IBOR exposure is counted separately. Certain bilateral external derivatives have indirect exposure to IBORs (Swap Rates) which may not be fully addressed by industry-standard IBOR fallbacks, and may require additional remediation.

In addition, central counterparties ("CCPs") clearing "over-the-counter" interest rate swaps have included fallbacks to alternative reference rates. Some CCPs have now begun implementing the process of converting IBOR positions to alternative reference rates and CCPs generally aim to have converted all such positions to alternative rates by the end of 2021 (excluding the widely-used US LIBOR tenors, for which publication will cease as of 30 June 2023).

Non-derivative trading financial assets and financial liabilities as well as structured notes which reference IBORs do not comprise a significant exposure for the Group. The Group continues to monitor and manage such outstanding exposures (including transitioning to the appropriate alternative, reference rates, implementing contractually agreed fallbacks or facilitating buybacks) prior to cessation.

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

	30 June	
in $ millions	**2021**	**2020**
Net gains/(losses) on:		
Non-trading financial assets at FVPL		
Secured financing	(2)	25
Loans and advances - corporate loans	(10)	(26)
Investment securities	17	(2)
Trade and other receivables - prepaid OTC contracts	5	(534)
Total non-trading financial assets at FVPL	**10**	**(537)**
Financial liabilities designated at FVPL		
Secured borrowing	(56)	9
Trade and other payables - prepaid OTC contracts	(100)	456
Debt and other borrowings - issued structured notes	124	305
Total financial liabilities designated at FVPL	**(32)**	**770**
Total net gains/(losses) on financial instruments at FV	**(22)**	**233**

For the period to 30 June 2021, there was a net gain on non-trading financial assets at FVPL of $10 million (30 June 2020: net loss of $537 million) and a net loss on financial liabilities designated at FVPL of $32 million (30 June 2020: net gain of $770 million). These variances reflect equity market increases in the first half of 2021 as compared to equity market decreases in the first half of 2020.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Six months ended 30 June 2021

4. FEE AND COMMISSION INCOME

in $millions	30 June 2021	2020
Investment banking[(1)]	939	596
Commission income	476	432
Trust and other fiduciary activities	91	86
Other	148	123
Total fee and commission income	1,654	1,237
Of which, revenue with contracts with customers	1,585	1,213

Total fee and commission income includes the transfer of revenues totalling $69 million from other Morgan Stanley Group undertakings (30 June 2020: $24 million transferred from other Morgan Stanley Group undertakings). These transfers do not relate to revenue from contracts with customers.

Revenue from contracts with customers

The following table presents revenues in the current period.

in $ millions	Current contract revenues 30 June 2021	2020
Investment banking[(1)]	899	605
Commission income	477	431
Trust and other fiduciary activities	61	55
Other revenue from contracts with customers	148	122
Total revenue from contracts with customers	1,585	1,213

(1) Includes advisory and underwriting revenues.

5. INTEREST INCOME AND INTEREST EXPENSE

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

in $ millions	30 June 2021	2020
Financial assets measured at amortised cost	39	249
Trading financial assets	81	142
Non-trading financial assets at FVPL	(319)	(29)
Financial assets measured at FVPL	(238)	113
Total interest income	(199)	362
Financial liabilities measured at amortised cost	83	690
Financial liabilities designated at FVPL	(74)	32
Total interest expense	9	722

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

6. OPERATING EXPENSES

in $millions	30 June 2021	2020
Direct staff costs	886	804
Management charges from other Morgan Stanley Group undertakings relating to staff costs	327	260
Staff related expenses	1,213	1,064
Management charges from other Morgan Stanley Group undertakings relating to other services	745	700
Brokerage fees	314	282
Administration and corporate services	42	36
Professional services	82	57
Other taxes	428	330
Net impairment (gain)/loss on financial assets	(2)	4
Other	64	54
Non staff related expenses	1,673	1,463
Total operating expenses	2,886	2,527

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

Staff-related expenses increased by 14% from $1,064 million to $1,213 million for the period. The increase in staff-related expenses was primarily driven by an increase in the fair value on deferred equity compensation, primarily due to the increase in the Morgan Stanley share price during the period.

Non-staff related expenses increased by 14% from $1,463 million to $1,673 million for the period. This increase was primarily driven by higher volume-related expenses including brokerage fees and transaction taxes, from increased client activity.

7. INCOME TAX EXPENSE

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

The UK Bank Levy (the "Levy") is an annual charge on a bank's balance sheet. Under IFRIC 21, *'Levies'*, the Levy is not recognised in the Interim Financial Statements, since the Levy's obligating event has not yet arisen. However, for the purposes of calculating the ETR, an adjustment has been made for the forecast Levy (since it is non-deductible for UK corporation tax purposes). As such, the Levy impacts the annual ETR and the tax expense for the six months ended 30 June 2021.

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

The Group's forecast ETR for the period is 26.3% (six months ended 30 June 2020: 47.3%), which is lower than the standard rate of corporation tax (inclusive of the UK Banking Surcharge) in the UK of 27%. The higher ETR in the prior year period is primarily due to a prior year period specific $212 million tax expense, resulting in an increase to prior year period ETR of 18.9%. This was driven by remeasurement of provisions in relation to uncertain tax positions, principally following a Dutch Court judgement in relation to an ongoing matter.

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY

The following table analyses financial assets and financial liabilities presented in the Group's consolidated statement of financial position by the IFRS 9 measurement classifications as at 30 June 2021 and 31 December 2020.

	30 June 2021				31 December 2020			
in $millions	FVPL	FVPL designated	Amortised cost	Total	FVPL	FVPL designated	Amortised cost	Total
Cash and short term deposits	-	-	31,498	**31,498**	-	-	24,934	**24,934**
Trading financial assets	341,484	-	-	**341,484**	375,009	-	-	**375,009**
Secured financing:								
Cash collateral on securities borrowed	20,227	-	-	**20,227**	30,178	-	-	**30,178**
Securities purchased under agreements to resell	61,170	-	-	**61,170**	70,647	-	-	**70,647**
Other secured financing	14,145	-	-	**14,145**	12,972	-	-	**12,972**
Loans and advances	-	-	68	**68**	17	-	99	**116**
Investment securities	150	-	-	**150**	151	-	-	**151**
Trade and other receivables	2,844	-	84,443	**87,287**	1,654	-	81,079	**82,733**
Total financial assets	440,020	-	116,009	**556,029**	490,628	-	106,112	**596,740**
Bank loans and overdrafts	-	-	17	**17**	-	-	1	**1**
Trading financial liabilities	294,529	-	-	**294,529**	340,392	-	-	**340,392**
Secured borrowings:								
Cash collateral on securities loaned	-	16,629	11,133	**27,762**	-	1	22,001	**22,002**
Securities sold under agreements to repurchase	-	16,847	18,507	**35,354**	-	17,842	20,742	**38,584**
Other financial liabilities	-	25,247	2,739	**27,986**	-	25,761	2,003	**27,764**
Trade and other payables	-	882	94,217	**95,099**	-	762	90,919	**91,681**
Debt and other borrowings	-	10,131	42,796	**52,927**	-	9,469	45,459	**54,928**
Total financial liabilities	294,529	69,736	169,409	**533,674**	340,392	53,835	181,125	**575,352**

9. TRADING FINANCIAL ASSETS AND LIABILITIES

in $ millions	30 June 2021		31 December 2020	
	Assets	Liabilities	Assets	Liabilities
Government debt securities	21,710	25,957	16,727	24,586
Corporate and other debt	14,278	5,301	11,169	4,039
Corporate equities	71,976	25,032	62,365	23,459
Derivatives (see note 10)	233,520	238,239	284,748	288,308
	341,484	294,529	375,009	340,392

10. DERIVATIVES

	30 June 2021			
in $ millions	Bilateral OTC	Cleared OTC	Listed derivative contracts	Total
Derivative assets:				
Interest rate contracts	69,608	4,819	24	74,451
Credit contracts	8,082	394	-	8,476
Foreign exchange and gold contracts	67,402	1,445	2	68,849
Equity contracts	57,276	-	10,433	67,709
Commodity contracts	12,982	-	1,053	14,035
	215,350	6,658	11,512	233,520
Derivative liabilities:				
Interest rate contracts	67,749	3,636	16	71,401
Credit contracts	7,887	714	-	8,601
Foreign exchange and gold contracts	65,084	1,348	11	66,443
Equity contracts	67,831	-	9,971	77,802
Commodity contracts	13,285	-	707	13,992
	221,836	5,698	10,705	238,239

	31 December 2020			
in $ millions	Bilateral OTC	Cleared OTC	Listed derivative contracts	Total
Derivative assets:				
Interest rate contracts	94,374	5,945	4	100,323
Credit contracts	7,256	258	-	7,514
Foreign exchange and gold contracts	103,982	1,641	-	105,623
Equity contracts	54,971	-	9,714	64,685
Commodity contracts	6,323	-	280	6,603
	266,906	7,844	9,998	284,748
Derivative liabilities:				
Interest rate contracts	91,074	4,398	3	95,475
Credit contracts	6,908	400	-	7,308
Foreign exchange and gold contracts	102,387	1,599	10	103,996
Equity contracts	65,543	-	9,440	74,983
Commodity contracts	6,355	-	191	6,546
	272,267	6,397	9,644	288,308

11. INTEREST IN STRUCTURED ENTITIES

The Group's involvement with structured entities, including those of which it considers itself the sponsor, is consistent with that described in the Group's 2020 Annual Report and Financial Statements.

Consolidated structured entities

The table below shows information about the structured entities which the Group consolidates. Consolidated structured entity assets and liabilities are presented after intercompany eliminations and includes assets financed on a non-recourse basis.

30 June 2021 in $ millions	Client Intermediation	Mortgage and Asset-Backed Securitisations ("MABS")	Total
Assets of structured entities	200	296	496
Liabilities of structured entities	195	44	239

31 December 2020 **in $ millions**	Client Intermediation	MABS	Total
Assets of structured entities	-	132	132
Liabilities of structured entities	-	3	3

Unconsolidated structured entities

The table below shows certain non-consolidated structured entities in which the Group had an interest at 30 June 2021 and 31 December 2020. The tables include all structured entities in which the Group has determined that its maximum exposure to loss exceeds specific thresholds or meets certain other criteria. The majority of the structured entities included in the tables below are sponsored by unrelated parties; the Group's involvement is generally the result of the Group's client intermediation and secondary market-making activities.

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

in $ millions	**Client intermediation**	**Mortgage and asset-backed securitisations**	**Collateralised debt obligation**	**Total**
30 June 2021				
Assets of the structured entity	17,422	5,762	621	23,805
Maximum exposure to loss:				
Debt and equity interests	1,429	226	134	1,789
Derivative and other contracts	5,673	-	-	5,673
Total maximum exposure to loss	7,102	226	134	7,462
Carrying value of exposure to loss - assets(1):				
Debt and equity interests	1,429	226	134	1,789
Derivative and other contracts	2,168	-	-	2,168
Total carrying value of exposure to loss - assets	3,597	226	134	3,957
Carrying value of exposure to loss - liabilities(1):				
Debt and equity interests	1,705	-	-	1,705
Derivative and other contracts	196	-	-	196
Total carrying value of exposure to loss - liabilities	1,901	-	-	1,901
Additional interests in structured entities(2)	4	239	124	367

in $ millions	Client intermediation	Mortgage and asset-backed securitisations	Collateralised debt obligation	Total
31 December 2020				
Assets of the structured entity	16,151	6,591	1,054	23,796
Maximum exposure to loss:				
Debt and equity interests	924	255	164	1,343
Derivative and other contracts	5,373	-	-	5,373
Total maximum exposure to loss	6,297	255	164	6,716
Carrying value of exposure to loss - assets (1):				
Debt and equity interests	924	255	164	1,343
Derivative and other contracts	837	-	-	837
Total carrying value of exposure to loss - assets	1,761	255	164	2,180
Carrying value of exposure to loss - liabilities (1):				
Derivatives and other contracts	1,973	-	-	1,973
Commitments, guarantees and other	211	-	-	211
Total carrying value of exposure to loss - liabilities	2,184	-	-	2,184
Additional interests in structured entities(2)	-	146	159	305

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

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

For further detail on the type of transactions in the above table, refer to the explanations provided in note 15 of the 2020 Annual Report and Financial Statements.

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

Sponsored unconsolidated structured entities

Details of when the Group considers itself the sponsor of certain non-consolidated structured entities are provided in note 15 of the Annual Report and Financial Statements.

In some sponsored entities, the Group has been involved with the structured entity through establishing the structured entity, marketing of products associated with the structured entity in its own name, and/ or through involvement in the design of the structured entity. The Group has no interest in these entities as at 30 June 2021 (31 December 2020: $nil).

The loss related to sponsored entities during the six month period to 30 June 2021 was $270 million (31 December 2020: loss of $352 million). Gains or losses are reported under 'Net trading income' in the condensed consolidated income statement alongside any offsetting benefit of hedges. For the six month period to 30 June 2021, $1,747 million of assets were transferred to those sponsored entities (31 December 2020: $1,492 million). It is the investors in the structured entity, rather than the Group, that are exposed to the carrying value of assets transferred. The Group's exposure to the structured entity is limited to net amounts receivable from swap transactions with the entity and is not directly linked to the transferred assets themselves.

12. PROVISIONS

in $ millions	Property	Litigation	Other	Total
At 1 January 2021	2	6	2	10
Additions	-	14	-	14
Unused Provisions reversed	-	-	(2)	(2)
At 30 June 2021	**2**	**20**	**-**	**22**

Litigation matters

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

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

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

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

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

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

The following are updates to certain matters disclosed in the 2020 Annual Report and Financial Statements.

On 29 January 2021, the Advocate General of the Dutch High Court in matters re-styled Case number 18/00318 and Case number 18/00319 issued an advisory opinion on the subsidiary of the Group's appeal, which rejected the subsidiary of the Group's principal grounds of appeal. On 11 February 2021, the subsidiary of the Group and the Dutch Tax Authority each responded to this opinion. On 22 June 2021, Dutch criminal authorities sought various documents in connection with an investigation related to the civil claims asserted by the Dutch Tax Authority, concerning the accuracy of the subsidiary of the Group's tax returns and the maintenance of its books and records for 2007 to 2012.

13. SEGMENT REPORTING

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

Business segments

Morgan Stanley structures its business segments primarily based upon the nature of the financial products and services provided to customers and Morgan Stanley's internal management structure. The Group's own business segments are consistent with those of Morgan Stanley.

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

Geographical segments

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

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

Geographical Segments	EMEA		Americas		Asia		Total	
in $ millions	30 June 2021	30 June 2020	30 June 2021	30 June 2020	30 June 2021	30 June 2020	30 June 2021	30 June 2020
External revenues net of interest	2,846	2,531	233	360	1,059	760	4,138	3,651
Profit before income tax	715	545	102	235	435	344	1,252	1,124
	30 June 2021	31 Dec 2020	30 June 2021	31 Dec 2020	30 June 2021	31 Dec 2020	30 June 2021	31 Dec 2020
Total assets	347,688	386,095	117,106	121,716	92,434	89,978	557,228	597,789

14. FINANCIAL RISK MANAGEMENT

14.1 Risk management procedures

The Group's risk management procedures are consistent with those disclosed in the Group's 2020 Annual Report and Financial Statements. This disclosure is therefore limited to quantitative data for each risk category which is material or which has had a significant update from the year end disclosure.

14.2 Market risk

VaR for the six month period ended 30 June 2021

The table below presents the period end, average, maximum and minimum values for the Group's management VaR for the period ending 30 June 2021 compared to the year ending 31 December 2020.

in $ millions	95% / one-day VaR for the six months ended 30 June 2021				95% / one-day VaR for the year ended 31 December 2020			
	Period end	Average	High	Low	Period end	Average	High	Low
Market Risk Category:								
Interest rate and credit spread	14	18	26	13	21	17	24	12
Equity price	18	23	31	18	26	20	32	7
Foreign exchange rate	5	6	13	3	9	5	12	2
Commodity price	2	3	7	2	6	5	9	1
Less: Diversification benefit(1)(2)	(17)	(21)	N/A	N/A	(23)	(20)	N/A	N/A
Primary Risk Categories	22	29	37	22	39	27	41	14
Credit Portfolio(3)	8	8	12	6	12	9	14	5
Less: Diversification benefit(1)(2)	(7)	(7)	N/A	N/A	(9)	(9)	N/A	N/A
Total Management VaR	23	30	41	23	42	27	42	15

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

(2) N/A – Not applicable. The minimum and maximum VaR values for the total VaR and each of the component VaRs might have occurred on different days during the period and therefore the diversification benefit is not an applicable measure.

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

The Group's average Total Management VaR for the six months ended 30 June 2021 was $30 million, compared to $27 million for the year ended 2020. The increase in average VaR is primarily driven by increased exposures in equities. The increased market volatility during COVID-19 stress period in 2020 is not part of the current one year historical window used for VaR in 2021.

Elevated 2020 period end VaR was mainly driven by equity exposure which was reduced the next day.

Non-trading risks for the six month period ended 30 June 2021

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

Interest rate risk

The Group's VaR excludes certain funding liabilities and money market transactions. The application to these positions of a parallel shift in interest rates of 200 basis points would result in a net loss or gain, respectively, of approximately $12.8 million as at 30 June 2021, compared to a net loss or gain of $16.3 million as at 31 December 2020.

Funding liabilities

The credit spread risk sensitivity of the Group's mark-to-market funding liabilities corresponds to an increase or decrease in value of approximately $5.8 million and $6.5 million for each 1 basis point shift in the Group's credit spread level for 30 June 2021 and 31 December 2020, respectively.

14.3 Credit Risk

14.3.1 Credit risk management

Refer to pages 9 to 11 of the Interim Management Report and to pages 20 to 24 of the Annual Report and Financial Statements for details of the Group's credit risk management processes.

14.3.2 Exposure to credit risk

The maximum exposure to credit risk ("gross credit exposure") of the Group as at 30 June 2021 is disclosed below, based on the carrying amounts of the financial assets and the maximum amount that

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Six months ended 30 June 2021

the Group could have to pay in relation to unrecognised financial instruments, which the Group believes are subject to credit risk. The table includes both financial instruments subject to expected credit loss ("ECL") and those not subject to ECL.

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

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

Exposure to credit risk by class

Class in $ millions	30 June 2021 Gross credit exposure	30 June 2021 Credit enhance-ments	30 June 2021 Net credit exposure(1)	31 December 2020 Gross credit exposure	31 December 2020 Credit enhance-ments	31 December 2020 Net credit exposure(1)
Subject to ECL:						
Cash and short term deposits	31,498	-	31,498	24,934	(1,234)	23,700
Loans and advances	68	-	68	99	-	99
Trade and other receivables(2)	84,443	-	84,443	81,079	-	81,079
FVPL, not subject to ECL:						
Trading financial assets: derivatives	233,520	(217,147)	16,373	284,748	(272,107)	12,641
Secured financing	95,542	(94,589)	953	113,797	(113,286)	511
Loans and advances	-	-	-	17	-	17
Trade and other receivables	2,844	(2,478)	366	1,654	(1,386)	268
	447,915	(314,214)	133,701	506,328	(388,013)	118,315
Unrecognised financial instruments						
Subject to ECL:						
Loan commitments	-	-	-	902	-	902
Letters of credit	-	-	-	102	-	102
FVPL, not subject to ECL:						
Loan commitments	9	(2)	7	864	(459)	405
Unsettled securities purchased under agreements to resell(3)	52,666	-	52,666	32,614	-	32,614
Total unrecognised financial instruments	52,675	(2)	52,673	34,482	(459)	34,023
	500,590	(314,216)	186,374	540,810	(388,472)	152,338

(1) Of the residual net credit exposure, intercompany cross product netting arrangements are in place which would allow for an additional $6,436 million of an available $34,779 million (31 December 2020: $5,287 million of an available $29,997 million) to be offset in the event of default by certain Morgan Stanley counterparties.

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Six months ended 30 June 2021

Exposure to credit risk by internal rating grades

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

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

The table below presents gross carrying/ nominal amount by internal rating grade. All exposures subject to ECL are Stage 1, unless otherwise shown. For the unrated trade receivable balances, a lifetime ECL is always calculated without considering whether a significant increase in credit risk ("SICR") has occurred.

At 30 June 2021 in $ millions	Investment Grade AAA	AA	A	BBB	Non-investment grade	Unrated[1] /Default	Total	Net of ECL
Subject to ECL:								
Cash and short term deposits	8,018	11,865	10,466	1,076	73	-	31,498	31,498
Loans and advances	-	-	68	-	-	-	68	68
Trade and other receivables:								
Stage 1	1,754	4,437	44,543	18,047	11,058	4,592	84,431	84,431
Stage 3	2	2	2	2	-	9	17	12
	9,774	**16,304**	**55,079**	**19,125**	**11,131**	**4,601**	**116,014**	**116,009**
Not subject to ECL:								
Trading financial assets – derivatives	5,001	22,737	141,804	51,041	12,719	218	233,520	233,520
Secured financing	1,206	22,355	56,177	10,325	5,474	5	95,542	95,542
Trade and other receivables	-	-	741	-	2,103	-	2,844	2,844
	6,207	**45,092**	**198,722**	**61,366**	**20,296**	**223**	**331,906**	**331,906**
Unrecognised financial instruments not subject to ECL:								
Unsettled securities purchased under agreements to resell	25	27,942	9,968	11,514	3,218	-	52,667	52,667
Loan commitments	-	-	-	-	7	2	9	9
	25	**27,942**	**9,968**	**11,514**	**3,225**	**2**	**52,676**	**52,676**

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

At 31 December 2020 in $ millions	Investment Grade AAA	AA	A	BBB	Non-investment grade	Unrated[(1)] /Default	Total	Net of ECL
Subject to ECL:								
Cash and short term deposits	-	9,915	10,771	4,132	116	-	24,934	24,934
Loans and advances								
Stage 1	-	-	59	34	3	-	96	96
Stage 2	-	-	-	-	4	-	4	3
Trade and other receivables:								
Stage 1	3,293	4,424	41,879	14,866	12,205	4,396	81,063	81,063
Stage 3	2	2	2	4	3	8	21	16
	3,295	**14,341**	**52,711**	**19,036**	**12,331**	**4,404**	**106,118**	**106,112**
Not subject to ECL:								
Trading financial assets – derivatives	4,969	17,334	174,110	71,556	16,732	47	284,748	284,748
Secured financing	945	34,355	40,218	34,592	3,685	2	113,797	113,797
Loans and advances	-	-	-	-	9	8	17	17
Trade and other receivables	-	38	525	-	1,091	-	1,654	1,654
	5,914	**51,727**	**214,853**	**106,148**	**21,517**	**57**	**400,216**	**400,216**
Unrecognised financial instruments subject to ECL:								
Loan commitments								
Stage 1	-	226	319	243	42	-	830	830
Stage 2	-	-	-	-	72	-	72	72
Letters of credit	-	-	102	-	-	-	102	102
	-	**226**	**421**	**243**	**114**	**-**	**1,004**	**1,004**
Unrecognised financial instruments not subject to ECL:								
Unsettled securities purchased under agreements to resell	-	25,566	1,529	5,365	154	-	32,614	32,614
Loan commitments	-	147	377	170	163	7	864	864
	-	**25,713**	**1,906**	**5,535**	**317**	**7**	**33,478**	**33,478**

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

14.4 Liquidity and funding risk

Refer to page 11 of the interim management report and to pages 24 to 25 of the Annual Report and Financial Statements for further detail on the Group's liquidity and funding risk.

Maturity analysis

In the following maturity analysis of financial liabilities, derivative contracts and other financial liabilities held as part of the Group's trading activities are presented at fair value, consistent with how these financial liabilities are managed, and disclosed as on demand. Derivatives not held as part of the Group's trading activities and financial liabilities designated at FVPL which contain an embedded derivative are disclosed according to their earliest contractual maturity; all such amounts are presented at their fair value, consistent with how these financial liabilities are managed. All other amounts represent undiscounted cash flows payable by the Group from financial liabilities to their earliest contractual maturities as at 30 June 2021 and 31 December 2020. Repayments of financial liabilities that are subject to immediate notice are treated as if notice were given immediately and are classified as on demand. This presentation is considered by the Group to appropriately reflect the liquidity risk arising from those financial liabilities and is consistent with how the liquidity risk on these financial liabilities is managed by the Group.

30 June 2021 **in $ millions**	**On demand**	**Less than 1 month**	**1 month - 3 months**	**3 months - 1 year**	**1 year - 5 years**	**Greater than 5 years**	**Total**
Financial liabilities							
Bank loans and overdrafts	17	-	-	-	-	-	17
Trading financial liabilities:							
Derivatives	238,239	-	-	-	-	-	238,239
Other	56,290	-	-	-	-	-	56,290
Secured borrowing	74,364	7,467	1,461	4,963	2,873	-	91,128
Trade and other payables	94,420	-	142	261	518	42	95,383
Debt and other borrowings	882	387	5,829	2,014	36,667	8,509	54,288
Total financial liabilities	464,212	7,854	7,432	7,238	40,058	8,551	535,345
Unrecognised financial instruments							
Guarantees	354	-	-	-	-	-	354
Loan commitments	9	-	-	-	-	-	9
Unsettled securities purchased under agreements to resell(1)	50,111	678	-	1,876	-	-	52,665
Other commitments	57	-	-	-	-	-	57
Total unrecognised financial instruments	50,531	678	-	1,876	-	-	53,085
31 December 2020							
Financial liabilities							
Bank loans and overdrafts	1	-	-	-	-	-	1
Trading financial liabilities:							
Derivatives	288,308	-	-	-	-	-	288,308
Other	52,084	-	-	-	-	-	52,084
Secured borrowing	70,699	11,612	444	3,355	2,262	-	88,372
Trade and other payables	91,055	1	-	281	498	-	91,835
Debt and other borrowings	807	147	18,172	1,497	26,283	9,312	56,218
Total financial liabilities	**502,954**	**11,760**	**18,616**	**5,133**	**29,043**	**9,312**	**576,818**
Unrecognised financial Instruments							
Guarantees	395	-	-	-	-	-	395
Letters of credit	-	-	-	-	102	-	102
Loan commitments	1,766	-	-	-	-	-	1,766
Other commitments	145	-	-	-	-	-	145
Underwriting commitments	-	-	-	3,037	-	-	3,037
Unsettled securities purchased under agreements to resell(1)	32,371	-	-	243	-	-	32,614
Total unrecognised financial instruments	34,677	-	-	3,280	102	-	38,059

(1) The Group enters into forward starting reverse repurchase agreements (agreements which have a trade date at or prior to 30 June 2021 and settle subsequent to period end). These agreements primarily settle within three business days and of the total amount at 30 June 2021, $50,111 million settled within three business days.

15. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING

In order to manage credit exposure arising from its business activities, the Group applies various credit management policies and procedures, see note 26 of the 2020 Annual Report and Financial Statements for further detail.

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

				Amounts not offset(3) Collateralised by:			Not subject to legally enforceable
in $ millions	Gross amounts	Amounts offset(1)	Net amounts	Financial instruments	Cash collateral(2)	Net exposure(4)	master netting agreement
30 June 2021							
Secured financing:							
Cash collateral on securities borrowed	30,075	(9,848)	20,227	(19,872)	-	355	165
Securities purchased under agreement to resell	122,957	(61,787)	61,170	(60,670)	-	500	497
Trading financial assets - derivatives	307,852	(74,332)	233,520	(195,287)	(21,860)	16,373	3,248
TOTAL ASSETS AS AT 30 JUNE 2021	460,884	(145,967)	314,917	(275,829)	(21,860)	17,228	3,910
Secured borrowing:							
Cash collateral on securities loaned	37,610	(9,848)	27,762	(27,762)	-	-	-
Securities sold under agreement to repurchase	97,141	(61,787)	35,354	(33,885)	-	1,469	1,467
Trading financial liabilities - derivatives	315,773	(77,533)	238,240	(193,766)	(28,935)	15,539	4,280
TOTAL LIABILITIES AS AT 30 JUNE 2021	450,524	(149,168)	301,356	(255,413)	(28,935)	17,008	5,747
31 December 2020							
Secured financing:							
Cash collateral on securities borrowed	37,837	(7,659)	30,178	(29,740)	-	438	147
Securities purchased under agreement to resell	127,675	(57,028)	70,647	(70,574)	-	73	73
Trading financial assets - derivatives	404,768	(120,020)	284,748	(239,647)	(31,690)	13,411	2,411
TOTAL ASSETS AS AT 31 DECEMBER 2020	570,280	(184,707)	385,573	(333,961)	(31,690)	13,922	2,631
Secured borrowing:							
Cash collateral on securities loaned	29,661	(7,659)	22,002	(21,991)	-	11	-
Securities sold under agreement to repurchase	95,612	(57,028)	38,584	(36,793)	-	1,791	1,641
Trading financial liabilities - derivatives	408,785	(120,477)	288,308	(237,579)	(36,585)	14,144	3,366
TOTAL LIABILITIES AS AT 31 DECEMBER 2020	534,058	(185,164)	348,894	(296,363)	(36,585)	15,946	5,007

(1) Includes $3,487 million and $6,688 million (31 December 2020: $8,539 million and $8,997 million) of Trading financial assets – derivatives and Trading financial liabilities – derivatives, respectively, which have been offset against cash collateral received and cash collateral paid, respectively.

(2) Cash collateral not offset is recognised within Trade and other receivables and Trade and other payables, respectively.

(3) In addition to the balances disclosed in the table above, legally enforceable master netting agreements are in place for $1,309 million (31 December 2020: $1,492 million) of other secured financing and secured borrowing balances which are presented net in the condensed consolidated statement of financial position, and for $295 million (31 December 2020: $517 million) of certain trade and other receivables and trade and other payables which are not presented net.

(4) Intercompany cross-product legally enforceable netting arrangements are in place which would allow for an additional $6,436 million (31 December 2020: $5,287 million) of the condensed consolidated statement of financial position, to be offset in the ordinary course of business and/ or in the event of default.

16. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

The following tables present the carrying value of the Group's financial assets and financial liabilities recognised at fair value on a recurring basis, classified according to the fair value hierarchy. The information below is limited to quantitative information and should be read in conjunction with note 30 of the Annual Report and Financial Statements.

30 June 2021 in $ millions	Quoted prices in active market (Level 1)	Observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Trading financial assets:				
Government debt securities	19,326	2,309	75	21,710
Corporate and other debt	46	12,987	1,245	14,278
Corporate equities	71,330	576	70	71,976
Derivatives:				
Interest rate contracts	131	73,385	935	74,451
Credit contracts	-	8,210	266	8,476
Foreign exchange and gold contracts	-	68,680	169	68,849
Equity contracts	648	66,352	709	67,709
Commodity contracts	1,647	12,378	10	14,035
Total trading financial assets	93,128	244,877	3,479	341,484
Secured financing:				
Cash collateral on securities borrowed	-	20,227	-	20,227
Securities purchased under agreements to resell	-	60,571	599	61,170
Other secured financing	-	14,145	-	14,145
Total secured financing	-	94,943	599	95,542
Loans and advances - corporate loans	-	-	-	-
Investment securities - corporate equities	-	-	150	150
Trade and other receivables:				
Prepaid OTC contracts	-	2,505	320	2,825
Other receivables	-	-	19	19
Total trade and other receivables	-	2,505	339	2,844
Total financial assets measured at fair value	93,128	342,325	4,567	440,020
Trading financial liabilities:				
Government debt securities	24,621	1,336	-	25,957
Corporate and other debt	-	5,300	1	5,301
Corporate equities	24,308	684	40	25,032
Derivatives:				
Interest rate contracts	227	70,671	503	71,401
Credit contracts	-	8,343	258	8,601
Foreign exchange and gold contracts	4	66,250	189	66,443
Equity contracts	218	76,488	1,096	77,802
Commodity contracts	1,045	12,938	9	13,992
Total trading financial liabilities	50,423	242,010	2,096	294,529
Secured borrowing:				
Cash collateral on securities loaned	-	16,629	-	16,629
Securities sold under agreements to repurchase	-	16,847	-	16,847
Other secured borrowing	-	25,247	-	25,247
Total secured borrowing	-	58,723	-	58,723
Trade and other payables – Prepaid OTC contracts	-	587	295	882
Debt and other borrowings - issued structured notes	-	10,069	62	10,131
Total financial liabilities measured at fair value	50,423	311,389	2,453	364,265

31 December 2020 in $ millions	Quoted prices in active market (Level 1)	Observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Trading financial assets:				
Government debt securities	13,943	2,518	266	16,727
Corporate and other debt	-	10,347	822	11,169
Corporate equities	61,511	846	8	62,365
Derivatives:				
Interest rate contracts	61	99,151	1,111	100,323
Credit contracts	-	7,026	488	7,514
Foreign exchange and gold contracts	-	105,250	373	105,623
Equity contracts	554	62,612	1,519	64,685
Commodity contracts	212	6,383	8	6,603
Total trading financial assets	76,281	294,133	4,595	375,009
Secured financing:				
Cash collateral on securities borrowed	-	30,178	-	30,178
Securities purchased under agreements to resell	-	69,869	778	70,647
Other secured financing	-	12,972	-	12,972
Total secured financing	-	113,019	778	113,797
Loans and advances - corporate loans	-	10	7	17
Investment securities - corporate equities	-	-	151	151
Trade and other receivables:				
Prepaid OTC contracts	-	351	1,291	1,642
Other	-	-	12	12
Total trade and other receivables	-	351	1,303	1,654
Total financial assets measured at fair value	76,281	407,513	6,834	490,628
Trading financial liabilities:				
Government debt securities	23,021	1,550	15	24,586
Corporate and other debt	-	4,036	3	4,039
Corporate equities	23,246	212	1	23,459
Derivatives:				
Interest rate contracts	126	94,878	471	95,475
Credit contracts	-	6,940	368	7,308
Foreign exchange and gold contracts	4	103,806	186	103,996
Equity contracts	557	72,229	2,197	74,983
Commodity contracts	134	6,404	8	6,546
Total trading financial liabilities	47,088	290,055	3,249	340,392
Secured borrowing:				
Cash collateral on securities loaned	-	1	-	1
Securities sold under agreements to repurchase	-	17,842	-	17,842
Other secured borrowing	-	25,761	-	25,761
Total secured borrowing	-	43,604	-	43,604
Trade and other payables:				
Prepaid OTC contracts	-	518	241	759
Unfunded loan commitments	-	3	-	3
Total trade and other payables	-	521	241	762
Debt and other borrowings - issued structured notes	-	9,135	334	9,469
Total financial liabilities measured at fair value	47,088	343,315	3,824	394,227

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Six months ended 30 June 2021

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

In the following tables:

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

$in millions	30 June 2021	31 December 2020
TRADINGFINANCIAL ASSETS:		
Government debt securities		
Beginning balance	266	3
Total gains/(losses) recognised in the condensed consolidated income statement(1)	-	1
Purchases	74	264
Sales & Issuances(2)	(259)	(2)
Net transfers in and/or (out) of Level 3(3)	(6)	-
Ending balance	**75**	**266**
Unrealised gains/(losses)	-	1
Corporate and other debt		
Beginning balance	822	481
Total gains/(losses) recognised in the condensed consolidated income statement(1)	(66)	(15)
Purchases	794	457
Sales & Issuances(2)	(333)	(139)
Net transfers in and/or (out) of Level 3(3)	28	38
Ending balance	**1,245**	**822**
Unrealised gains/(losses)	14	(4)

$in millions	30 June 2021	31 December 2020
Corporate equities		
Beginning balance	8	**28**
Total gains/(losses) recognised in the condensed consolidated income statement(1)	17	(9)
Purchases	62	1
Sales & Issuances(2)	-	(15)
Net transfers in and/or (out) of Level 3(3)	(17)	3
Ending balance	**70**	**8**
Unrealised gains/(losses)	17	(2)
Net derivative contracts(5)		
Beginning balance	269	(81)
Total gains/(losses) recognised in the condensed consolidated income statement(1)	(132)	942
Purchases	255	768
Sales & Issuances(2)	(567)	(843)
Settlements	67	(439)
Net transfers in and/or (out) of Level 3(3)	142	(78)
Ending balance	**34**	**269**
Unrealised gains/(losses)(4)	(395)	500
SECURED FINANCING		
Securities purchased under agreements to resell		
Beginning balance	778	257
Purchases	599	778
Sales & Issuances(2)	(778)	(257)
Ending balance	**599**	**778**
LOANS AND ADVANCES		
Corporate loans		
Beginning balance	7	9
Sales & Issuances(2)	(7)	-
Settlements	-	(2)
Net transfers in and/or (out) of Level 3(3)	-	-
Ending balance	**-**	**7**
INVESTMENT SECURITIES		
Corporate equities		
Beginning balance	151	122
Total gains/(losses) recognised in the consolidated income statement(1)	1	12
Purchases	3	27
Sales & Issuances(2)	(5)	(10)
Ending balance	**150**	**151**
Unrealised gains/(losses)(4)	1	12

Table of contents

$in millions	30 June 2021	31 December 2020
TRADE AND OTHER RECEIVABLES		
Prepaid OTC contracts		
Beginning balance	1,291	353
Total gains/(losses) recognised in the consolidated income statement(1)	(45)	(160)
Purchases	124	1,098
Sales & Issuances(2)	-	-
Net transfers in and/or (out) of Level 3(3)	(1,050)	-
Ending balance	**320**	**1,291**
Unrealised gains/(losses)(4)	(45)	(160)
Other		
Beginning balance	12	21
Settlements	7	(9)
Ending balance	**19**	**12**
TRADING FINANCIAL LIABILITIES		
Government debt securities		
Beginning balance	15	-
Net transfers in and/or (out) of Level 3(3)	(15)	15
Ending balance	-	**15**
Corporate and other debt		
Beginning balance	3	20
Purchases	(3)	(17)
Sales & Issuances(2)	1	-
Ending balance	**1**	**3**
Corporate equities		
Beginning balance	1	7
Total gains/(losses) recognised in the consolidated income statement(1)	(7)	1
Purchases	(3)	(6)
Sales & Issuances(2)	36	1
Net transfers in and/or (out) of Level 3(3)	(1)	-
Ending balance	**40**	**1**
Unrealised gains/(losses)(4)	(7)	1

$in millions	30 June 2021	31 December 2020
TRADE AND OTHER PAYABLES		
Prepaid OTC contracts		
Beginning balance	241	341
Total gains/(losses) recognised in the consolidated income statement(1)	45	120
Settlements	99	20
Ending balance	**295**	**241**
Unrealised gains/(losses)(4)	45	120
Unfunded loan commitments		
Beginning balance	-	1
Settlements	-	(1)
Ending balance	-	-
DEBT AND OTHER BORROWINGS		
Issued structured notes		
Beginning balance	334	314
Total gains/(losses) recognised in the consolidated income statement(1)	(5)	4
Total gains/(losses) recognised in the consolidated statement of comprehensive income(1)	4	(5)
Sales & Issuances(2)	35	82
Settlements	(133)	(45)
Net transfers in and/or (out) of Level 3(3)	(175)	(18)
Ending balance	**62**	**334**
Unrealised gains/(losses)	(1)	(2)

(1) The total gains or (losses) are recognised in the condensed consolidated income statement as detailed in the financial instruments accounting policy (note 3c to the Annual Report and Financial Statements).

(2) Amounts related to entering into net derivative contracts, issued structured notes and prepaid OTC contracts (within trade and other payables) represent issuances. Amounts for other line items represent sales.

(3) For financial assets and financial liabilities that were transferred into or out of Level 3 during the year, 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.

(4) Amounts represent unrealised gains or (losses) for the period ended 30 June 2021 related to assets and liabilities still outstanding at 31 December 2020. The unrealised gains or (losses) are recognised in the condensed consolidated income statement or condensed consolidated statement of comprehensive income as detailed in the financial instruments accounting policy (note 3c to the Annual Report and Financial Statements).

(5) Net derivative contracts represent trading financial liabilities - derivative contracts net of trading financial assets – derivative contracts.

During the period, there was a $1,050 million transfer (2020: no material transfers) from Level 3 to Level 2 on prepaid OTC contracts as the unobservable inputs were not significant to the overall fair value measurement as at 30 June 2021. There were no material transfers from Level 2 to Level 3 of the fair value hierarchy (2020: no material transfers).

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

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

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

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

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

30 June 2021	Fair value $millions	Predominant valuation techniques/ Significant unobservable inputs	Range (Average)[1]
ASSETS			
Trading financial assets:			
- Corporate and other debt:			
- Mortgage- and asset backed securities	300	Comparable pricing	
		Comparable bond price	41 to 100 pts (70 pts)
- Corporate bonds	704	Comparable pricing	
		Comparable bond price	91.4 to 119 pts (97.69 pts)
- Loans and lending commitments	241	Comparable pricing	
		Comparable loan pricing	25.5 to 100.06 pts (94.73 pts)
- Corporate equities	70	Comparable pricing	
		Comparable equity price	100% (100%)
- Government debt securities	75	Comparable pricing	
		Comparable bond price	132 to 153 pts (143 pts)
- Net derivatives contracts:[2]			
- Interest rate	432	Option model	
		Inflation volatility	25% to 66% (45%/43%)
		Interest rate-foreign exchange correlation	53% to 57% (55%/55%)
		Interest rate curve correlation	61% to 98% (61%/87%)
		Inflation curve	1.4% to 1.5% (1.5%/1.5%)
		Interest rate volatility skew	25% to 98% (61%/59%)
		Foreign exchange volatility skew	-0.4% to 0.0% (-0.1%/-0.1%)
		Interest rate – inflation correlation	-80% to -5% (-42%/-48%)
		Deal Execution probability	
		Bond volatility	90% to 90% (90%/90%)
			4% to 25% (10%/6%)
- Credit	8	Credit default swap model	
		Credit spread	2 to 360 bps (75.01 bps)
		Comparable bond price	8 to 96 pts (45 pts)
		Funding spread	42.05 to 90.91bps (66.48bps)
- Foreign exchange and gold[3]	(20)	Option model	
		Interest rate-foreign exchange correlation	30% to 57% (46%/46%)
		Interest rate volatility skew	25% to 98% (61%/59%)
		Deal execution probability	
		Foreign exchange volatility skew	95% to 95% (95%/95%)
		Currency basis	0.3% to 0.4% (0.4%/0.4%)
			6% to 7% (6%/6%)
- Equity[3]	(387)	Option model	
		At the money volatility	13% to 67% (20%)
		Volatility skew	-4% to 0% (-1%)
		Equity-equity correlation	35% to 98% (73%)
		Equity-foreign exchange correlation	-72% to -5% (-37%)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Six months ended 30 June 2021

30 June 2021	Fair value $millions	Predominant valuation techniques/ Significant unobservable inputs	Range (Average)(1)
LIABILITIES			
Secured borrowings:			
- Securities purchased under agreements to resell	599	Discounted cash flow	
		Collateral funding spread	20 to 100bps (60bps)
Investment securities:			
- Corporate equities	150	Comparable pricing	
		Comparable equity price	80% to 100% (98%)
Trade and other receivables:			
-Prepaid OTC contracts	320	Discounted cash flow	
		Recovery rate	40% to 62% (46%/40%)
LIABILITIES			
Debt and other borrowings:			
- Issued structured notes	(62)	Option model	
		At the money volatility	10% to 30% (12%)
		Volatility skew	-1% to 0% (0%)
		Equity-equity correlation	44% to 62% (54%)
		Equity-foreign exchange correlation	-45% to 10% (-24%)
		Comparable bond price	71 to 72 (71.5)
Trade and other payables:			
- Prepaid OTC contracts	(295)	Discounted Cash Flow	
		Recovery Rate	40% to 62% (46%/40%)
Financial liabilities classified as held for trading:			
- Corporate equities	(40)	Comparable pricing	
		Comparable equity price	100% (100%)

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

31 December 2020	Fair value $millions	Predominant valuation techniques/ Significant unobservable inputs	Range (Average)[1]
ASSETS			
Trading financial assets:			
- Government debt securities	266	Comparable pricing	
		Comparable bond pricing	91.3 to 106.18 pts (105.54 pts)
- Corporate and other debt:			
- Mortgage and asset-backed securities	184	Comparable pricing	
		Comparable bond price	32 to 100 pts (73 pts)
- Corporate bonds	487	Comparable pricing	
		Comparable bond price	59 to 133 pts (107 pts)
- Loans and lending commitments	151	Comparable pricing	
		Comparable loan price	25.5 to 101.97 pts (94.67 pts)
- Net derivatives contracts:[2]			
- Interest rate	640	Option Model	
		Inflation Volatility	25% to 66% (45%/43%)
		Interest rate - Foreign exchange correlation	55% to 59% (56%/56%)
		Interest rate curve correlation	46% to 91% (70%/72%)
		Inflation curve	0.94% to 0.95% (0.95%/0.95%)
		Interest rate volatility skew	0% to 349% (62%/59%)
		Foreign exchange volatility skew	0.0% to 0.4% (0%/0%)
		Interest rate – inflation correlation	-80% to -0.5% (-42%/-48%)
		Bond volatility	6% to 24% (13%/13%)
- Credit	120	Credit default swap model	
		Credit spread	4 to 360 bps (73.07)
		Comparable bond price	8 to 85 pts (48 pts)
		Funding spread	64.84 to 118.03 bps (83.57 bps)
		Funding spread	64.84 to 118.03 bps (89.34 bps)
		Comparable bond price	8 to 85 pts (48 pts)
		Credit spread	4 to 360 bps (68.47 bps)
- Foreign exchange and gold[3]	187	Option model	
		Interest rate foreign exchange correlation	18% to 59% (44%/44%)
		Interest rate volatility skew	0% to 349% (62%/59%)
		Deal execution probability	50% to 95% (83%/93%)
		Foreign exchange volatility skew	-21.7% to 28.3% (3.2%/0.9%)
		Currency basis	6% to 8% (7.2%/7.5%)
- Equity	(678)	Option model	
		Equity volatility	15% to 68% (26%)
		Equity volatility skew	-3% to 0% (-1%)
		Equity equity correlation	37% to 95% (70%)
		Equity FX correlation	-80% to 60% (-25%)
- Corporate equities	28	Comparable pricing	
		Comparable equity price	100% (100%)
Investment securities:			
- Corporate equities	151	Comparable pricing	
		Comparable equity price	80% to 100% (99%)
Trade and other receivables			
- Prepaid OTC contracts	1,291	Option model	
		Equity volatility	21% (21%)

31 December 2020	Fair value $millions	Predominant valuation techniques/ Significant unobservable inputs	Range (Average)(1)
Securities borrowed:			
- Securities purchased under agreements to resell	778	Discounted cash flow	
		Collateral funding spread	2 to 84 bps (43 bps)
LIABILITIES			
Debt and other borrowings:			
-Issued structured notes	(334)	Option model	
		Equity volatility	12% to 45% (26%)
		Equity volatility skew	-1% to 0% (-1%)
		Equity equity correlation	20% to 92% (68%)
		Equity FX correlation	-72% to 10% (-19%)
Trade and other payables:			
- Prepaid OTC contracts	(241)	Discounted cash flow	
		Recovery rate	40% to 62% (46%/40%)

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

A description of the significant unobservable inputs and qualitative sensitivity included in the table above for all major categories of assets and liabilities is included within note 30 of Annual Report and Financial Statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Six months ended 30 June 2021

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

The following tables present the potential impact of both favourable and unfavourable changes, both of which would be reflected in the condensed consolidated income statement. The information below is limited to quantitative information and should be read in conjunction with note 30 of the Annual Report and Financial Statements.

	June 30, 2021		December 31, 2020	
in $ millions	**Favourable changes**	**Unfavourable changes**	**Favourable changes**	**Unfavourable changes**
Trading financial assets:				
Government debt securities	-	-	17	(7)
Corporate and other debt	21	(16)	16	(14)
Corporate equities	5	(19)	-	-
Net derivative contracts(1)(2)	52	(34)	76	(32)
Investment securities:				
Corporate equities	19	(12)	17	(23)
Trading financial liabilities:				
Corporate equities	12	(3)	-	-
Debt and other borrowings:				
Issued structured notes	2	(6)	3	(2)
	111	(90)	129	(78)

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

d. Financial instruments valued using unobservable market data

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

in $millions	30 June 2021	31 December 2020
At 1 January	409	342
New transactions	87	167
Amounts recognised in the condensed consolidated income statement during the period/year	(72)	(100)
At 30 June 2021 / 31 December 2020	424	409

The balance above predominately relates to derivatives.

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

17. ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

For all financial instruments not carried at fair value, the carrying value is a reasonable approximation of fair value as at 30 June 2021 owing to their short-term nature, with the exception of $5,000 million of subordinated loan liabilities for which the Level 2 fair value is $5,425 million (31 December 2020: $5,000 million of subordinated loan liabilities for which the Level 2 fair value was $5,414 million). The fair value of subordinated loans has been determined based on the assumption that all subordinated loans are held to maturity.

18. RELATED PARTY DISCLOSURES

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

The Group receives and incurs management charges to and from other Morgan Stanley Group undertakings for infrastructure services, including the provision of staff and office facilities. For the six month period ended 30 June 2021 'management charges from other Morgan Stanley Group undertakings relating to staff costs' were $327 million (30 June 2020: $260 million) and 'management charges from other Morgan Stanley Group undertakings relating to other services' were $745 million (30 June 2020: $700 million). See note 6 for further details.

19. EVENTS AFTER THE REPORTING PERIOD

On 11 August 2021, the Company issued $1,400 million of subordinated debt to Morgan Stanley Investments (UK), its immediate parent undertaking.