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MORGAN STANLEY & CO. INTERNATIONAL plc

Half-yearly financial report

30 June 2019

MORGAN STANLEY & CO. INTERNATIONAL plc

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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 2019. This interim management report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to the Company and its subsidiary undertakings when viewed as a whole.

The interim management report contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available at the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

RESULTS AND DIVIDENDS

The Group's profit for the six month period, after tax, was $361 million (30 June 2018 restated: $684 million).

On 1 March 2019, as part of Brexit reorganisations, the Company paid a dividend in specie of $531 million to Morgan Stanley Investments (UK) ("MSIUK"), thereby transferring its equity interest in Morgan Stanley Europe Holding S.E. ("MSEHSE") and Morgan Stanley Europe S.E. ("MSESE"). On 31 May 2019, the Directors approved a coupon payment on the Additional Tier 1 ("AT1") capital instruments of $119 million (2018: $119 million; see note 12). No other dividends were proposed or paid during the six months ended 30 June 2019 (2018: $nil).

INTRODUCTION

The principal activity of the Group is the provision of financial services to corporations, governments and financial institutions.

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

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

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

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

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW

Global markets and economic conditions

Global economic growth slowed from 3.7% for 2018 to 3.0% in the first half of 2019. The loss of growth momentum was broad-based across both developed and emerging markets. In developed markets, growth softened in the second quarter of 2019 after a brief moderate rebound in the first quarter. In emerging markets, growth stayed sluggish throughout the first half of 2019. Trade tensions remained the key overhang on corporate sentiment, which weighed on capital spending and overall economic activity. In the United Kingdom ("UK"), the Monetary Policy Committee has stayed on hold, softened its hawking bias in response to weak growth and increased Brexit uncertainty, and guided to easier policy in a hard Brexit. In Europe, the European Central Bank ("ECB") kept policy rates unchanged in the first half of 2019 and announced the launch of new Targeted Longer-Term Refinancing Operations later in the year in March with full details of the operations announced in June 2019. In July 2019, the ECB signalled that it would cut rates further and possibly restart quantitative easing. In terms of policy, the Federal Reserve kept interest rates unchanged in the first half of 2019, but financial conditions in the US eased due to the Federal Reserve's dovish tilt earlier in the year. In July 2019, the Federal Reserve cut interest rates by 25bp. Policymakers in China have implemented fiscal easing measures and accelerated government bond issuance due to continued downside pressures on growth. Elsewhere in the world, other major central banks have adopted a more dovish policy stance, and select central banks, such as the Reserve Bank of Australia, Reserve Bank of India, Bank of Korea, Bank Indonesia and Central Bank of Brazil, have moved to cut interest rates.

UK withdrawal from the EU

On 23 June 2016, the UK electorate voted to leave the European Union (the "EU"). On 29 March 2017, the UK invoked Article 50 of the Lisbon Treaty which triggered a two-year period, subject to extension (which would need the unanimous approval of the EU Member States), during which the UK government negotiated a form of withdrawal agreement with the EU.

On 22 March 2019, the UK and other EU Member States agreed to an extension of the two-year period to 22 May, 2019, (if the UK Parliament approved the withdrawal agreement by 29 March 2019) or 12 April 2019 (if it did not). On 11 April 2019, the UK and the other EU Member States agreed to a further extension to 31 October 2019. Absent any further changes to this time schedule, the UK will leave the EU on 31 October 2019.

The proposed withdrawal agreement includes a transition period until December 2020 and provides that the UK will leave the EU single market and will seek a phased period of implementation for a new UK-EU relationship that may include the legal and regulatory framework applicable to financial institutions with significant operations in Europe, such as Morgan Stanley.

The withdrawal agreement has been rejected by the UK Parliament on 15 January 2019 and on two subsequent occasions. As a result, the terms and conditions of the anticipated withdrawal from the EU remain uncertain. Discussions are ongoing within the UK Parliament on the negotiated withdrawal agreement and the alternatives to it, and between the UK Government, led by the new Prime Minister, and the EU.

The ongoing political uncertainty in relation to the proposed withdrawal agreement in the UK and the short time remaining before the scheduled withdrawal date means there is risk that the UK will leave the EU on 31 October 2019 with no agreement in relation to its withdrawal and no transition period.

Potential effects of the UK exit from the EU and potential mitigation actions may vary considerably depending on the timing of withdrawal, the nature of any transition, implementation or successor arrangements, and the future trading arrangements between the UK and the EU. This uncertainty may increase the volatility in the global financial markets in the short- and medium-term and may negatively disrupt regional and global financial markets. Additionally, depending on the outcome, such uncertainty may adversely affect the manner in which we operate certain businesses in Europe. These risks are likely to be heightened in the case where the UK leaves the EU on 31 October 2019 with no agreement in relation to its withdrawal and no transition period.

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

UK withdrawal from the EU (continued)

If the withdrawal agreement (or any alternative agreement) is not agreed and as a result no transition period applies, our UK licensed entities may be unable to rely on EU passporting rights to provide services in a number of EU jurisdictions from the date the UK leaves the EU, absent further regulatory relief. Even if a transition period is agreed, UK licensed entities may lose their rights to provide services in a number of EU jurisdictions after such transition period unless the new UK-EU relationship provides for such rights.

The Morgan Stanley Group is continuing to prepare its European operations to serve clients regardless of whether or not a withdrawal or transition agreement is reached. Changes have been made to European operations in an effort to ensure that the Morgan Stanley Group can continue to provide banking and investment and other services in EU member states from within the EU where necessary.

These changes include use of a new licenced investment firm, MSESE, based in Germany, which is passported throughout the EU and will serve EU-based clients where required; and the existing German licenced credit institution Morgan Stanley Bank AG ("MSBAG"), which will provide licensable banking activities where required. In addition, a new holding company for this structure has been incorporated, MSEHSE. The Morgan Stanley Group will also serve EU clients out of branches of these entities in the EU and existing regulated entities in France and Spain as necessary.

These entities are now operational, and the Morgan Stanley Group is continuing to build out their capabilities, including onboarding clients and engagement with clients and local regulators. The Morgan Stanley Group also expects to continue to add personnel to offices in the EU as required to support the evolving business model, including, from its London operations and its EU branches.

Certain activities currently transacted by the Group including cash and derivatives trading with certain EU clients have moved, or may in future move, to these additional entities, including cash and derivatives trading and capital markets activities moving from the Company to MSESE. The extent and timing of these moves will depend on client preferences and on licencing rules, which in turn will depend on the form of any withdrawal or transition agreement.

As part of the Group's Brexit planning to achieve the strategy mentioned above, the Group has made certain entity structure changes. On 1 November 2018, the Company transferred its investment in MS France Holdings I S.A.S and its subsidiaries ("MS France Group") to MSIUK, the Company's parent undertaking. On 1 March 2019, the Company transferred its investments in MSEHSE and MSESE to MSIUK.

As a result of the political uncertainty described above, the proposed post-Brexit structure of European operations for the Morgan Stanley Group may need to continue to adapt and change. Given the potential negative disruption to regional and global financial markets, and depending on the extent to which Morgan Stanley may be required to make material changes to European operations beyond those currently planned or executed, results of Morgan Stanley's operations and business prospects could be negatively affected. However, following the reorganisations and changes effected to date, the Group's principal activity and risks remain unchanged and while some business and client activity has or will be transferred from the Group to other Morgan Stanley Group entities that operate within the EU, the impact to its profitability and balance sheet is not expected to be material in the short to medium term.

BUSINESS REVIEW (CONTINUED)

Key performance indicators

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

Profitability metrics

Return on shareholders' equity: The Group's return on shareholders' equity was 3.4% for the six month period ended 30 June 2019 (six month period ended 30 June 2018 restated: 7.3%). Return on shareholders' equity is defined as annualised profit for the period attributable to the parent as a percentage of ordinary shareholders' equity (total equity less Non-Controlling Interest) at the beginning of the year. Return on shareholders' equity has decreased for the period as compared to the prior year period primarily as a result of a decrease in profit to $361 million for the period as compared to $684 million for the prior year period.

Return on assets: The Group's return on assets was 0.16% for the six month period ended 30 June 2019 (six month period ended 30 June 2018 restated: 0.30%). Return on assets is defined as annualised profit/loss for the period as a percentage of total assets at the beginning of the period. Return on assets has decreased as a result of a decrease in profit to $361 million for the period as compared to $684 million for the prior year period.

Balance sheet assets

Total assets: Total assets of the Group at 30 June 2019 were $488,610 million, as disclosed on page 26. This is an increase of 10% from 31 December 2018 and is primarily driven by an increase in 'trading financial assets' as a result of fair value movements and increased client demand towards the end of the period. Total assets continue to be closely monitored.

Capital

The Group monitors its, and the Company's, capital position against a range of key metrics, including the following:

Tier 1 regulatory capital: As at 30 June 2019, the Company's Tier 1 capital ratio was 14.7% (31 December 2018: 15.3%), which is in excess of the required minimum regulatory ratio, as calculated in accordance with PRA rules, which are based on the fourth EU Capital Requirements Directive and EU Capital Requirements Regulation ("CRR"), collectively known as "CRD IV". The Tier 1 capital ratio is defined as Tier 1 capital divided by risk-weighted assets ("RWAs"). Tier 1 capital was $18,613 million and RWAs were $126,670 million as at 30 June 2019 (31 December 2018: $19,148 million and $124,950 million respectively). The Tier 1 capital ratio has decreased from 31 December 2018 primarily as a result of dividends paid of $650 million.

Leverage ratio: As at 30 June 2019, the Company had a leverage ratio of 4.2% (31 December 2018: 4.6%), which is above the minimum regulatory ratio of 3% that is expected to apply once European legislation comes into effect on 28 June 2021. CRD IV, as amended by the European Commission Delegated Act, compares Tier 1 capital to a measure of leverage exposure, defined as the sum of leverage assets less Tier 1 capital deductions plus off-balance sheet exposures. The decrease in the Company's leverage ratio was driven by an increase in on-balance sheet exposures as applied to leverage, and a decrease in Tier 1 Capital.

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

Overview of 2019 Financial Results

Set out below is an overview of the Group's financial results for the six month periods ended 30 June 2019 ("the period") and 30 June 2018 ("the prior year period").

in $ millions	Six months ended June 30, 2019	Six months ended June 30, 2018 Restated[(2)]
Net revenue[(1)]	**2,824**	**3,443**
Staff related expenses	(896)	(1,036)
Non-staff related expenses	(1,420)	(1,432)
Operating expenses	**(2,316)**	**(2,468)**
Impairment (loss)	(12)	(5)
Net loss on transfer of investment in subsidiary	(6)	-
Profit before tax	**490**	**970**
Income tax expense	(129)	(286)
Profit after tax	**361**	**684**

in $ millions	Six months ended June 30, 2019	Year ended December 31, 2018
Total Assets	488,610	446,199
Total Liabilities	467,900	425,082
Total Equity	20,710	21,117

(1) Net revenue refers to the aggregate of 'Net trading income', 'Net income from other financial instruments held at fair value', 'Fee and commission income', 'Interest income', 'Interest expense', and 'Other revenue'.
(2) Restated for impact of IAS 12 amendment. Refer to note 1 for further details.

The condensed consolidated income statement for the period is set out on page 22. The Group reported a profit after tax for the period of $361 million, compared to a profit after tax of $684 million for the restated prior year period as a result of decreased net revenues, partially offset by reduced operating expenses.

Net revenues for the period decreased 18% to $2,824 million, compared to $3,443 million for the prior year period.

The decrease in net revenues was driven by decreases in Equity, Fixed Income and Investment Banking revenues as macroeconomic uncertainties affected market sentiment and trading performance, as well as the transfer of the Group's investment in the MS France Group to MSIUK on 1 November 2018.

The decrease in Equity revenues was primarily driven by lower Derivatives and Prime Brokerage revenues. Derivatives revenues were lower due to 2018 revenues including gains from a number of individually significant trades, and decreased client demand throughout the period as compared to the prior year period. Prime Brokerage revenues reduced due to lower client balances and financing revenues.

The decrease in Fixed Income revenues was due to reduced Macro Products revenues, reflecting inventory management losses as a result of a decline in interest rates and from lower levels of client activity.

Investment Banking revenues decreased due to lower advisory revenues and underwriting revenues. Advisory revenues decreased due to lower completed M&A activity and underwriting decreased due to lower initial public offerings and convertible issuances.

Operating expenses decreased from $2,468 million for the prior year period to $2,316 million for the period.

Overview of 2019 Financial Results (continued)

Staff-related expenses decreased by 14% from $1,036 million for the six month period ended 30 June 2018 to $896 million for the six months ended 30 June 2019. The decrease was primarily driven by lower discretionary compensation as a result of lower Institutional Group revenues and the transfer of the Group's investment in the MS France Group to MSIUK on 1 November 2018.

Non-staff related expenses decreased by 1% from $1,432 million for the prior year period to $1,420 million for the period. This decrease was driven primarily by lower volume-related expenses including brokerage and transaction taxes, from reduced client activity. This is partially offset by an increase in management charges from other Morgan Stanley Group undertakings relating to other services. Refer to note 3 for further details.

The Group's tax expense for the period was $129 million compared to $286 million restated for the prior year period. This represents an effective tax rate of 26.3% (30 June 2018 restated: 29.5%) which is lower than the average standard rate of UK corporation tax (inclusive of the UK Banking surcharge) of 27% (30 June 2018: 27%). The main reason for the lower effective tax rate is the corporation tax benefit of the Additional Tier 1 coupon payments, partially offset by the non-deductibility of the UK Bank Levy and the effect of taxes in foreign jurisdictions. The 2018 tax charge has been restated to reflect the amendment to IAS 12 regarding the presentation of the tax benefit arising from coupons on AT1 instruments. See notes 1 and 5 for further details.

The condensed consolidated statement of financial position presented on page 26 reflects increases in the Group's total assets and total liabilities of $42,411 million and $42,818 million respectively, representing increases of 10% each as at 30 June 2019 when compared to 31 December 2018.

The increase in total assets is driven by increases of $38,895 million in 'trading financial assets', $2,633 million in 'trade and other receivables' and $2,429 million in 'cash and short-term deposits'.

The increase in 'trading financial assets' is driven by derivative assets, as a result of fair value movements, and by corporate equities predominantly driven by an increase in client demand towards the end of the period. The increase in 'trade and other receivables' reflects higher collateral pledges in relation to derivative transactions as a consequence of changes in underlying derivative exposures. The increase in 'cash and short-term deposits' is mainly due to increase in cash held with central banks as part of the Group's liquidity reserve.

The increase in total liabilities is driven by increases in 'trading financial liabilities' of $31,699 million, 'debt issued and other borrowings' of $11,822 million and 'secured borrowing' of $2,185 million which is partially offset by a decrease in 'trade and other payables' of $2,827 million.

The increase in 'trading financial liabilities' is driven by an increase in derivative liabilities as a result of fair value movements, and in corporate equities, due to an increase in client demand towards the end of the period. The increase in 'debt issued and other borrowings' relates mainly to higher intercompany borrowings to fund the increase in business activity.

Total equity decreased by $407 million as a result of the dividends paid of $650 million, including the dividend in specie of MSEHSE and MSESE, offset by profit after tax of $361 million.

The condensed consolidated statement of cash flows presented on page 27 shows an increase in cash and cash equivalents of $2,429 million during the six month period to 30 June 2019 (six month period to 30 June 2018: net increase of $7,196 million). Net cash inflows from operating activities were $3,195 million (six month period to 30 June 2018: $8,660 million). This has been partially offset by net cash outflows from investing activities of $456 million due to the transfer of MSEHSE and MSESE to MSIUK, and net cash outflows from financing activities due to the payment of the AT1 dividend of $119 million (30 June 2018: $119 million).

RISK MANAGEMENT

Risk is an inherent part of the Group's business activity. The Group seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities, in accordance with defined policies and procedures. The Group has developed its own risk management policy framework, which leverages the risk management policies and procedures of the Morgan Stanley Group. The risk management policy framework includes escalation to the Group's Board of Directors and to appropriate senior management of the Group, as well as oversight through the Group's Board of Directors and through a dedicated Risk Committee of non-executive Directors that reports to the Board of Morgan Stanley International Limited ("MSI"), the Company's ultimate UK parent undertaking.

Pages 9 to 26 of the strategic report and note 28 to the consolidated financial statements for the year ended 31 December 2018 provide more detailed qualitative disclosures on the Group's exposure to financial risks.

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

Market risk

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

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

The Group uses the statistical technique known as Value at Risk ("VaR") as one of the tools used to measure, monitor and review the market risk exposures of its trading portfolios. The Market Risk Department calculates and distributes daily VaR-based risk measures to various levels of management. The following table shows the Group's Management VaR at the total level, as well as the contribution from primary risk categories, for the six month period ended 30 June 2019 and for the year ended 31 December 2018.

	95% / one-day VaR for the six months ended 30 June 2019		95% / one-day VaR for the year ended 31 December 2018	
in $ millions	**Period End**	**Average**	**Period End**	**Average**
Primary Risk Categories	23	19	17	19
Credit Portfolio[(1)]	6	5	4	4
Less: Diversification benefit[(2)]	(5)	(4)	(3)	(2)
Total Management VaR	**24**	**20**	**18**	**21**

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

The Group's average Management VaR for Primary Risk Categories for the six month period ended 30 June 2019 was $19 million, unchanged compared to 2018.

The Group's average Credit Portfolio VaR for the six months ended 30 June 2019 was $5 million, materially unchanged compared to $4 million in 2018.

The Group's average Total Management VaR for the six months ended 30 June 2019 was $20 million, compared to $21 million for 2018 primarily due to increased diversification benefit.

RISK MANAGEMENT (CONTINUED)

Credit risk

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

The Group primarily incurs credit risk exposure to institutions and sophisticated investors mainly through its Institutional Securities business segment. This risk may be incurred through a variety of activities, including, but not limited to, the following:

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

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

For further information on the Group's credit risk management framework, monitoring and control, credit evaluation and risk mitigation procedures, refer to pages 18 to 20 of the strategic report in the consolidated financial statements for the year ended 31 December 2018.

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

RISK MANAGEMENT (CONTINUED)

Credit Risk (continued)

Exposure to credit risk by class

Class in $ millions	30 June 2019 Gross credit exposure[(1)]	Credit enhancements	Net credit exposure	31 December 2018 Gross credit exposure[(1)]	Credit enhancements	Net credit exposure
Recognised financial instruments						
Secured financing	94,788	(93,888)	900	95,643	(94,546)	1,097
Trading financial assets:						
Derivatives	203,147	(196,999)	6,148	179,311	(173,250)	6,061
Unrecognised financial instruments						
Loan commitments	2,841	(607)	2,234	2,308	(84)	2,224
	300,776	(291,494)	9,282	277,262	(267,880)	9,382

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

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

Country risk exposure

Country risk is the risk that events in, or affecting, a foreign country might adversely affect the Group. "Foreign country" means any country other than the UK. Sovereign Risk, by contrast, is the risk that a government will be unwilling or unable to meet its debt obligations, or will renege on the debt it guarantees. Sovereign risk is single-name risk for a sovereign government, its agencies and guaranteed entities. For further information on how the Group identifies, monitors and manages country risk exposure refer to page 21 of the strategic report of the consolidated financial statements for the year ended 31 December 2018.

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

INTERIM MANAGEMENT REPORT

RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Country risk exposure (continued)

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
United States							
Sovereigns	1,565	146	-	-	1,711	-	1,711
Non-sovereigns	1,568	1,527	25	596	3,716	(130)	3,586
Total United States	3,133	1,673	25	596	5,427	(130)	5,297
France							
Sovereigns	(725)	-	-	-	(725)	-	(725)
Non-sovereigns	(405)	2,197	25	1,096	2,913	(343)	2,570
Total France	(1,130)	2,197	25	1,096	2,188	(343)	1,845
Italy							
Sovereigns	618	(44)	-	-	574	39	613
Non-sovereigns	280	398	-	190	868	(85)	783
Total Italy	898	354	-	190	1,442	(46)	1,396
Germany							
Sovereigns	(1,004)	135	-	-	(869)	(341)	(1,210)
Non-sovereigns	(115)	2,837	-	29	2,751	(244)	2,507
Total Germany	(1,119)	2,972	-	29	1,882	(585)	1,297
Japan							
Sovereigns	229	-	-	-	229	(37)	192
Non-sovereigns	88	990	-	-	1,078	(21)	1,057
Total Japan	317	990	-	-	1,307	(58)	1,249

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

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

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

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

RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk

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

For a further discussion on the Group's liquidity risk refer to page 23 of the strategic report in the consolidated financial statements for the year ended 31 December 2018.

Operational risk

Operational risk refers to the risk of loss, or damage to the Group's reputation, resulting from inadequate or failed processes or systems, from human factors or from external events (e.g. fraud, theft, legal and compliance risks, cyber-attacks or damage to physical assets). Operational risk relates to the following risk event categories as defined by Basel Capital Standards: internal fraud; external fraud; employment practices and workplace safety; clients, products and business practices; business disruption and system failure; damage to physical assets; and execution, delivery and process management. The Group may incur operational risk across the full scope of its business activities. Legal and compliance risk is included in the scope of operational risk.

For further information on the Group's operational risk including conduct risk and legal, regulatory and compliance risk, refer to the pages 23 to 26 of the strategic report in the consolidated financial statements for the year ended 31 December 2018.

LIQUIDITY AND CAPITAL RESOURCE MANAGEMENT AND REGULATION

Regulatory liquidity framework

The Basel Committee has developed two standards intended for use in liquidity risk supervision: the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR").

The LCR was developed to ensure banking organisations have sufficient high quality liquid assets to cover net cash outflows arising from significant stress over 30 calendar days. The standard's objective is to promote the short-term resilience of the liquidity risk profile of banking organisations. The Group is in compliance with the minimum LCR requirement of 100% as detailed in the LCR Delegated Act adopted by the European Commission.

The objective of the NSFR is to reduce funding risk over a one year horizon by requiring banking organisations to fund their activities with sufficiently stable sources of funding to mitigate the risk of future funding stress. In June 2019, as part of the European Commission's published amendment to the CRR, the final NSFR rules come into effect from 28 June 2021. The Group continues to evaluate the NSFR requirements and expects to be compliant when it becomes effective.

Capital management

The Group views capital as an important source of financial strength. It actively manages and monitors its capital in line with established policies and procedures and in compliance with local regulatory requirements.

In line with Morgan Stanley Group's capital management policies, the Group manages its capital position based upon, among other things, business opportunities, risks, capital availability and rates of return together with internal capital policies, regulatory requirements and rating agency guidelines. Therefore, in the future it may adjust its capital base in reaction to the changing needs of its businesses. The appropriate level of capital is determined at a legal entity level to safeguard that entity's ability to continue as a going concern and ensure that it meets all regulatory capital requirements. The key components of the capital management framework used by the Group are set out in the MSI Group's Capital Planning and Management Policy and include a point in time risk and leverage based capital assessment, forward-looking capital projections and stress testing.

The MSI Group conducts an Internal Capital Adequacy Assessment Process ("ICAAP") at least annually in order to meet its obligations under CRDIV and the requirements of the PRA. The ICAAP is one of the key tools used to inform the MSI Group's capital adequacy assessment, planning and management. The MSI Group ICAAP:

- Is designed to ensure that the risks to which the MSI Group is exposed are appropriately capitalised and risk managed, including those risks that are not captured, or not fully captured, under Pillar 1;
- Uses stress testing to size a capital buffer aimed at ensuring the MSI Group will continue to operate above regulatory requirements under a range of severe but plausible stress scenarios; and
- Assesses capital adequacy under normal and stressed operating environments over the 3-year capital planning horizon to ensure the MSI Group maintains a capital position in line with internal pre- and post-stress minimum levels.

The key elements of the ICAAP are embedded in the MSI Group's day-to-day management processes and decision-making culture.

The PRA reviews the ICAAP through its Supervisory Review and Evaluation Process ("SREP") and sets a Total Capital Requirement ("TCR") which establishes the minimum level of regulatory capital for the MSI Group. As of 30 June 2019 the MSIP TCR was set at 11.3%. If required, the PRA sets a buffer in addition to the Basel Combined Buffers.

The Company's capital is managed to ensure risk and leverage based requirements assessed through the ICAAP and SREP are met. Internal capital ratio minima are set to ensure the Company has sufficient capital to meet their regulatory requirements at all times.

LIQUIDITY AND CAPITAL RESOURCE MANAGEMENT AND REGULATION (CONTINUED)

Capital management (continued)

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

Regulatory capital framework

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

The Company is regulated by the FCA and the PRA and, as such, is subject to minimum capital requirements. The Company's capital is monitored on an ongoing basis to ensure compliance with these requirements. At a minimum, the Company must ensure that Capital Resources described in accordance with CRR as Own Funds, are greater than the Total Capital Requirement.

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

Own Funds

Set out below are details of the Company's Capital Resources, described in accordance with CRR and tables below as Own Funds, as at 30 June 2019 and 31 December 2018:

in $ millions	**30 June 2019**	**31 December 2018**
Common Equity Tier 1 ("CET 1")	15,113	15,648
Additional Tier 1	3,500	3,500
Tier 1 Capital	18,613	19,148
Tier 2 Capital	5,000	5,000
Total Own Funds	23,613	24,148
RWAs	126,670	124,950
CET1 Ratio	11.9%	12.5%
Tier 1 Capital Ratio	14.7%	15.3%
Total Capital Ratio	18.6%	19.3%

CET1 decreased by $535 million in the period, primarily as a result of dividends paid of $650 million.

Leverage ratio framework

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

LIQUIDITY AND CAPITAL RESOURCE MANAGEMENT AND REGULATION (CONTINUED)

Regulatory capital framework (continued)

Leverage ratio framework (continued)

Although there is no current binding leverage requirement under CRD IV, the MSI Group manages its risk of excessive leverage through the application of Business Unit leverage exposure limits and leverage ratio early warning trigger levels. Limits are calibrated in line with legal entity capacity and ensure that leverage exposure remains within the MSI Board's risk appetite. MSI Group and the Company's leverage exposures are calculated monthly and weekly, respectively, and reported to the Europe, Middle East and Africa ("EMEA") Asset and Liability Committee ("ALCO") who monitor these, as well as maturity mismatches and Asset Encumbrance metrics, to ensure that any excessive risk is highlighted, assessed and mitigated appropriately. The Company's leverage ratio is detailed in the table below:

in $ millions	30 June 2019	31 December 2018
Tier 1 Capital	18,613	19,148
Leverage Exposure	445,514	417,315
Leverage Ratio	4.2%	4.6%

The decrease was driven by an increase in on-balance sheet exposure and a decrease in Tier 1 Capital. In June 2019, as part of the European Commission's published amendment to the CRR, the Group will be subject to a binding leverage ratio of 3% from 28 June 2021.

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

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

In June 2019, the European Commission published final rules for TLAC requirements as part of their amendments to the CRR. The rules apply at the Group level only and are effective from 27 June 2019. The $6,000 million senior subordinated loan referred to above meets the Group's TLAC requirements.

Credit ratings

The Company relies on external sources to finance a significant portion of its daily operations. The cost and availability of financing generally are impacted by the Company's credit ratings, among other variables. In addition, the Company's credit ratings can have an impact on certain trading revenues, particularly in those businesses where longer-term counterparty performance is a key consideration, such as OTC derivative transactions, including credit derivatives and interest rate swaps. When determining credit ratings, ratings agencies consider company-specific factors, other industry factors such as regulatory or legislative changes, and the macroeconomic environment, among other things. Some rating agencies have stated that they currently incorporate various degrees of credit rating uplift from non-governmental third party sources of potential support.

At 30 June 2019, the Company's senior unsecured ratings were as follows, unchanged from 31 December 2018:

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

LIQUIDITY AND CAPITAL RESOURCE MANAGEMENT AND REGULATION (CONTINUED)

Credit ratings (continued)

Collateral impact of a downgrade

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

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

The additional collateral or termination payments that may be called in the event of a future credit rating downgrade vary by contract and can be based on ratings by either or both of Moody's and S&P. As at 30 June 2019, the future potential collateral amounts and termination payments that could be called or required by counterparties or exchanges and clearing organisations in the event of one-notch or two-notch downgrade scenarios (from the lowest of Moody's or S&P ratings), based on the relevant contractual downgrade triggers, were $115 million and an incremental $258 million, respectively.

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

Regulatory development

Financial risks from climate change

In April 2019, the PRA issued a supervisory statement on enhancing banks' and insurers' approaches to managing financial risks from climate change. The Group is considering the impact of this statement on its longer term strategy and how it manages the financial risks of climate change in line with its risk management framework.

Basel Committee on Banking Supervision ("BCBS") - finalising Basel III reforms

In December 2017, the BCBS released the final part of its Basel III reform package. The key amendments provide updates to the standardised measures for calculating capital requirements and include a RWA floor, calculated as 72.5% of total standardised RWA.

In January 2019, the BCBS published its revised final standard on the minimum capital requirements for market, also known as the Fundamental Review of the Trading Book ("FRTB"). The new regime:

- Clarifies the boundary between the banking book and trading book;
- Provides capital requirements for non-modellable risk factors;
- Introduces an internal models approach that uses expected shortfall models; and
- Establishes a more risk-sensitive standardised approach that acts as a fallback for the internal models method

Given that the above proposals will need to be transposed into national/EU law, the timing and impact of the final outcome remains uncertain.

LIQUIDITY AND CAPITAL RESOURCE MANAGEMENT AND REGULATION (CONTINUED)

Regulatory development (continued)

Amendments to the Capital Requirements Regulation

In June 2019, the European Commission published the final rules, known as CRD V and CRR II that amend the existing prudential regime (CRD IV and CRR), and the BRRD.

The CRD V/CRR II package includes: TLAC, FRTB, Standardised approach to counterparty credit risk ("SA-CCR"), NSFR, revised Leverage Ratio, revised Large Exposures framework, Intermediate Parent Undertaking ("IPU") requirement, and revised Pillar 3 disclosure requirements.

Final rules are effective 27 June 2019; however, implementation dates are staggered over a four year period, with TLAC applying from 27 June 2019 and the majority of new requirements applying from 28 June 2021.

OTHER REGULATORY MATTERS

Resolution and recovery planning

Both the Morgan Stanley Group and the MSI Group prepare, on an annual basis, a recovery plan which identifies mitigation tools available to both groups in times of severe stress.

The Morgan Stanley Group has developed a resolution plan in accordance with the requirements of Section 165(d) of Title I of the Dodd-Frank Wall Street Reform and Consumer Protection Act and its implementation regulations adopted by the Federal Reserve Board and the Federal Deposit Insurance Corporation. The resolution plan presents the Firm's strategy for resolution of the Firm upon material financial distress or failure. The Company is a Material Operating Entity of the Morgan Stanley Group and is within the scope of the single point of entry resolution strategy adopted by the Morgan Stanley Group.

The BRRD has established a recovery and resolution framework for EU credit institutions and investment firms, including the Company. The Company produces information required by the UK Resolution Authority in the form of a resolution pack and ad hoc regulatory submissions, as necessary under BRRD and UK regulatory requirements.

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

Central banks around the world, including the Federal Reserve, the Bank of England, and the European Central Bank, have commissioned committees and working groups of market participants and official sector representatives with the goal of finding suitable replacements for LIBOR and replacements or reforms of other interest rate benchmarks, such as the Euro Interbank Offered Rate ("EURIBOR") and Euro Overnight Index Average ("EONIA") (collectively, the "IBORs"). During the second quarter of 2019, the Morgan Stanley Group issued floating rate debt using the Secured Overnight Financing Rate ("SOFR"), which is the alternative rate to US dollar LIBOR selected by the Alternative Reference Rates Committee convened by the Federal Reserve Board and the Federal Reserve Bank of New York.

The Morgan Stanley Group's transition plan includes a number of key steps, including continued engagement with central banks 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, to promote the transition to alternative reference rates. We have established a firm-wide initiative to identify, assess and monitor risks associated with the expected discontinuation or unavailability of IBORs and/or reform of interest rate benchmarks. This includes taking steps to update operational processes (including to support alternative reference rates) and models, as well as evaluating legacy contracts for any changes that may be required, including the determination of applicable fallbacks.

INTERIM MANAGEMENT REPORT
OTHER REGULATORY MATTERS (CONTINUED)

Companies Regulations

Issued in July 2018, The Companies (Miscellaneous Reporting) Regulations 2018 introduced a number of new reporting requirements aimed at enhancing corporate governance reporting within the annual financial statements of certain larger UK companies, including MSIP. The new Regulations are effective for financial years beginning on or after 1 January 2019 and will require MSIP to provide a statement of corporate governance arrangements including which governance code has been applied, if any (or what other arrangements are in place); how the chosen code was applied; and any departures from it, as well as disclosure explaining how the Directors have fulfilled their duty under s172 (1) of the UK Companies Act to promote the success of the company and a statement on engagement with suppliers, customers and employees.

Impact of withdrawal from the EU

The Group is currently subject to EU regulatory requirements based on the implementation of EU directives by the UK and through EU regulations that apply directly. As a result of the UK's decision to leave the EU (Brexit), there is uncertainty around what EU regulatory requirements will continue to apply in the UK. EU regulatory requirements in effect at the withdrawal date may continue to apply to the Group directly. Alternatively, the UK may implement equivalent standards for a period of time, including introducing equivalent standards for evolving regulation being introduced by the EU that would apply to the Group. This may include additional proposals made by the Basel Committee in its Basel III reform package.

GOING CONCERN

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

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

Approved by the Board and signed on its behalf by

K Lazaroo

Director

26 September 2019

MORGAN STANLEY & CO. INTERNATIONAL plc

DIRECTORS' RESPONSIBILITY STATEMENT

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

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

(b) the interim management report includes a fair review of the information required by DTR4.2.7R of the Disclosure and Transparency Rules, being an indication of the important events that have occurred during the period and their impact on the condensed set of interim financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year.

By order of the Board on 26 September 2019

K Lazaroo

Director

Board of Directors:

S Ball	(appointed 28 February 2019)
J Bloomer	(Chairman)
D O Cannon	
C Castello	(resigned 31 January 2019)
T Duhon	
L Guy	
J Horder	
A Kohli	
K Lazaroo	(appointed 22 February 2019)
M C Phibbs	
D A Russell	
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 month period ended 30 June 2019 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.

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 them 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.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

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

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of interim 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 procedures 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 month period ended 30 June 2019 is not prepared, in all material aspects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
London, United Kingdom
26 September 2019

MORGAN STANLEY & CO. INTERNATIONAL plc

CONDENSED CONSOLIDATED INCOME STATEMENT
Six months ended 30 June 2019

in $ millions	Note	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 restated (unaudited)
Net trading income		3,000	2,945
Net income from other financial instruments held at fair value		(472)	150
Fee and commission income	2	1,046	1,294
Other revenue		51	15
Interest income	4	1,063	472
Interest expense	4	(1,864)	(1,433)
Net interest income		(801)	(961)
Net revenue		2,824	3,443
Net loss on investments in subsidiaries, associates and joint ventures	9	(6)	-
Non-interest expenses:			
Operating expenses	3	(2,316)	(2,468)
Net impairment loss on financial assets		(12)	(5)
PROFIT BEFORE TAX		490	970
Income tax expense	5	(129)	(286)
PROFIT FOR THE PERIOD		361	684

All operations were continuing in the current and prior periods.

The notes on pages 28 to 65 form an integral part of the Interim Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Six months ended 30 June 2019

in $ millions	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 restated (unaudited)
PROFIT FOR THE PERIOD	361	684
OTHER COMPREHENSIVE INCOME, NET OF TAX		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of net defined benefit liability	1	(1)
Changes in fair value attributable to own credit risk on financial liabilities designated at fair value	(118)	94
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)	(36)
Net amount reclassified to consolidated income statement upon transfer of subsidiary	6	-
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX	(125)	57
TOTAL COMPREHENSIVE INCOME	236	741
Attributable to:		
Owners of the parent	236	743
Non-controlling interests	-	(2)
TOTAL COMPREHENSIVE INCOME	236	741

The notes on pages 28 to 64 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 2019

in $ millions	Note	Equity instruments	Share premium account	Currency translation reserve	Capital contribution reserve	Capital redemption reserve	Pension reserve	Debt valuation adjustment reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total equity
Balance at 1 January 2019		15,965	513	109	3	1,400	(1)	53	3,018	21,060	57	21,117
Profit for the period		-	-	-	-	-	-	-	361	361	-	361
Other comprehensive income for the period:												
Remeasurement of defined benefit liability		-	-	-	-	-	1	-	-	1	-	1
Changes in fair value attributable to own credit risk on financial liabilities designated at fair value		-	-	-	-	-	-	(118)	-	(118)	-	(118)
Foreign currency translation differences arising on foreign operations		-	-	(14)	-	-	-	-	-	(14)	-	(14)
Recycling of currency translation reserve upon disposal of subsidiary		-	-	6	-	-	-	-	-	6	-	6
Total comprehensive income		-	-	(8)	-	-	1	(118)	361	236	-	236
Transactions with owners:												
Dividends	12	-	-	-	-	-	-	-	(650)	(650)	-	(650)
Difference recognised in equity upon dividend in specie of MSESE Group	9	-	-	-	-	-	-	-	7	7	-	7
Balance at 30 June 2019 (unaudited)		15,965	513	101	3	1,400	-	(65)	2,736	20,653	57	20,710

MORGAN STANLEY & CO. INTERNATIONAL plc

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Six months ended 30 June 2019

in $ millions	Equity instruments	Share premium account	Currency translation reserve	Available-for-sale reserve	Capital contribution reserve	Capital redemption reserve	Pension reserve	Debt valuation adjustment reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total equity
Balance at 1 January 2018	13,765	513	98	63	3	1,400	-	(118)	2,904	18,628	59	18,687
Impact of change in accounting policy for fair value gains and losses on inception	-	-	-	-	-	-	-	-	37	37	-	37
Impact of adoption of new accounting standards	-	-	-	(63)	-	-	-	-	67	4	-	4
Profit for the period	-	-	-	-	-	-	-	-	662	662	-	662
Prior period impact of IAS 12 amendment	-	-	-	-	-	-	-	-	22	22	-	22
Other comprehensive income for the period:												
Remeasurement of defined benefit liability	-	-	-	-	-	-	(1)	-	-	(1)	-	(1)
Change in fair value attributable to own credit risk on financial liabilities designated at fair value	-	-	-	-	-	-	-	94	-	94	-	94
Foreign currency translation differences arising on foreign operations	-	-	(34)	-	-	-	-	-	-	(34)	(2)	(36)
Total comprehensive income	-	-	(34)	-	-	-	(1)	94	684	743	(2)	741
Transactions with owners:												
Dividends	-	-	-	-	-	-	-	-	(87)	(87)	-	(87)
Prior period impact of IAS 12 amendment	-	-	-	-	-	-	-	-	(32)	(32)	-	(32)
Balance at 30 June 2018 restated (unaudited)	13,765	513	64	-	3	1,400	(1)	(24)	3,573	19,293	57	19,350

The notes on pages 28 to 64 form an integral part of the Interim Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2019

in $ millions	Note	30 June 2019 (unaudited)	31 December 2018
ASSETS			
Cash and short term deposits		33,258	30,829
Trading financial assets (of which $41,977 million (2018: $38,499 million) were pledged to various parties)	7	292,083	253,188
Secured financing	6	94,788	95,643
Loans and advances		200	836
Investment securities		137	132
Trade and other receivables		67,830	65,197
Current tax assets		259	350
Deferred tax assets		25	5
Property, plant and equipment		17	10
Other assets		13	9
TOTAL ASSETS		488,610	446,199
LIABILITIES AND EQUITY			
Bank loans and overdrafts		3	4
Trading financial liabilities	7	248,792	217,093
Secured borrowing	6	81,112	78,927
Trade and other payables		88,931	91,758
Debt and other borrowings		48,937	37,115
Provisions		3	3
Current tax liabilities		47	55
Deferred tax liabilities		-	33
Accruals and deferred income		69	87
Post employment benefit obligations		6	7
TOTAL LIABILITIES		467,900	425,082
EQUITY			
Share capital		15,965	15,965
Share premium account		513	513
Currency translation reserve		101	109
Capital contribution reserve		3	3
Capital redemption reserve		1,400	1,400
Pension reserve		-	(1)
Debt valuation adjustment reserve		(65)	53
Retained earnings		2,736	3,018
Equity attributable to owners of the parent		20,653	21,060
Non-controlling interest		57	57
TOTAL EQUITY		20,710	21,117
TOTAL LIABILITIES AND EQUITY		488,610	446,199

The notes on pages 28 to 64 form an integral part of the Interim Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
As at 30 June 2019

in $ millions	Note	Six months ended 30 June 2019 (unaudited)	Six months ended 30 June 2018 (unaudited)
NET CASH FLOWS FROM OPERATING ACTIVITIES		3,195	8,660
INVESTING ACTIVITIES			
Transfer of subsidiary		(456)	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(456)	-
FINANCING ACTIVITIES			
Dividends paid	12	(119)	(119)
Repayment of subordinated loans		-	(2,000)
Interest paid on subordinated loan liabilities		-	(26)
Interest paid on senior subordinated loan liabilities		(120)	-
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(239)	(2,145)
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,500	6,515
Currency translation differences on foreign currency cash balances		(71)	681
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		30,829	25,338
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		33,258	32,534

The notes on pages 28 to 64 form an integral part of the Interim Financial Statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Six months ended 30 June 2019

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 2018 were approved by the Board of Directors on 18 April 2019 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 2018 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 2006. The Interim Financial Statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conducts Authority and in accordance with IAS 34 '*Interim Financial Reporting*', as adopted by the EU.

In preparing these Interim Financial Statements the Group has applied consistently the accounting policies and methods of computation used in the Group's annual consolidated financial statements for the year ended 31 December 2018, except where noted below in the 'New standards and interpretations adopted during the period'.

New standards and interpretations adopted during the period

The following standards, amendments to standards and interpretation 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.

IFRS 16 '*Leases*' was issued by the IASB in January 2016. The standard was endorsed by the EU in November 2017. The Group adopted this standard using the modified retrospective method of adoption, which resulted in the recognition of additional right of use ("ROU") assets and lease liabilities for leases existing at, or entered into after 1 January 2019 which were previously accounted for as operating leases under IAS 17 *'Leases'*. Comparative amounts have not been restated and there was no resultant cumulative effect adjustment arising on adoption of the standard.

An amendment to IAS 19 *'Plan Amendment, Curtailment or Settlement'* was issued by the IASB in February 2018, for retrospective application to plan amendments, curtailments or settlements occurring on or after 1 January 2019. The amendment was endorsed by the EU in March 2019.

As part of the 2015-2017 Annual Improvements Cycle published in December 2017, the IASB made amendments to the following standards that are relevant to the Group's operations: IAS 12 *'Income Taxes'* and IAS 23 *'Borrowing Costs'*, for application in accounting periods beginning on or after 1 January 2019. The amendment to IAS 12 has changed the presentation of the tax benefit relating to coupon payments on the Additional Tier 1 capital instruments, which are now presented within 'Income tax expense' in the condensed consolidated income statement rather than in the condensed consolidated statement of changes in equity. The amendments were endorsed by the EU in March 2019. Refer to note 1(d) for further detail.

IFRIC 23 '*Uncertainty over Income Tax Treatments*' was issued by the IASB in June 2017 for application in accounting periods beginning on or after 1 January 2019. The interpretation was endorsed by the EU in October 2018. Implementation of the interpretation had no impact on the results of the Group.

1. BASIS OF PREPARATION (CONTINUED)

New standards and interpretations not yet adopted

At the date of authorisation of these condensed consolidated financial statements, the following amendments to standards relevant to the Group's operations were issued by the IASB but not mandatory for accounting periods beginning 1 January 2019. 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 1 *'Presentation of Financial Statements'* and IAS 8 *'Accounting Policies, Changes in Accounting Estimates and Errors'* were issued by the IASB in October 2018, for application in accounting periods beginning on or after 1 January 2020.

c. Critical accounting judgements and sources of estimation uncertainty

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

Critical accounting judgements are key decisions made by management in the application of the Group's accounting policies, other than those involving estimations, which have the most significant effects on the amounts recognised in the financial statements. Critical accounting estimates represent assumptions and estimations made by management that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

The critical judgements in applying the Group's accounting policies relate to recognition and measurement of tax balances and consolidation of structured entities. For further detail on recognition and measurement of tax balances refer to accounting policy note 3(n) and note 21 of the consolidated financial statements for the year ended 31 December 2018. For further detail on consolidation of structured entities refer to note 16 of the consolidated financial statements for the year ended 31 December 2018.

The critical sources of estimation uncertainty relate to the valuation of Level 3 financial instruments and measurement of property, litigation and taxation provisions. For further detail refer to accounting policy note 3(p) of the consolidated financial statements for the year ended 31 December 2018.

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

d. Change in accounting policy arising from IAS 12 amendment

As noted in note 1(b), an amendment to IAS 12 for application in accounting periods beginning on or after 1 January 2019 has been adopted by the Group and affects the presentation of the tax benefit relating to dividend payments on the Group's AT1 capital instruments. Previously the Group recognised the tax benefit of such coupon payments directly in 'Retained earnings'. Following adoption of the amendment, this benefit is reflected within 'Income tax expense' in the condensed consolidated income statement.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Six months ended 30 June 2019

1. BASIS OF PREPARATION (CONTINUED)

d. Change in accounting policy arising from IAS 12 amendment (continued)

As required by the IAS 12 amendment, the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period have been presented in 'Income tax expense', rather than directly in 'Retained earnings'. The impact of this amendment is as follows:

in $ millions	30 June 2018	31 December 2018
CONSOLIDATED STATEMENT OF FINANCIAL POSITION		
Liabilities:		
Current tax liabilities	10	-
Equity:		
Retained earnings	(10)	-
INCOME STATEMENT		
Profit and loss:		
Income tax expense	22	32

2. FEE AND COMMISSION INCOME

in $ millions	30 June 2019	30 June 2018
Trust and other fiduciary activities	82	85
Investment banking	510	632
Other fee and commission income	362	453
Other	92	124
Total fee and commission income	1,046	1,294
Of which, revenue with contracts with customers	1,083	1,356

Total fee and commission income is stated after the transfer of revenues totalling $37 million (2018: $62 million) to 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 2019	30 June 2018
Investment banking[(1)]	549	695
Trust and other fiduciary activities	82	85
Commission income	360	453
Other revenue from contracts with customers	92	123
Total revenue from contracts with customers	1,083	1,356

(1) Includes advisory and underwriting revenues.

3. OPERATING EXPENSES

in $ millions	30 June 2019	30 June 2018
Direct staff costs	46	73
Management charges from other Morgan Stanley Group undertakings relating to staff costs	850	963
Staff related expenses	896	1,036
Management charges from other Morgan Stanley Group undertakings relating to other services	656	554
Brokerage fees	304	352
Administration and corporate services	49	48
Professional services	70	73
Other taxes	287	334
Other	54	71
Non-staff related expenses	1,420	1,432
Total operating expenses	2,316	2,468

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

Staff-related expenses decreased by 14% from $1,036 million to $896 million for the period. The decrease was primarily driven by lower discretionary compensation as a result of lower Institutional Group revenues and from the transfer of the Group's investment in MS France Group to MSIUK on 1 November 2018. Direct staff costs of $36 million relating to the MS France Group were recognised in the Group's expenses for the prior year period.

Non-staff related expenses decreased by 1% from $1,432 million to $1,420 million for the period. This decrease was driven primarily by lower volume-related expenses including brokerage and transaction taxes a result of reduced client activity. This is partially offset by an increase in management charges from other Morgan Stanley Group undertakings relating to other services.

4. INTEREST INCOME AND INTEREST EXPENSE

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

	30 June 2019	30 June 2018
Financial assets measured at amortised cost	785	580
Trading financial assets	102	44
Non-trading financial assets at FVPL	176	(152)
Financial assets measured at FVPL	278	(108)
Total interest income	1,063	472
Financial liabilities measured at amortised cost	1,713	1,514
Financial liabilities designated at FVPL	151	(81)
Total interest expense	1,864	1,433

5. INCOME TAX EXPENSE

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

The UK Bank Levy (the "Levy") is an annual charge on a bank's balance sheet. It is applied to chargeable liabilities and equity of the Group and other Morgan Stanley UK tax-resident entities and their overseas subsidiaries. Under IFRIC 21, *'Levies'* the Levy is not recognised in the Interim Financial Statements since the Levy's obligating event has not yet arisen. However, for the purposes of calculating the effective tax rate in accordance with IAS 34, 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 effective tax rate and the tax expense for the six months ended 30 June 2019.

Finance (No.2) Act 2015 enacted reductions in the rate at which the Levy is applied from 0.21% to 0.10% over the period 2016-2021. The forecast Levy for 2019 is lower than 2018 due to a decrease in the estimated chargeable liability and a reduction in the rate applied.

The Group's forecast tax rate is sensitive to the non-deductibility of certain expenses (including the Levy forecast) for tax purposes, the geographic mix of profits and tax rates in non-UK jurisdictions and the additional 8% UK Banking Surcharge. In addition, following the amendment to IAS 12 (see note 1(d)), the presentation of the tax benefit relating to the coupon payments on the Additional Tier 1 capital instruments reduces the forecast tax rate for the year.

During the period the UK statutory rate, excluding the 8% banking surcharge, was 19%. A further reduction to 17% has been enacted and will be effective from 1 April 2020.

The Group's effective tax rate for the six months ended 30 June 2019 is 26.3% (six months ended 30 June 2018 restated: 29.5%), which is lower than the standard rate of corporation tax (inclusive of the UK Banking Surcharge) in the UK of 27%. The main reason for the lower effective tax rate is the income tax benefit of the Additional Tier 1 coupon payments, partially offset by the non-deductibility of the UK Bank Levy and the effect of taxes in foreign jurisdictions.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Six months ended 30 June 2019

6. FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY

The following tables analyse financial assets and financial liabilities presented in the consolidated statement of financial position by the IFRS 9 classifications of fair value through profit and loss ("FVPL"), FVPL (designated), and amortised cost.

30 June 2019 in $ millions	FVPL	FVPL (designated)	Amortised cost	Total
Cash and short term deposits	-	-	33,258	33,258
Trading financial assets	292,083	-	-	292,083
Secured financing				
Cash collateral on securities borrowed	21,155	-	-	21,155
Securities purchased under agreements to resell	58,342	-	-	58,342
Other secured financing	15,291	-	-	15,291
Loans and advances	13	-	187	200
Investment securities	137	-	-	137
Trade and other receivables	795	-	66,928	67,723
Total financial assets	387,816	-	100,373	488,189
Bank loans and overdrafts	-	-	3	3
Trading financial liabilities	248,792	-	-	248,792
Secured borrowings	-	37,403	43,709	81,112
Trade and other payables	-	878	87,924	88,802
Debt and other borrowings	-	7,015	41,922	48,937
Total financial liabilities	248,792	45,296	173,558	467,646

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Six months ended 30 June 2019

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

31 December 2018 **in $ millions**	**FVPL**	**FVPL (designated)**	**Amortised cost**	**Total**
Cash and short term deposits	-	-	30,829	30,829
Trading financial assets	253,188	-	-	253,188
Secured financing:				
Cash collateral on securities borrowed	23,122	-	-	23,122
Securities purchased under agreements to resell	64,872	-	-	64,872
Other secured financing	7,649	-	-	7,649
Loans and advances	11	-	825	836
Investment securities	132	-	-	132
Trade and other receivables	780	-	64,314	65,094
Total financial assets	349,754	-	95,968	445,722
Bank loans and overdrafts	-	-	4	4
Trading financial liabilities	217,093	-	-	217,093
Secured borrowings	-	32,582	46,345	78,927
Trade and other payables	-	897	90,636	91,533
Debt and other borrowings	-	5,664	31,451	37,115
Total financial liabilities	217,093	39,143	168,436	424,672

7. TRADING FINANCIAL ASSETS AND LIABILITIES

in $ millions	30 June 2019		31 December 2018	
	Assets	Liabilities	Assets	Liabilities
Government debt securities	20,572	19,774	14,775	17,935
Corporate and other debt	10,798	3,753	11,252	4,593
Corporate equities	57,566	23,988	47,850	20,452
Derivatives (see note 8)	203,147	201,277	179,311	174,113
	292,083	248,792	253,188	217,093

8. DERIVATIVES

	30 June 2019			
in $ millions	Bilateral OTC	Cleared OTC	Listed derivative contracts	Total
Derivative assets:				
Interest rate contracts	75,979	3,239	2	79,220
Credit contracts	4,682	180	-	4,862
Foreign exchange and gold contracts	84,561	1,354	-	85,915
Equity contracts	24,109	-	6,575	30,684
Commodity contracts	2,431	-	35	2,466
	191,762	4,773	6,612	203,147
Derivative liabilities:				
Interest rate contracts	74,438	1,915	2	76,355
Credit contracts	4,864	199	-	5,063
Foreign exchange and gold contracts	83,446	1,505	4	84,955
Equity contracts	25,878	-	6,556	32,434
Commodity contracts	2,404	-	66	2,470
	191,030	3,619	6,628	201,277

8. DERIVATIVES (CONTINUED)

	31 December 2018			
in $ millions	**Bilateral OTC**	**Cleared OTC**	**Listed derivative contracts**	**Total**
Derivative assets:				
Interest rate contracts	62,650	1,980	8	64,638
Credit contracts	3,885	93	-	3,978
Foreign exchange and gold contracts	70,972	1,328	9	72,309
Equity contracts	28,441	-	6,911	35,352
Commodity contracts	3,002	-	32	3,034
	168,950	3,401	6,960	179,311
Derivative liabilities:				
Interest rate contracts	58,372	848	9	59,229
Credit contracts	3,751	74	-	3,825
Foreign exchange and gold contracts	71,258	1,325	12	72,595
Equity contracts	27,962	-	7,612	35,574
Commodity contracts	2,800	-	90	2,890
	164,143	2,247	7,723	174,113

9. INTEREST IN SUBSIDIARIES

Disposal of subsidiary

On 1 March 2019, the Company paid a dividend in specie of $531 million to MSIUK, thereby transferring its equity interest in MSEHSE and MSESE.

The carrying value of the net assets of MSEHSE and MSESE at the date of transfer and at 31 December 2018 was as follows:

in $ millions	At date of transfer	31 December 2018
ASSETS		
Cash and short term deposits	456	509
Trade and other receivables	145	20
Property plant and equipment	1	-
TOTAL ASSETS	602	529
LIABILITIES		
Accruals and deferred income	1	1
Debt issued and other borrowings	77	-
TOTAL LIABILITIES	78	1
NET ASSETS	524	528
Dividend in specie	531	
Difference recognised in equity upon dividend in specie of MSEHSE and MSESE	7	

Reclassification of Currency translation reserve

At the date of transfer, MSEHSE and MSESE had generated an accumulated ‘Currency translation reserve’ of $(6) million. Upon transfer out of the Group, this loss was reclassified to the condensed consolidated income statement within ‘Net loss on investments in subsidiaries, associates and joint ventures’.

10. INTEREST IN STRUCTURED ENTITIES

The Group's involvement with unconsolidated structured entities, including those of which it considers itself the sponsor, is consistent with that described in the Group's annual consolidated financial statements for the year ended 31 December 2018.

Consolidated structured entities

As at 30 June 2019 and 31 December 2018, the Group did not consolidate any significant structured entities.

Unconsolidated structured entities

The table below shows certain non-consolidated structured entities in which the Group had an interest at 30 June 2019 and 31 December 2018. 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 secondary market-making activities.

The interests in non-consolidated structured entities held by the Group, and any related hedges, are generally recognised in the condensed consolidated statement of financial position in trading financial assets or trading financial liabilities – derivatives or liabilities - corporate and other debt, with changes in fair value being recognised in net trading income.

The Group's maximum exposure to loss shown in the table does not reflect the offsetting benefit of hedges, including total return swaps in relation to fund investments and other entities or the benefit of collateral held as part of a transaction with the structured entity or with any party to the structured entity.

The assets of the structured entities represent all assets of the structured entity and not just the portion relating to the Group's interests. Maximum exposure to loss represents the Group's maximum exposure to loss relating to its interest in the structured entity.

10. INTEREST IN STRUCTURED ENTITIES (CONTINUED)

Unconsolidated structured entities (continued)

in $ millions	Mortgage and asset-backed securitisations	Collateralised debt obligation	Fund investments	Other	Total
30 June 2019					
Assets of the structured entity	13,783	1,715	2,270	2,110	19,878
Maximum exposure to loss:					
Debt and equity interests	231	170	2,185	1	2,587
Derivative and other contracts	-	-	85	2,107	2,192
Total maximum exposure to loss	231	170	2,270	2,108	4,779
Carrying value of interests - assets:					
Debt and equity interests	231	170	2,185	1	2,587
Derivative and other contracts	-	-	45	105	150
Total carrying value of interests - assets	231	170	2,230	106	2,737
Carrying value of interests - liabilities:					
Debt and equity interests	-	-	1,902	-	1,902
Derivatives and other contracts	-	-	40	11	51
Total carrying value of interests - liabilities	-	-	1,942	11	1,953
31 December 2018					
Assets of the structured entity	3,698	6,660	2,153	1,577	14,088
Maximum exposure to loss:					
Debt and equity interests	341	207	2,036	1	2,585
Derivative and other contracts	-	-	117	1,575	1,692
Total maximum exposure to loss	341	207	2,153	1,576	4,277
Carrying value of interests - assets:					
Debt and equity interests	341	207	2,036	1	2,585
Derivative and other contracts	-	-	54	13	67
Total carrying value of interests - assets	341	207	2,090	14	2,652
Carrying value of interests - liabilities:					
Derivatives and other contracts	-	-	63	66	129
Total carrying value of interests - liabilities	-	-	63	66	129

10. INTEREST IN STRUCTURED ENTITIES (CONTINUED)

Unconsolidated structured entities (continued)

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

in $ millions	30 June 2019	31 December 2018
Securities backed by:		
Residential mortgage loans	212	169
Commercial mortgage loans	5	7
CDOs or other CLOs	197	146
Other consumer loans	62	57
	476	379

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

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

Sponsored unconsolidated structured entities

Details of when the Group considers itself the sponsor of certain non-consolidated structured entities is provided in note 16 of the consolidated financial statements for the year ended 31 December 2018.

The Group has no interest in any sponsored entity at 30 June 2019 or 31 December 2018, where 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 loss related to sponsored entities during the six month period to 30 June 2019 was $85 million (31 December 2018: gain of $167 million) and $40 million of assets were transferred to those sponsored entities (31 December 2018: $921 million). It is the investors in the sponsored entity rather than the Group that are exposed to the carrying value of assets transferred. The Group's exposure to the sponsored entity is limited to net amounts receivable from swap transactions with the entity and is not directly linked to the transferred assets themselves.

11. PROVISIONS

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, including through potentially lengthy discovery and determination of important factual matters, determination of issues related to class certification and the calculation of damages or other relief, and by addressing novel or unsettled legal questions relevant to the proceedings or investigations in question, before a loss or additional loss or range of loss or additional loss can be reasonably estimated for a proceeding or investigation.

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

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

On 7 March 2019, in the matter styled *China Development Industrial Bank v. Morgan Stanley & Co, Incorporated, et al,* the court denied the relief that CDIB sought in a motion to clarify and resettle the portion of the court's 21 December 2018 order granting spoliation sanctions.

On 24 April 2019, the parties in *California v. Morgan Stanley, et al.,* reached an agreement to settle the litigation. The Group will not bear any costs associated with this settlement.

On 19 April 2019, the public prosecutor filed an appeal with the Italian Supreme Court in the matter styled *Case No. 2012/00406/MNV* seeking to overturn the decision of the Appellate Division of the Court of Accounts for the Republic of Italy affirming the decision below declining jurisdiction and dismissing the claim against the Group. On 14 June 2019, the Group filed its response to the public prosecutor's appeal.

11. PROVISIONS (CONTINUED)

Litigation matters (continued)

On 31 May 2019, the Group and another Morgan Stanley Group affiliate filed their response to the plaintiff's appeal in the Court of Appeal of Milan in the matter styled *Banco Popolare Societá Cooperativa v Morgan Stanley & Co. International plc & others*.

On 26 June and 2 July 2019, a hearing of the Dutch Tax Authority's appeal was held in the matters styled *Case number 15/3637* and *Case number 15/4353*.

Tax related provisions

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

12. DIVIDENDS

On 1 March 2019, 120,000 €1 ordinary shares in MSEHSE and 451,000,000 €1 ordinary shares in MSESE were transferred from the Company to MSIUK by way of a dividend in specie, with a value of $141,837 and $530,917,133, respectively.

On 31 May 2019, the Directors approved a coupon payment on the AT1 capital instruments of $118,625,000 (2018: $118,625,000) out of reserves available for distribution at 31 December 2018. The coupon was paid on 31 May 2019 and has a related full year tax benefit of $32,028,750 (2018: $32,028,750).

The Directors have not proposed the payment of a final dividend out of reserves available at 30 June 2019 (2018: $nil).

13. SEGMENT REPORTING

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

Business segments

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

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

Geographical segments

The Group operates in three geographic regions, being EMEA, the Americas and Asia.

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

Geographical Segments in $ millions	EMEA		Americas		Asia		Total	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018	30 June 2019	30 June 2018	30 June 2019	30 June 2018
External revenues net of interest	2,207	2,787	128	125	489	531	2,824	3,443
Profit before income tax	351	788	35	42	104	140	490	970
	30 June 2019	**31 Dec 2018**	**30 June 2019**	**31 Dec 2018**	**30 June 2019**	**31 Dec 2018**	**30 June 2019**	**31 Dec 2018**
Total assets	369,459	325,762	59,223	67,681	59,928	52,756	488,610	446,199

14. FINANCIAL RISK MANAGEMENT

14.1 Risk management procedures

The Group's risk management procedures are consistent with those disclosed in the Group's consolidated financial statements for the year ended 31 December 2018. The following disclosure is therefore limited to providing updated quantitative data for each risk category.

14.2 Market risk

Sensitivity analysis

VaR for the six month period ended 30 June 2019

The table below presents the period end, average, maximum and minimum values for the Group's management VaR for the period ending 30 June 2019 compared to the period ending 31 December 2018.

in $ millions	95% / one-day VaR for the six months ended 30 June 2019				95% / one-day VaR for the year ended 31 December 2018			
	Period end	**Average**	**Max**	**Min**	**Period end**	**Average**	**Max**	**Min**
Market Risk Category:								
Interest rate and credit spread	14	14	18	11	13	15	21	11
Equity price	13	12	27	7	7	11	25	7
Foreign exchange rate	6	6	9	3	5	4	8	2
Commodity price	1	2	2	1	2	1	2	1
Less: Diversification benefit[(1)(2)]	(11)	(15)	N/A	N/A	(10)	(12)	N/A	N/A
Primary Risk Categories	23	19	31	15	17	19	31	15
Credit Portfolio[(3)]	6	5	6	4	4	4	6	3
Less: Diversification benefit[(1)(2)]	(5)	(4)	N/A	N/A	(3)	(2)	N/A	N/A
Total Management VaR	24	20	34	16	18	21	31	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.
(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 VaR for Primary Risk Categories for the six month period to 30 June 2019 was $19 million, unchanged compared to the twelve month period to 31 December 2018. On average, increases in equity risk, foreign exchange rate risk and commodities risk were offset by a reduction in interest rate and credit risk and increased diversification benefit.

The average Credit Portfolio VaR for the six month period to 30 June 2019 was $5 million, compared with $4 million for the year to 31 December 2018. This increase was mainly due to increased credit spread risk from counterparty credit valuation adjustments and related hedges.

The average total Management VaR for the six months ended 30 June 2019 was $20 million compared with $21 million for the year to 31 December 2018, primarily due to increased diversification benefit.

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

14.2 Market risk (continued)

Non-trading risks for the six month period ended 30 June 2019

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 increase or decrease in interest rates of 200 basis points would result in a net loss or gain, respectively, of approximately $69 million as at 30 June 2019, compared to a net loss or gain of $130 million as at 31 December 2018.

Funding liabilities

The credit spread risk sensitivity of the Group's mark-to-market funding liabilities corresponds to an increase in value of approximately $4.7 million and $4.3 million for each 1 basis point widening in the Group's credit spread level for 30 June 2019 and 31 December 2018, respectively.

Equity investments price risk

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

in $ millions	30 June 2019 10% sensitivity	31 December 2018 10% sensitivity
Investment securities	14	13

Currency risk

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

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

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

14.2 Market risk (continued)

Currency risk (continued)

Euro-denominated foreign currency exposure was $50 million at 30 June 2019 as compared to $579 million at 31 December 2018. This decrease was primarily driven by the transfer during the period of the Euro-denominated investments in MSEHSE and MSESE by way of a dividend in specie.

	30 June 2019			31 December 2018		
		Sensitivity to applied percentage change in currency (+/-)			Sensitivity to applied percentage change in currency (+/-)	
in $ millions	Foreign currency exposure	Percentage change applied %	Other comprehensive income	Foreign currency exposure	Percentage change applied %	Other comprehensive income
Euro	50	14%	7	579	14%	81
Taiwan New Dollar	127	8%	10	128	8%	10
Polish Zloty	5	17%	1	5	17%	1
South Korean Won	251	11%	28	246	11%	27
Swiss Franc	22	4%	1	21	12%	3
	455		47	979		122

14.3 Credit Risk

14.3.1 Credit risk management

Refer to pages 10 to 12 of the interim management report and to pages 18 to 22 of the strategic report in the consolidated financial statements for the year ended 31 December 2018 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 2019 is disclosed on the following page, based on the carrying amounts of the financial assets and the maximum amount that the Group could have to pay in relation to unrecognised financial instruments, which the Group believes are subject to credit risk. The table includes financial instruments subject to expected credit losses ("ECL") and 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, excluding derivatives, 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.

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

14.3 Credit Risk (continued)

14.3.2 Exposure to credit risk(continued)

Exposure to credit risk by class

Class in $ millions	30 June 2019 Gross credit exposure	30 June 2019 Credit enhance-ments	30 June 2019 Net credit exposure[(1)]	31 December 2018 Gross credit exposure	31 December 2018 Credit enhance-ments	31 December 2018 Net credit exposure[(1)]
Subject to ECL:						
Cash and short term deposits	33,258	-	33,258	30,829	-	30,829
Loans and advances	187	-	187	825	-	825
Trade and other receivables[(2)]	66,928	-	66,928	64,314	-	64,314
Not subject to ECL:						
Trading financial assets - derivatives	203,147	(196,999)	6,148	179,311	(173,250)	6,061
Secured financing	94,788	(93,888)	900	95,643	(94,546)	1,097
Loans and advances	13	-	13	11	-	11
Trade and other receivables[(2)]	795	(302)	493	780	(370)	410
	399,116	(291,189)	107,927	371,713	(268,166)	103,547
Unrecognised financial instruments						
Subject to ECL:						
Loan commitments	1,685	-	1,685	1,556	-	1,556
Letters of credit	1	-	1	1	-	1
Not subject to ECL:						
Loan commitments	1,156	(607)	549	752	(84)	668
Letters of credit	288	(287)	1	1	-	1
Unsettled securities purchased under agreements to resell[(3)]	64,712	-	64,712	34,623	-	34,623
Total unrecognised financial instruments	67,842	(894)	66,948	36,933	(84)	36,849
	466,958	(292,083)	174,875	408,646	(268,250)	140,396

(1) Of the residual net credit exposure, intercompany cross product netting arrangements are in place which would allow for an additional $3,619 million of an available $27,124 million (31 December 2018: $4,392 million of an available $29,892 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 agreements to resell, collateral in the form of securities will be received at the point of settlement. Since the value of collateral is determined at a future date, it is currently unquantifiable and not included in the table.

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

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

14.3 Credit Risk (continued)

14.3.3 Credit quality

Exposure to credit risk by internal rating grades

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

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

The table below shows gross carrying amount and, in the case of unrecognized financial instruments, nominal amounts by internal rating grade. All exposures subject to ECL are Stage 1, unless otherwise shown.

Until 31 December 2018, unless credit-impaired, the Group had reported all trade receivables as Stage 2 for the purpose of the disclosure below, reflecting the Group’s accounting policy to measure lifetime credit losses on trade receivables under the simplified approach. From 1 January 2019, the Group continues to apply the simplified approach but, notwithstanding the recognition of lifetime credit losses under the simplified approach, has revised the presentation of these balances such that trade receivables are now reported as Stage 1 where they are not credit-impaired.

The Group believes that this presentation, which is more consistent with industry practice for such disclosures, better reflects the credit risk associated with such assets, notwithstanding the fact that a lifetime approach is used for their ECL measurement and provides more relevant information. This change has also been applied to the prior period disclosure below. There is no impact on the reported level of ECLs as a consequence of this presentational change.

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

14.3 Credit Risk (continued)

14.3.3 Credit quality (continued)

Exposure to credit risk by internal rating grades (continued)

At 30 June 2019 in $ millions	**AAA**	**AA**	**A**	**BBB**	**Total Investment Grade**	**Non-Investment Grade**	**Unrated[(1)]/ Default[(2)]**	**Total Gross Carrying Amount**	**Loss Allowance**	**Total Carrying Amount**
Subject to ECL:										
Cash and short term deposits	13,533	6,556	12,573	493	33,155	103	-	33,258	-	33,258
Loans and advances										
Stage 1	-	-	124	29	153	20	-	173	-	173
Stage 2	-	-	-	-	-	14	-	14	-	14
Trade and other receivables:										
Stage 1	2,305	4,348	43,487	10,032	60,172	5,629	1,091	66,892	-	66,892
Stage 3	-	1	4	18	23	11	43	77	(41)	36
Total subject to ECL	15,838	10,905	56,188	10,572	93,503	5,777	1,134	100,414	(41)	100,373
Not subject to ECL:										
Trading financial assets - derivatives	4,280	11,048	124,672	46,868	186,868	16,250	29	203,147	-	203,147
Secured financing	2,187	21,071	45,045	21,158	89,461	5,050	277	94,788	-	94,788
Loans and advances	-	-	-	-	-	13	-	13	-	13
Trade and other receivables	-	35	229	166	430	365	-	795	-	795
Total not subject to ECL	6,467	32,154	169,946	68,192	276,759	21,678	306	298,743	-	298,743
Unrecognised financial instruments subject to ECL:										
Loan commitments										
Stage 1	-	432	766	309	1,507	152	-	1,659	-	1,659
Stage 2	-	-	-	-	-	26	-	26	-	26
Letters of credit	-	-	-	-	-	1	-	1	-	1
Total unrecognised financial instruments subject to ECL	-	432	766	309	1,507	179	-	1,686	-	1,686
Unrecognised financial instruments not subject to ECL:										
Unsettled securities purchased under agreements	177	31,244	11,500	17,274	60,195	4,517	-	64,712	-	64,712
Letters of credit	-	-	-	-	-	288	-	288	-	288
Loan commitments	-	137	102	201	440	690	26	1,156	-	1,156
Total unrecognised financial instruments not subject to ECL	177	31,381	11,602	17,475	60,635	5,495	26	66,156	-	66,156

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

(2) At 30 June 2019 there were $10 million of Stage 3 Trade and other receivables and $10 million of Trading financial assets – derivatives in default.

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14. FINANCIAL RISK MANAGEMENT (CONTINUED)

14.3 Credit Risk (continued)

14.3.3 Credit quality (continued)

Exposure to credit risk by internal rating grades (continued)

At 31 December 2018 in $ millions	AAA	AA	A	BBB	Total Investment Grade	Non-Investment Grade	Unrated/ Default[(1)]	Total Gross Carrying Amount	Loss Allowance	Total Carrying Amount
Subject to ECL:										
Cash and short term deposits	8,233	7,606	13,918	916	30,673	156	-	30,829	-	30,829
Loans and advances	-	-	98	705	803	22	-	825	-	825
Trade and other receivables:										
Stage 1	1,707	3,860	39,279	8,622	53,468	6,907	3,913	64,288	-	64,288
Stage 3	-	5	8	29	42	1	20	63	(37)	26
Total subject to ECL	9,940	11,471	53,303	10,272	84,986	7,086	3,933	96,005	(37)	95,968
Not subject to ECL:										
Trading financial assets - derivatives	4,602	12,021	106,983	41,482	165,088	13,585	638	179,311	-	179,311
Secured financing	3,895	20,145	49,719	18,445	92,204	3,423	16	95,643	-	95,643
Loans and advances	-	-	-	-	-	11	-	11	-	11
Trade and other receivables	-	-	461	178	639	141	-	780	-	780
Total not subject to ECL	8,497	32,166	157,163	60,105	257,931	17,160	654	275,745	-	275,745
Unrecognised financial instruments subject to ECL:										
Loan commitments:										
Stage 1	-	435	683	294	1,412	116	-	1,528	-	1,528
Stage 2	-	-	-	-	-	29	-	29	-	29
Letters of credit	-	-	-	-	-	1	-	1	-	1
Total unrecognised financial instruments subject to ECL	-	435	683	294	1,412	146	-	1,558	-	1,558
Unrecognised financial instruments not subject to ECL:										
Unsettled securities purchased under agreements to resell	-	17,167	7,732	8,579	33,478	1,146	-	34,624	-	34,624
Letters of credit	-	-	-	-	-	1	-	1	-	1
Loan commitments	-	137	246	203	586	159	6	751	-	751
Total unrecognised financial instruments not subject to ECL	-	17,304	7,978	8,782	34,064	1,306	6	35,376	-	35,376

(1) At 31 December 2018 there were $10 million of stage 3 Trade and other receivables in default.

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14. FINANCIAL RISK MANAGEMENT (CONTINUED)

14.4 Liquidity and funding risk

Maturity analysis

in $ millions 30 June 2019	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	3	-	-	-	-	-	3
Trading financial liabilities:							
Derivatives	201,277	-	-	-	-	-	201,277
Other	47,515	-	-	-	-	-	47,515
Secured borrowing	67,432	6,572	2,243	2,534	2,377	-	81,158
Trade and other payables	87,962	1	1	482	243	171	88,860
Debt and other borrowings	625	166	14,722	1,378	24,180	10,351	51,422
Total financial liabilities	404,814	6,739	16,966	4,394	26,800	10,522	470,235
Unrecognised financial instruments							
Guarantees	333	-	-	-	-	-	333
Letters of credit	-	-	-	287	2	-	289
Loan commitments	2,841	-	-	-	-	-	2,841
Underwriting commitments	263	-	-	841	-	-	1,104
Unsettled securities purchased under agreements to resell[(1)]	60,974	224	2,228	1,285	-	-	64,711
Other commitments	141	-	-	-	-	-	141
Total unrecognised financial instruments	64,552	224	2,228	2,413	2	-	69,419

(1) The Group enters into forward starting reverse repurchase agreements (agreements which have a trade date at or prior to 30 June 2019 and settle subsequent to period end). These agreements primarily settle within three business days and of the total amount at 30 June 2019, $60,974 million settled within three business days.

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

14.4 Liquidity and funding risk (continued)

Maturity analysis (continued)

in $ millions	On demand	Less than 1 month	1 month - 3 months	3 months - 1 year	1 year – 5 years	Greater than 5 years	Total
31 December 2018							
Financial liabilities							
Bank loans and overdrafts	4	-	-	-	-	-	4
Trading financial liabilities:							
Derivatives	174,113	-	-	-	-	-	174,113
Other	42,980	-	-	-	-	-	42,980
Secured Borrowing	54,579	7,737	7,026	5,629	4,018	-	78,989
Trade and other payables	90,610	-	267	100	11	560	91,548
Debt and other borrowings	1,629	95	3,451	1,099	21,281	13,362	40,917
Total financial liabilities	363,915	7,832	10,744	6,828	25,310	13,922	428,551
Unrecognised financial instruments							
Guarantees	405	-	-	-	-	-	405
Letters of credit	-	-	-	-	2	-	2
Loan commitments	2,308	-	-	-	-	-	2,308
Underwriting commitments	-	-	-	687	-	-	687
Unsettled securities purchased under agreements to resell[(1)]	31,955	1,689	-	979	-	-	34,623
Other commitments	22	-	- -	-	-	-	22
Total unrecognised financial instruments	34,690	1,689	-	1,666	2	-	38,047

(1) The Group enters into forward starting reverse repurchase agreements (agreements which have a trade date at or prior to 31 December 2018 and settle subsequent to period end). These agreements primarily settle within three business days and of the total amount at 31 December 2018, $31,955 million settled within three business days.

15. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING

In the following table:

- ‘Gross amounts’ include transactions which are not subject to master netting agreements or collateral agreements or are subject to such agreements but the Group has not determined the agreements to be legally enforceable.
- ‘Amounts offset’ are transactions offset in the statement of financial position where there is a legally enforceable master netting arrangement that provides for a current right of offset and there is an intention to either settle on a net basis or to realise the asset and liability simultaneously.
- ‘Net amounts’ are those amounts presented net in the statement of financial position.
- ‘Amounts not offset’ are the amounts included in the ‘Net exposure’ which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Group has not determined the agreement to be legally enforceable.

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

				Amounts not offset[3][4]			
in $ millions	Gross amounts	Amounts offset[1]	Net amounts	Financial instruments	Cash collateral[2]	Net exposure[5]	Not subject to netting agreement
30 JUNE 2019							
Secured financing:							
Cash collateral on securities borrowed	29,855	(8,700)	21,155	(20,722)	-	433	177
Securities purchased under agreement to resell	171,441	(113,099)	58,342	(57,875)	-	467	466
Trading financial assets - derivatives	275,385	(72,238)	203,147	(170,123)	(26,842)	6,182	1,121
TOTAL ASSETS AS AT 30 JUNE 2019	476,681	(194,037)	282,644	(248,720)	(26,842)	7,082	1,764
Secured borrowing:							
Cash collateral on securities loaned	29,897	(8,700)	21,197	(21,190)	-	7	-
Securities sold under agreement to repurchase	148,080	(113,099)	34,981	(33,815)	-	1,166	570
Trading financial liabilities - derivatives	273,001	(71,724)	201,277	(166,640)	(26,195)	8,442	1,736
TOTAL LIABILITIES AS AT 30 JUNE 2019	450,978	(193,523)	257,455	(221,645)	(26,195)	9,615	2,306
31 DECEMBER 2018							
Secured financing:							
Cash collateral on securities borrowed	32,353	(9,231)	23,122	(22,566)	-	556	240
Securities purchased under agreement to resell	177,283	(112,411)	64,872	(64,331)	-	541	533
Trading financial assets - derivatives	231,328	(52,017)	179,311	(149,608)	(23,531)	6,172	1,287
TOTAL ASSETS AS AT 31 DECEMBER 2018	440,964	(173,659)	267,305	(236,505)	(23,531)	7,269	2,060
Secured borrowing:							
Cash collateral on securities loaned	30,334	(9,231)	21,103	(20,767)	-	336	336
Securities sold under agreement to repurchase	153,887	(112,411)	41,476	(39,622)	-	1,854	1,009
Trading financial liabilities - derivatives	225,677	(51,564)	174,113	(144,279)	(19,509)	10,325	1,760
TOTAL LIABILITIES AS AT 31 DECEMBER 2018	409,898	(173,206)	236,692	(204,668)	(19,509)	12,515	3,105

(1) Include $4,895 million and $4,380 million (31 December 2018: $4,422 million and $3,969 million) of cash collateral related to trading financial assets – derivatives and trading financial liabilities – derivatives, 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, certain other secured financing and secured borrowing have legally enforceable master netting arrangements in place. As a result, $2,999 million (31 December 2018: $2,686 million) of netting is included within the condensed consolidated statement of financial position.
(4) In addition to the balances disclosed in the table above, $179 million (31 December 2018: $8 million) not presented net of certain trade and other receivables and trade and other payables have legally enforceable master netting arrangements in place and can be offset in the ordinary course of business and/or in the event of default.
(5) Intercompany cross-product legally enforceable netting arrangements are in place which would allow for an additional $3,652 million (31 December 2018: $4,392 million) of the total condensed consolidated statement of financial position, to be offset in the ordinary course of business and/ or in the event of default. The additional amounts for offset would include a portion of the residual net exposure.

16. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

The following tables present the carrying value of the Group's financial assets and financial liabilities recognised at fair value on a recurring basis, classified according to the fair value hierarchy. The information below is limited to quantitative information and should be read in conjunction with note 27 of the consolidated financial statements for the year ended 31 December 2018.

30 June 2019	Valuation techniques:			
	Quoted prices in active market	Observable inputs	Significant unobservable inputs	
in $ millions	**(Level 1)**	**(Level 2)**	**(Level 3)**	**Total**
Trading financial assets:				
Government debt securities	18,050	2,517	5	20,572
Corporate and other debt	-	10,396	402	10,798
Corporate equities	57,171	373	22	57,566
Derivatives:				
Interest rate contracts	14	78,060	1,146	79,220
Credit contracts	-	4,389	473	4,862
Foreign exchange and gold contracts	-	85,853	62	85,915
Equity contracts	1,097	27,730	1,857	30,684
Commodity contracts	424	2,014	28	2,466
Total trading financial assets	76,756	211,332	3,995	292,083
Secured financing:				
Cash collateral on securities borrowed	-	21,155	-	21,155
Securities purchased under agreements to resell	-	57,787	555	58,342
Other secured financing	-	15,291	-	15,291
Total secured financing	-	94,233	555	94,788
Loans and advances - corporate loans	-	13	-	13
Investment securities - corporate equities	16	-	122	138
Trade and other receivables:				
Prepaid OTC contracts	-	611	162	773
Margin loans	-	-	-	-
Other receivables	-	-	22	22
Total trade and other receivables	-	611	184	795
Total financial assets measured at fair value	76,772	306,189	4,856	387,817
Trading financial liabilities:				
Government debt securities	17,843	1,930	1	19,774
Corporate and other debt	-	3,751	2	3,753
Corporate equities	23,892	94	2	23,988
Derivatives:				
Interest rate contracts	41	75,784	530	76,355
Credit contracts	-	4,555	508	5,063
Foreign exchange and gold contracts	1	84,864	90	84,955
Equity contracts	888	28,979	2,567	32,434
Commodity contracts	3	2,430	37	2,470
Total trading financial liabilities	42,668	202,387	3,737	248,792
Secured borrowing:				
Cash collateral on securities loaned	-	1	-	1
Securities sold under agreements to repurchase	-	12,468	-	12,468
Other secured borrowing	-	24,934	-	24,934
Total secured borrowing	-	37,403	-	37,403
Trade and other payables:				
Prepaid OTC contracts	-	671	199	870
Unfunded loan commitments	-	8	-	8
Total trade and other payables	-	679	199	878
Debt and other borrowings - issued structured notes	-	6,674	341	7,015
Total financial liabilities measured at fair value	42,668	247,143	4,277	294,088

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16. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

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

31 December 2018		**Valuation techniques:**		
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	12,093	2,669	13	14,775
Corporate and other debt	-	10,934	318	11,252
Corporate equities	47,407	410	33	47,850
Derivatives:				
Interest rate contracts	26	63,633	979	64,638
Credit contracts	-	3,827	151	3,978
Foreign exchange and gold contracts	1	72,259	49	72,309
Equity contracts	764	32,730	1,858	35,352
Commodity contracts	8	3,001	25	3,034
Total trading financial assets	60,299	189,463	3,426	253,188
Secured financing:				
Cash collateral on securities borrowed	-	23,122	-	23,122
Securities purchased under agreements to resell	-	64,555	317	64,872
Other	-	7,649	-	7,649
Total secured financing	-	95,326	317	95,643
Loans and advances - corporate loans	-	11	-	11
Investment securities - corporate equities	14	33	85	132
Trade and other receivables:				
Prepaid OTC contracts	-	499	123	622
Margin loans	-	11	130	141
Other	-	-	17	17
Total trade and other receivables	-	510	270	780
Total financial assets measured at fair value	60,313	285,343	4,098	349,754
Trading financial liabilities:				
Government debt securities	16,640	1,295	-	17,935
Corporate and other debt	-	4,593	-	4,593
Corporate equities	20,385	58	9	20,452
Derivatives:				
Interest rate contracts	21	58,784	424	59,229
Credit contracts	-	3,659	166	3,825
Foreign exchange and gold contracts	-	72,521	74	72,595
Equity contracts	523	32,819	2,232	35,574
Commodity contracts	106	2,745	39	2,890
Total trading financial liabilities	37,675	176,474	2,944	217,093
Secured borrowing:				
Cash collateral on securities loaned	-	366	-	366
Securities sold under agreements to repurchase	-	15,868	-	15,868
Other secured borrowing	-	16,348	-	16,348
Total secured borrowing	-	32,582	-	32,582
Trade and other payables:				
Prepaid OTC contracts	-	628	259	887
Unfunded loan commitments	-	10	-	10
Total trade and other payables	-	638	259	897
Debt and other borrowings - issued structured notes	-	5,217	447	5,664
Total financial liabilities measured at fair value	37,675	214,911	3,650	256,236

16. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

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

In the following tables:

- 'Sales and Issuances' amounts are reported together. Net derivatives, prepaid OTC liability contracts and issued structured notes represent issuances. Amounts for other lines items 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Six months ended 30 June 2019

16. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

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

30 June 2019

in $ millions	Balance at 1 January 2019	Total gains or (losses) recognised in condensed consolidated income statement[1]	Purchases	Sales and Issuances	Settlements	Net transfers in and / or out of Level 3	Balance at 30 June 2019	Unrealised gains or (losses) for level 3 assets/ liabilities outstanding as at 30 June 2019
Trading financial assets:								
Government debt securities	13	-	2	(2)	-	(8)	5	-
Corporate and other debt	318	25	64	(159)	-	154	402	17
Corporate equities	33	(4)	7	(7)	-	(7)	22	(1)
Net derivative contracts	127	(173)	392	(467)	(10)	(35)	(166)	(106)
Total trading financial assets	491	(152)	465	(635)	(10)	104	263	(90)
Secured financing:								
Cash collateral on securities borrowed	317	-	555	(317)	-	-	555	-
Total secured financing	317	-	555	(317)	-	-	555	-
Investment securities - corporate equities	85	5	-	(1)	-	33	122	5
Trade and other receivables:								
Prepaid OTC contracts	123	-	46	(7)	-	-	162	-
Margin loans	130	-	-	(57)	-	(73)	-	-
Other	17	-	5	-	-	-	22	-
Total trade and other receivables	270	-	51	(64)	-	(73)	184	-
Total financial assets measured at fair value	1,163	(147)	1,071	(1,017)	(10)	64	1,124	(85)
Trading financial liabilities:								
Government debt securities	-	-	-	1	-	-	1	-
Corporate and other debt	-	-	-	2	-	-	2	-
Corporate equities	9	1	(7)	1	-	-	2	-
Total trading financial liabilities	9	1	(7)	4	-	-	5	-
Trade and other payables:								
Prepaid OTC contracts	259	10	-	34	(90)	6	199	10
Debt and other borrowings - issued structured notes	447	(31)	-	66	(48)	(155)	341	(32)
Total financial liabilities measured at fair value	715	(20)	(7)	104	(138)	(149)	545	(22)

(1) At 30 June 2019 there was $(8) million of total losses relating to Debt and other borrowings – issued structured notes recognised in condensed consolidated other comprehensive income.

16. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

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

31 December 2018

in $ millions	Balance at 1 January 2018	Impact of adopting IFRS 9	Total gains or (losses) recognised in condensed consolidated income statement[1]	Purchases	Sales and issuances [2]	Settlements	Net transfers in and / or out of Level 3 [2]	Balance at 31 December 2018	Unrealised gains or (losses) for level 3 assets/ liabilities outstanding as at 31 December 2018 [3]
Trading financial assets:									
Government debt securities	1	-	-	11	-	-	1	13	-
Corporate and other debt	401	(17)	75	227	(201)	-	(167)	318	(5)
Corporate equities	77	-	2	9	(21)	-	(34)	33	4
Total trading financial assets	479	(17)	77	247	(222)	-	(200)	364	(1)
Secured financing: Securities purchased under agreements to resell	-	-	-	317	-	-	-	317	-
Loans and advances - corporate loans	-	17	-	-	(17)	-	-	-	-
Investment securities - corporate equities	93	-	(3)	-	(5)	-	-	85	(3)
Trade and other receivables:									
Prepaid OTC contracts	106	-	(6)	25	(2)	-	-	123	-
Margin loans	229	-	(45)	-	(48)	-	(6)	130	(45)
Other	-	9	-	8	-	-	-	17	-
Total trade and other receivables	335	9	(51)	33	(50)	-	(6)	270	(45)
Total financial assets measured at fair value	907	9	23	597	(294)	-	(206)	1,036	(49)
Trading financial liabilities:									
Corporate equities	15	-	4	(7)	5	-	-	9	3
Net derivative contracts[3]	95	-	360	(735)	1,276	(113)	(290)	(127)	352
Total trading financial liabilities	110		364	(742)	1,281	(113)	(290)	(118)	355
Trade and other payables - prepaid OTC contracts	169	-	4	(24)	118	-	-	259	4
Debt and other borrowings - issued structured notes	361	-	40	-	99	(39)	66	447	38
Total financial liabilities measured at fair value	640	-	408	(766)	1,498	(152)	(224)	588	397

(1) At 31 December 2018 there was $26 million of total gains relating to Debt and other borrowings – issued structured notes recognised in condensed consolidated other comprehensive income.

16. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

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.

30 June 2019	Fair value $ millions	Predominant valuation techniques/ Significant unobservable inputs	Range [2] (Weighted averages or simple averages/median)[3]
ASSETS			
Trading financial assets:			
- Corporate and other debt:			
- Mortgage- and asset backed securities	182	Comparable pricing	
		Comparable bond price	3 to 78 pts (63 pts)
- Corporate bonds	172	Comparable pricing	
		Comparable bond price	43.75 to 117 pts (104.24 pts)
- Loans and lending commitments	48	Comparable pricing	25.5 to 100 bps (65.4 pts)
		Comparable loan price	
- Corporate equities	22	Comparable pricing	
		Comparable equity price	100% (100%)
- Net derivative contracts:[1]			
- Interest rate	616	Option Model	
		Inflation volatility	23% to 62% (43%/40%)
		Interest rate – Foreign exchange correlation	55% to 57% (56%/56%)
		Interest rate curve correlation	47% to 96% (74%/73%)
		Inflation curve	1.06% to 1.06% (1.05%/1.07%)
		Interest rate volatility skew	25% to 124% (71%/54%)
		Foreign exchange volatility skew	-0.2% to -0.15% (-0.21%/0.22%)
		Interest rate – Inflation correlation	-75% to -5%(-39%/-45%)
		Deal contingent swap	89% to -90.97% (90%/90%)
- Credit	(35)	Comparable pricing	
		Credit Spread	9bps to 915bps (229bps)
		Comparable bond price	7 to 82 pts (52 pts)
		Funding Spread	63bps to 105bps (95pbs)
		Correlation Model	
		Credit Correlation	32.97% to 63.81% (38%)
- Foreign exchange and gold	(28)	Option Model	
		Interest rate – Foreign exchange correlation	55% to 57% (56%/56%)
		Interest rate volatility skew	50% to 52% (51%/51%)
		Deal Execution Probability	93.33% to 98% (96%/97%)
		Foreign exchange volatility skew	-3.1% to -2.9% (-3.1%-3.12%)
		Currency basis	8.23% to 10.34%(9.95%/10.3%)

16. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

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

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

30 June 2019	Fair value $ millions	Predominant valuation techniques/ Significant unobservable inputs	Range [2] (Weighted averages or simple averages/median)[3]
ASSETS			
Trading financial assets:			
- Net derivative contracts:[1]			
- Equity	(710)	Option Model	
		At the money volatility	6% to 58% (22%)
		Volatility skew	-2% to 0% (0%)
		Equity-equity correlation	5% to 96% (70%)
		Equity FX correlation	-95% to 55% (-42%)
- Commodity	(9)	Comparable pricing	
		Comparable price	$498 to $1,822 ($1,115)
Investment securities:			
- Corporate equities	122	Comparable pricing	
		Comparable equity price	97% to 100% (98%)
Trade and other receivables:			
-Prepaid OTC contracts	162	Discounted cash flow	
		Recovery rate	12% to 71% (33%)
Securities Borrowings:			
- Securities purchased under agreements to resell	555	Risk based valuation	
		Comparable collateral price	19 to 92 (55.5)
LIABILITIES			
Debt and other borrowings:			
- Issued structured notes	(341)	Option Model	
		At the money volatility	6% to 35% (20%)
		Volatility skew	-1% to 0% (0%)
		Equity-equity correlation	39% to 90% (79%)
		Equity FX correlation	-72% to 13% (-25%)
Trade and other payables:			
- Prepaid OTC contracts	(199)	Option Model	
		At the money volatility	10% to 40% (30%)
		Discounted cash flow	
		Recovery rate	12% to 71% (54%/33%)

(1) Net derivative contracts represent trading financial liabilities – derivative contracts net of trading financial assets – derivative contracts and include derivative contracts with multiple risks (i.e. hybrid products). CVA and FVA are included in fair value, but excluded from the valuation techniques and significant unobservable inputs in the table. CVA is a level 3 input when the underlying counterparty credit curve is unobservable. FVA is a Level 3 input in its entirety given the lack of observability of funding spreads in principal market.
(2) The ranges of significant unobservable inputs are represented in points, percentages or basis points. Points are a percentage of par; for example, 100 points would be 100% of par. A basis point equals 1/100th of 1%; for example, 353 basis points would equal 3.53%.
(3)Amounts represent weighted averages except where simple averages and the median of the inputs are provided when more relevant.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Six months ended 30 June 2019

16. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

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

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

31 December 2018	Fair value $ millions	Predominant valuation techniques/ Significant unobservable inputs	Range [2] (Weighted averages or simple averages/median)[3]
ASSETS			
Trading financial assets:			
- Corporate and other debt:			
- Mortgage and asset-backed securities	140	Comparable pricing	
		Comparable bond price	3 to 99.5 pts (78 pts)
- Corporate bonds	120	Comparable pricing	
		Comparable bond price	65 to 119 pts (91 pts)
- Loans and lending commitments	58	Comparable pricing	
		Comparable loan price	49 to 100 pts (72.56 pts)
- Corporate equities	33	Comparable pricing	
		Comparable equity price	100% (100%)
Trade and other receivables:			
- Prepaid OTCs	123	Discounted cash flow	
		Recovery Rate	22% (22%)
- Margin loans	130	Option Model	
		Volatility skew	-1% (-1%)
Investment securities:			
- Corporate equities	85	Comparable pricing	
		Comparable equity price	100% (100%)
Securities Borrowings:			
- Securities purchased under agreements to resell	317	Risk based valuation	
		Comparable collateral price	33 to 119 (76)
LIABILITIES			
Trading financial liabilities:			
- Net derivatives contracts:[1][4][5]			
- Interest rate	555	Option Model	
		Inflation Volatility	23% to 65% (44%/40%)
		Interest rate - Foreign exchange correlation	53% to 56% (55%/55%)
		Interest Rate Curve Correlation	41% to 97% (71%/73%)
		Inflation Curve	1.23% to 1.27% (1.25%/1.25%)
		Interest rate volatility skew	10% to 95% (48%/50%)
		Foreign exchange volatility skew	-0.3% to -0.18% (-0.24%/-0.24%)
		Interest rate – Inflation correlation	-75% to -5% (-36%/-43%)
		Interest rate quanto correlation	-8% to -8% (-8%/-8%)
- Credit	(15)	Comparable pricing	
		Credit Spread	150bps to 499bps (353bps)
		Comparable bond price	10 to 87 pts (46 pts)
		Funding Spread	69.44bps to 98.23bps (82.38 bp)
- Foreign exchange and gold	(25)	Option Model	
		Interest rate-Foreign exchange correlation	53% to 56% (55%/55%)
		Interest rate volatility skew	10% to 66% (29%/27%)
		Deal Execution Probability	90% to 95% (95%/95%)
		Foreign Exchange Volatility Skew	-0.3% to -0.18% (-0.24%/-0.24%)

16. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

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

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

31 December 2018	Fair value $ millions	Predominant valuation techniques/ Significant unobservable inputs	Range (2) (Weighted averages or simple averages/median)(3)
LIABILITIES			
Trading financial liabilities:			
- Equity	(374)	Option model	
		At the money volatility	6% to 63% (26%)
		Volatility skew	-2% to 0% (-1%)
		Equity-equity correlation	5% to 98% (70%)
		Equity-FX correlation	-95% to 55% (-46%)
- Commodity	(14)	Comparable pricing	
		Comparable price	$449 to $1,440 ($1,086)
Debt and other borrowings:			
- Issued structured notes	(447)	Option Model	
		At the money volatility	6% to 35% (23%)
		Volatility skew	-2% to 0% (0%)
		Equity-equity correlation	45% to 98% (91%)
		Equity-FX correlation	-72% to 13% (-37%)
Trade and other payables:			
- Prepaid OTC contracts	(259)	Option Model	
		At the money volatility	4% to 30% (12%)

(1) Net derivative contracts represent trading financial liabilities – derivative contracts net of trading financial assets – derivative contracts and include derivative contracts with multiple risks (i.e. hybrid products). CVA and FVA are included in fair value, but excluded from the valuation techniques and significant unobservable inputs in the table. CVA is a level 3 input when the underlying counterparty credit curve is unobservable. FVA is a Level 3 input in its entirety given the lack of observability of funding spreads in principal market.
(2) The ranges of significant unobservable inputs are represented in points, percentages or basis points. Points are a percentage of par; for example, 100 points would be 100% of par. A basis point equals 1/100th of 1%; for example, 353 basis points would equal 3.53%.
(3)Amounts represent weighted averages except where simple averages and the median of the inputs are provided when more relevant.

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 31 of the consolidated financial statements for the year ended 31 December 2018.

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

The following tables present the potential impact of both favourable and unfavourable changes, both of which would be reflected in the income statement. The information below is limited to quantitative information and should be read in conjunction with note 32 of the Group's annual financial statements for the year ended 31 December 2018.

16. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

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

	June 30, 2019		December 31, 2018	
in $ millions	**Favourable changes**	**Unfavourable changes**	**Favourable changes**	**Unfavourable changes**
Trading financial assets:				
Corporate and other debt	9	(9)	11	(11)
Corporate equities	1	(3)	2	(7)
Net derivative contracts[(1)]	-	-	17	(21)
Investment securities:				
Corporate equities	37	(24)	36	(30)
Trading financial liabilities:				
Net derivative contracts[(1)]	32	(31)	-	-
	79	(67)	66	(69)

(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. 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:

	30 June 2019 $ millions	31 December 2018 $ millions
At 1 January	290	280
New transactions	53	134
Amounts recognised in the consolidated income statement during the period/year	(40)	(124)
At 30 June 2019 / 31 December 2018	303	290

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 2019 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 $5,394 million. At 31 December 2018 the carrying value was a reasonable approximation of fair value for all financial instruments not carried at fair value.

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 2019 'management charges from other Morgan Stanley Group undertakings relating to staff costs' were $850 million (30 June 2018: $963 million) and 'management charges from other Morgan Stanley Group undertakings relating to other services' were $656 million (30 June 2018: $554 million). See note 3 for further details.

19. EVENTS AFTER THE REPORTING PERIOD

On 1 July 2019, 1,779 staff were transferred from Morgan Stanley Employment Services UK Limited, a wholly owned subsidiary of Morgan Stanley International Limited, to the Company. This will result in an increase in Direct staff costs and a reduction in 'management charges from other Morgan Stanley Group undertakings relating to staff costs' in future reporting periods.