Registered number: 34161590

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

MORGAN STANLEY B.V.

Interim financial report

30 June 2017

MORGAN STANLEY B.V.

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INTERIM MANAGEMENT REPORT

The Directors present their interim management report, Directors' responsibility statement and the condensed financial statements for Morgan Stanley B.V. (the "Company") for the six months ended 30 June 2017.

RESULTS AND DIVIDENDS

The profit for the six months ended 30 June 2017, after tax, was €2,837,000 (Restated 30 June 2016: €2,150,000).

During the six months ended 30 June 2017, no dividends were paid or proposed (30 June 2016: €nil).

PRINCIPAL ACTIVITY

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

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

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

FUTURE OUTLOOK

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

BUSINESS REVIEW

Global market and economic conditions

Growth in the global economy was robust in the first half of 2017, likely expanding close to 4% in both the first and second quarter. Strength was broad-based across both developed economies and emerging markets. Growth averaged close to 2% in the United States (the "US") and slightly higher in the Euro area. The United Kingdom (the "UK") was a laggard with growth averaging around 1%. In emerging markets, Chinese growth was more resilient than expected and the Brazilian and Russian economies experienced economic recoveries. In March, the US Federal Reserve increased interest rates for the third time in the current cycle and then followed with a fourth increase in June to 1.25%. Moreover, at its July meeting it announced that it expects to begin the process of balance sheet normalisation "relatively soon". The Chinese authorities implemented policy measures to reduce capital outflows and financial sector risks. In terms of the political cycle, populist parties failed to make major breakthroughs in the Dutch and French Presidential elections. UK Prime Minister Theresa May triggered the Article 50 process for the UK to leave the European Union (the "EU") in March and her Conservative party lost its majority at the June election.

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

UK Referendum

On 23 June 2016, the UK electorate voted to leave the EU. On 29 March 2017, the UK formally invoked Article 50 of the Lisbon Treaty, which triggered a two-year period, subject to extension, during which the UK government is expected to negotiate its withdrawal agreement with the EU. It is difficult to predict the future of the UK's relationship with the EU, which uncertainty may increase the volatility in the global financial markets in the short- and medium-term. Absent any extension, the UK is expected to leave the EU in early 2019. The terms and conditions of the anticipated withdrawal from the EU, and which of the several alternative models of relationship that the UK might ultimately negotiate with the EU, remain uncertain. However, the UK government has stated that the UK will leave the EU single market and will seek a phased period of implementation for the new relationship that may cover the legal and regulatory framework applicable to financial institutions with significant operations in Europe, such as Morgan Stanley. Potential effects of the UK exit from the EU and potential mitigation actions may vary considerably depending on the timing of withdrawal and the nature of any transition or successor arrangements. Any future limitations on providing financial services into the EU from our UK operations could require us to make potentially significant changes to our operations in the UK and Europe and our legal structure there, which could have an adverse effect on our business and financial results.

Overview of 2017 financial results

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

The condensed income statement for the six months ended 30 June 2017 is set out on page 7. The Company reported a profit before income tax for the six months ended 30 June 2017 of €3,783,000 compared to a restated profit before income tax of €2,858,000 for the six months ended 30 June 2016.

The profit before income tax is primarily comprised of management charges recognised in 'Other income' of €3,027,000, compared to €2,858,000 recognised in the prior period, and prior year costs of €756,000 included in the calculation of the yield payable on Convertible Preferred Equity Certificates ("CPECs") explained in note 6 and recognised in 'Interest expense.'

The Company has recognised a net gain of €359,254,000 on financial instruments classified as held for trading compared to a net loss of €310,651,000 for the prior period, with a corresponding net loss of €359,254,000 on financial instruments designated at fair value through profit or loss (Restated 30 June 2016: €310,651,000 gain). This is due to fair value changes attributable to market movements on the securities underlying Structured Notes hedged by derivatives classified as held for trading.

The condensed statement of financial position for the Company is set out on page 10. The Company's total assets at 30 June 2017 are €10,193,799,000, an increase of €624,716,000 or 7% when compared to 31 December 2016. Total liabilities of €10,152,726,000 represent an increase of €621,879,000 or 7% when compared to total liabilities at 31 December 2016. These movements are primarily attributable to the value of issued Structured Notes and the related hedging instruments held at 30 June 2017. Structured Notes reflected in 'Financial liabilities designated at fair value through profit or loss' have increased since 31 December 2016 as a result of new issuances and fair value movements in the period partially offset by maturities. The increase in the value of issued Structured Notes has resulted in a net increase in the value of the related hedging instruments.

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

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

Risk management

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

Note 10 to the condensed financial statements provides more detailed quantitative disclosures and note 15 to the Company's annual financial statements for the year ended 31 December 2016 provides more detailed qualitative disclosures on the Company's exposure to financial risks.

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

Market risk

Market risk refers to the risk of losses for a position or portfolio due to changes in rates, foreign exchange, equities, implied volatilities, correlations or other market factors.

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

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

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

Credit risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company. Credit risk includes the risk that economic, social and political conditions and events in a foreign country will adversely affect an obligor's ability and willingness to fulfil their obligations.

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

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

Country risk exposure

Country risk exposure is the risk that events in, or affecting, a foreign country might adversely affect the Company. "Foreign country" means any country other than The Netherlands. Sovereign risk, by contrast, is the risk that a government will be unwilling or unable to meet its debt obligations, or renege on the debt it guarantees. Sovereign risk is single-name risk for a sovereign government, its agencies and guaranteed entities. For further information on how the Company identifies, monitors and manages country risk exposure refer to page 4 of the Directors' report of the Company's annual financial statements for the year ended 31 December 2016.

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Liquidity and funding risk

Liquidity and funding risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity and funding risk also encompasses the Company's financial condition or overall soundness is adversely affected by an inability or perceived inability to meet its financial obligations in a timely manner. It also includes 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.

For a further discussion on the Company's liquidity and funding risk refer to page 4 of the Directors' report in the Company's annual financial statements for the year ended 31 December 2016.

Operational risk

Operational risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes, people and systems or from external events (e.g. fraud, theft, legal 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. Legal, regulatory and compliance risk is discussed below under "Legal, regulatory and compliance risk".

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

For further discussion on the Company's operational risk refer to pages 5 and 6 of the Directors' report in the Company's annual financial statements for the year ended 31 December 2016.

Legal, regulatory and compliance risk

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

For further discussion on the Company's legal, regulatory and compliance risk, refer to pages 6 and 7 of the Directors' report in the Company's annual financial statements for the year ended 31 December 2016.

Going concern

Retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy. Additionally, the Company has access to further Morgan Stanley Group capital and liquidity as required.

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

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

DIRECTORS

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

H. Herrmann
S. Ibanez
P.J.G. de Reus
L.P.A. Rolfes
TMF Management B.V.

The Company has taken notice of Dutch legislation effective as of 13 April 2017, as a consequence of which the Company should take into account as much as possible a balanced composition of the Board of Directors in terms of gender, when nominating or appointing Directors, to the effect that at least 30 percent of the positions should be held by women and at least 30 percent by men. Currently the composition of the Board of Directors deviates from the gender diversity objectives. When appointing a Director, the Board of Directors considers the gender diversity objectives, as appropriate.

EVENTS AFTER THE REPORTING DATE

There have been no significant events since the reporting date.

AUDIT COMMITTEE

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

Approved by the Board and signed on its behalf by:

H. Herrmann	S. Ibanez	P.J.G. de Reus
L.P.A. Rolfes	TMF Management B.V.	

DIRECTORS' RESPONSIBILITY STATEMENT

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

- the condensed financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *'Interim Financial Reporting'* ("IAS 34") as adopted by the EU and Title 9 of Book 2 of the Dutch Civil Code on the basis of the Company's international connections and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the interim management report includes a fair review of the important events that have occurred during the six months ended 30 June 2017 and the impact on the condensed financial statements and provides a description of the principal risks and uncertainties that the Company faces for the remaining six months of the financial year.

Approved by the Board and signed on its behalf by

H. Herrmann	S. Ibanez	P.J.G. de Reus
L.P.A. Rolfes	TMF Management B.V.	

MORGAN STANLEY B.V.

CONDENSED INCOME STATEMENT
Six months ended 30 June 2017

	Note	Six months ended 30 June 2017 €'000 (unaudited)	Restated Six months ended 30 June 2016 €'000 (unaudited)
Net gains/ (losses) on financial assets classified as held for trading		237,323	(69,379)
Net gains/ (losses) on financial liabilities classified as held for trading		121,931	(241,272)
Net gains/ (losses) on financial instruments classified as held for trading		359,254	(310,651)
Net gains on financial assets designated at fair value through profit or loss		102,767	61,817
Net (losses)/ gains on financial liabilities designated at fair value through profit or loss		(462,021)	248,834
Net (losses)/ gains on financial instruments designated at fair value through profit or loss		(359,254)	310,651
Interest income	2	7,899	8,122
Interest expense	2	(4,633)	(7,406)
Other income	3	3,027	2,858
Other expense	4	(2,510)	(716)
PROFIT BEFORE INCOME TAX		3,783	2,858
Income tax expense	5	(946)	(708)
PROFIT FOR THE PERIOD		2,837	2,150

All operations were continuing in the current and prior period.

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

CONDENSED STATEMENT OF COMPREHENSIVE INCOME
Six months ended 30 June 2017

	Note	Six months ended 30 June 2017 €'000 (unaudited)	Restated Six months ended 30 June 2016 €'000 (unaudited)
PROFIT FOR THE PERIOD		2,837	2,150
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Items that will not be reclassified subsequently to profit or loss:			
Changes in fair value attributable to own credit risk on financial liabilities designated at fair value through profit or loss	5	-	(2,017)
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX FOR THE PERIOD		-	(2,017)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		2,837	133

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

MORGAN STANLEY B.V.

CONDENSED STATEMENT OF CHANGES IN EQUITY
Six months ended 30 June 2017

	Share capital €'000	Debt valuation adjustment reserve €'000	Retained earnings €'000	Total equity €'000
Balance at 1 January 2016 (audited)	15,018	-	22,672	37,690
Restated for adoption of new accounting standard	-	3,330	(3,330)	-
Restated profit for the period	-	-	2,150	2,150
Restated other comprehensive loss	-	(2,017)	-	(2,017)
Restated balance at 30 June 2016 (unaudited)	15,018	1,313	21,492	37,823
Balance at 1 January 2017 (audited)	15,018	-	23,218	38,236
Profit and total comprehensive income for the period	-	-	2,837	2,837
Balance at 30 June 2017 (unaudited)	15,018	-	26,055	41,073

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

MORGAN STANLEY B.V.

Registered number: 34161590

CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 June 2017
(Including Proposed Appropriation of Results)

	Note	30 June 2017 €'000 (unaudited)	31 December 2016 €'000 (audited)
ASSETS			
Loans and receivables:			
Cash and short-term deposits		1,348	716
Trade receivables		89,734	58,482
Other receivables		1,852,761	1,648,424
		1,943,843	1,707,622
Financial assets classified as held for trading	7	714,366	590,179
Financial assets designated at fair value through profit or loss	8	7,528,456	7,269,070
Current tax assets		7,134	2,212
TOTAL ASSETS		10,193,799	9,569,083
LIABILITIES AND EQUITY			
Financial liabilities at amortised cost:			
Convertible preferred equity certificates	6	1,125,281	1,125,281
Trade payables		690,112	480,022
Other payables		57,836	59,216
		1,873,229	1,664,519
Financial liabilities classified as held for trading	7	420,456	514,302
Financial liabilities designated at fair value through profit or loss	8	7,859,041	7,352,026
TOTAL LIABILITIES		10,152,726	9,530,847
EQUITY			
Share capital		15,018	15,018
Retained earnings		26,055	23,218
Equity attributable to owners of the Company		41,073	38,236
TOTAL EQUITY		41,073	38,236
TOTAL LIABILITIES AND EQUITY		10,193,799	9,569,083

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

Signed on behalf of the Board

H. Herrmann S. Ibanez P.J.G. de Reus

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

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

MORGAN STANLEY B.V.

CONDENSED STATEMENT OF CASH FLOWS
Six months ended 30 June 2017

OPERATING ACTIVITIES	Six months ended 30 June 2017 €'000 (unaudited)	Restated Six months ended 30 June 2016 €'000 (unaudited)
Profit for the period	2,837	2,150
Adjustments for:		
Interest income	(7,899)	(8,122)
Interest expense	4,633	7,406
Income tax expense	946	708
Operating cash flows before changes in operating assets and liabilities	517	2,142
Changes in operating assets		
Increase in loans and receivables, excluding cash and short-term deposits	(227,732)	(48,693)
(Increase)/ decrease in financial assets classified as held for trading	(124,187)	54,585
Increase in financial assets designated at fair value through profit or loss	(259,386)	(522,072)
	(611,305)	(516,180)
Changes in operating liabilities		
Increase in financial liabilities at amortised cost	204,358	158,496
Decrease in financial liabilities classified as held for trading	(93,846)	(180,875)
Increase in financial liabilities designated at fair value through profit or loss	507,015	542,859
	617,527	520,480
Interest received	42	52
Interest paid	(281)	(93)
Income taxes paid	(5,868)	(5,061)
	(6,107)	(5,102)
NET CASH FLOWS FROM OPERATING ACTIVITIES	632	1,340
NET INCREASE IN CASH AND CASH EQUIVALENTS	632	1,340
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	716	499
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	1,348	1,839

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

1. BASIS OF PREPARATION

i Accounting policies

The Company prepares its annual financial statements in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") as adopted by the EU, Interpretations issued by the IFRS Interpretations Committee and Dutch Law. The condensed financial statements have been prepared in accordance with IAS 34 as adopted by the EU.

In preparing these condensed financial statements, the Company has applied consistently the accounting policies and methods of computation used in the Company's annual financial statements for the year ended 31 December 2016, except where noted in 1(ii) below.

ii New standards and interpretations adopted during the period

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

An amendment to IAS 7 '*Statement of Cash Flows*' was issued by the IASB in January 2016, as part of the Disclosure Initiative project. The amendment is applicable in annual periods beginning on or after 1 January 2017.

An amendment to IAS 12 '*Income Taxes*' was issued by the IASB in January 2016, for application in annual periods beginning on or after 1 January 2017.

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

iii New standards and interpretations not yet adopted

At the date of authorisation of these condensed financial statements, the IASB has issued standards, amendments to standards and interpretations relevant to the Company's operations but not yet mandatory.

Accounting updates not listed below have been assessed and determined to be either not applicable or are not expected to have a significant impact to the Company's financial statements. For further details on these updates see note 2 in the notes to the Company's annual financial statements for the year ended 31 December 2016.

The following standards continue to be assessed as implementation progresses.

IFRS 9 *'Financial instruments'* ("IFRS 9") was issued by the IASB in November 2009, amended in November 2013, and revised and reissued by the IASB in July 2014. IFRS 9 is applicable retrospectively, except where otherwise prescribed by transitional provisions of the standard, and is effective for annual periods beginning on or after 1 January 2018. The standard was endorsed by the EU in November 2016. The Company has early adopted in isolation the requirements relating to the presentation of fair value movements due to changes in credit risk on financial liabilities designated at fair value through profit or loss, but has not early adopted the remaining requirements of IFRS 9.

The aspects of IFRS 9 which are expected to have the most significant impact for the Company are its requirements relating to:

- Classification and measurement of financial assets
  The classification and measurement of financial assets will depend on how these are managed (the Company's business model) and their contractual cash flow characteristics. Measurement will be at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss.

- Impairment of financial assets
  The impairment requirements are based on expected credit losses and apply to financial assets measured at amortised cost and FVOCI.

1. BASIS OF PREPARATION (CONTINUED)

iii New standards and interpretations not yet adopted (continued)

The Company is currently undertaking a project to implement IFRS 9. For financial instruments at amortised cost, the revised impairment requirements will identify whether financial assets have experienced a significant increase in credit risk since origination and estimate expected credit losses, taking account of the probability-weighted impact of multiple future economic scenarios.

Under the transitional provisions of the Standard, the Company's opening balance sheet at the date of initial application (1 January 2018) will be restated, with no restatement of comparative periods.

iv Restatement of comparative amounts

In the second half of 2016, the Company early adopted the provisions within IFRS 9 for the presentation of fair value movements due to changes in credit risk on financial liabilities designated at fair value through profit or loss (the "provisions"), without applying the other requirements of IFRS 9. The standard was adopted for the Company's full year reporting, with effect from 1 January 2016. As a result, comparative amounts in the current year condensed financial statements have been restated to reflect adoption of the provisions with effect from 1 January 2016; a transfer of a €3,330,000 gain, net of tax, from 'Retained earnings' at 1 January 2016 and a €2,017,000 loss, net of tax, from 'Net (losses)/ gains on financial liabilities designated at fair value through profit or loss' for the six months ended 30 June 2016 have been recorded to reflect the cumulative after tax amount of such gains and losses within the 'Debt valuation adjustment reserve' at 1 January 2016 and 30 June 2016, respectively.

v Change in presentation of gains and losses on assets and liabilities measured at fair value

Pursuant to the requirements of IAS 1 paragraph 85, the Company has presented additional line items in the condensed income statement which are considered relevant to the understanding of its financial performance.

Net gains/ (losses) on financial instruments classified as held for trading

- Net gains/ (losses) on financial assets classified as held for trading have been presented separately from the net gains/ (losses) on financial liabilities classified as held trading.

Net gains/ (losses) on financial instruments designated at fair value through profit or loss

- Net gains on financial assets designated at fair value through profit or loss, and any related interest income, have been presented separately from the net (losses)/ gains on financial liabilities designated at fair value through profit or loss.

The comparative amounts have been revised to enhance comparability with the current period presentation.

This change had no impact to the Company's results either for the current or prior period.

vi Use of estimates and sources of uncertainty

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

For further details on the judgements used in determining fair value of certain assets and liabilities, see accounting policy note 3(d) in the notes to the Company's annual financial statements for the year ended 31 December 2016 and note 12.

2. INTEREST INCOME AND INTEREST EXPENSE

‘Interest income’ and ‘Interest expense’ represent total interest income and total interest expense for financial assets and financial liabilities that are not carried at fair value.

‘Interest expense’ includes the yield payable on CPECs (see note 6).

No other gains or losses have been recognised in respect of loans and receivables other than as disclosed as ‘Interest income’ within the condensed income statement.

No other gains or losses have been recognised in respect of financial liabilities at amortised cost other than as disclosed as ‘Interest expense’ within the condensed income statement.

3. OTHER INCOME

	Six months ended 30 June 2017 €'000	Six months ended 30 June 2016 €'000
Management charges to other Morgan Stanley Group undertakings	3,027	2,858

4. OTHER EXPENSE

	Six months ended 30 June 2017 €'000	Six months ended 30 June 2016 €'000
Net foreign exchange losses	2,477	710
Other	33	6
	2,510	716

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

5. INCOME TAX EXPENSE

	Six months ended 30 June 2017 €'000	Restated Six months ended 30 June 2016 €'000
Current tax expense		
Current period	946	714
Adjustment in respect of prior periods	-	(6)
Income tax expense	946	708

5. INCOME TAX EXPENSE (CONTINUED)

Reconciliation of effective tax rate

The current period income tax expense is the same as (30 June 2016: lower than) that resulting from applying the average standard rate of corporation tax in The Netherlands of 25.0% (30 June 2016: 25.0%). The main differences are explained below:

	Six months ended 30 June 2017 €'000	Restated Six months ended 30 June 2016 €'000
Profit before income tax	3,783	2,858
Income tax using the average standard rate of corporation tax in The Netherlands of 25.0% (30 June 2016: 25.0%)	946	714
Impact on tax of:		
Tax over provided in prior periods	-	(6)
Total income tax expense in the condensed income statement	946	708

In addition to the amount charged to the condensed income statement, the aggregate amount of current tax relating to each component of other comprehensive income was as follows:

	Six months ended 30 June 2017			Restated Six months ended 30 June 2016		
	Before tax €'000	Tax benefit €'000	Net of tax €'000	Before tax €'000	Tax benefit €'000	Net of tax €'000
Changes in fair value of liabilities designated at fair value through profit or loss due to changes in the Company's own credit risk	-	-	-	(2,689)	672	(2,017)

6. CONVERTIBLE PREFERRED EQUITY CERTIFICATES

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

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

An accrued yield for the period ended 30 June 2017 of €3,744,000 has been recognised in the condensed income statement in 'Interest expense' (30 June 2016: €7,187,000). The liability to the holders of the CPECs at the end of the financial year, recognised within 'Other payables' is €50,645,000 (31 December 2016: €46,901,000).

6. CONVERTIBLE PREFERRED EQUITY CERTIFICATES (CONTINUED)

Additional costs of €756,000 included within 'Net foreign exchange losses' in 'Other expense' in the prior year have been taken into account when calculating the annual yield payable to the holder of CPECs for 2017.

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

The maturity date of the CPECs is 150 years from the date of issue, however, the CPECs may be redeemed earlier at the option of the Company or on liquidation of the Company.

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

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

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

	30 June 2017		31 December 2016	
	Assets	Liabilities	Assets	Liabilities
	€'000	€'000	€'000	€'000
Derivatives	714,366	420,456	590,179	514,302

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

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

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

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

Loans: These are loans to other Morgan Stanley Group undertakings that, along with the prepaid equity securities contracts and the derivatives contracts classified as held for trading, are part of the hedging strategy for the obligations arising pursuant to the issuance of the Structured Notes. These loans are designated at fair value through profit or loss as the risks to which the Company is a contractual party are managed on a fair value basis as part of the Company's trading portfolio and the risk is reported to key management personnel on this basis.

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

	30 June 2017		31 December 2016	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	€'000	**€'000**	**€'000**	**€'000**
Issued Structured Notes	-	7,859,041	-	7,352,026
Prepaid equity securities contracts	159,922	-	367,160	-
Loans	7,368,534	-	6,901,910	-
	7,528,456	7,859,041	7,269,070	7,352,026

At 1 January 2016, and subsequently at initial recognition of a specific Structured Note issuance program, the Company's issuance process, and any planned hedging structure relating to the issuance of those Structured Notes, has been considered, to determine whether the presentation of change in the fair value of the Structured Notes that is attributable to changes in the credit risk of those liabilities, including the foreign exchange differences on this change in fair value (together, "DVA") through other comprehensive income would create or enlarge an accounting mismatch in the condensed income statement. If financial instruments, such as prepaid equity securities contracts, derivatives classified as held for trading and loans, measured at fair value for which changes in fair value incorporating counterparty credit risk are reflected within the condensed income statement, are traded to economically hedge the Structured Note issuances in full, the fair value incorporating any counterparty credit risk arising on the hedging instruments may materially offset the fair value incorporating any DVA applied to Structured Notes, where the counterparties of the hedging instruments are part of the Morgan Stanley Group. In such cases, the DVA of those Structured Notes is not reflected within other comprehensive income, and instead is presented in the condensed income statement.

As of 1 January 2016, a cumulative gain, gross of tax, of €4,440,000 was recorded to move the cumulative net DVA gain from 'Retained earnings' to the 'Debt valuation adjustment reserve'. This cumulative net DVA gain related to certain Structured Notes hedged by collateralised prepaid equity securities contracts as at 1 January 2016. Due to the collateralised nature of the prepaid equity securities contracts hedging these Structured Notes, no changes in fair value attributable to counterparty credit risk have been recognised.

During the six months ended 30 June 2016, the DVA recognised in the 'Debt valuation adjustment reserve' was a loss, gross of tax, of €2,689,000.

No cumulative DVA was realised upon maturity or derecognition of any of these Structured Notes during the six months ended 30 June 2016, as a result no realised gain or loss was transferred from the 'Debt valuation adjustment reserve' to 'Retained earnings' for that period.

All other DVA on Structured Notes is reflected in the condensed income statement.

The following table presents the change in fair value and the cumulative change recognised in the condensed income statement attributable to own credit risk for issued Structured Notes and counterparty credit risk for loans.

	Gain or (loss) recognised in the condensed income statement [1]		Cumulative gain or (loss) recognised in the condensed income statement	
	Six months ended 30 June 2017	**Restated Six months ended 30 June 2016**	**30 June 2017**	**31 December 2016**
	€'000	**€'000**	**€'000**	**€'000**
Issued structured notes	(460)	20,716	(72,864)	(72,404)
Loans	1,079	(20,716)	74,282	73,203
	619	-	1,418	799

(1) The net gain of €619,000 (Restated 30 June 2016: €nil) and an offsetting net loss reflected in the fair value of the related prepaid equity securities contracts are recognised in the condensed income statement.

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

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

The carrying amount of financial liabilities designated at fair value was €25,442,000 lower than the contractual amount due at maturity (31 December 2016: €73,042,000 lower).

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

30 June 2017	Single name equities €'000	Equity indices €'000	Equity portfolio €'000	Other[(1)] €'000	Total €'000
Certificates and warrants	2,169,054	20,305	427,311	-	2,616,670
Notes	776,273	3,013,530	562,048	890,520	5,242,371
Total financial liabilities designated at fair value through profit or loss	2,945,327	3,033,835	989,359	890,520	7,859,041

31 December 2016	Single name equities €'000	Equity indices €'000	Equity portfolio €'000	Other[(1)] €'000	Total €'000
Certificates and warrants	2,037,362	20,864	362,869	-	2,421,095
Notes	780,602	2,783,850	506,807	859,672	4,930,931
Total financial liabilities designated at fair value through profit or loss	2,817,964	2,804,714	869,676	859,672	7,352,026

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

The majority of the Company's financial liabilities designated at fair value through the profit or loss provide exposure to an underlying single name equity, an equity index or portfolio of equities. The prepaid equity securities contracts, derivative contracts classified as held for trading and loans that the Company enters into in order to hedge the Structured Notes are valued as detailed in note 3(d) and note 17(a) of the Company's annual financial statements for the year ended 31 December 2016, and have similar valuation inputs to the liabilities they hedge.

9. SEGMENT REPORTING

Segment information is presented in respect of the Company's business and geographical segments. The business segments and geographical segments are based on the Company's management and internal reporting structure.

Business segments

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

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

Geographical segments

The Company operates in three geographic regions as listed below:

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

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

	EMEA		Americas		Asia		Total	
		Restated						Restated
	30 June 2017	30 June 2016	30 June 2017	30 June 2016	30 June 2017	30 June 2016	30 June 2017	30 June 2016
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
External revenues net of interest	5,648	3,198	204	169	441	207	6,293	3,574
Profit before income tax	3,138	2,482	204	169	441	207	3,783	2,858

	EMEA		Americas		Asia		Total	
	30 June 2017	31 December 2016	30 June 2017	31 December 2016	30 June 2017	31 December 2016	30 June 2017	31 December 2016
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Total assets	7,072,734	6,495,700	1,831,033	1,778,658	1,290,032	1,294,725	10,193,799	9,569,083

Of the Company's external revenue, 100% (30 June 2016: 100%) arises from transactions with other Morgan Stanley Group undertakings.

10. FINANCIAL RISK MANAGEMENT

Risk management procedures

The Company's risk management procedures are consistent with those disclosed in the Company's annual financial statements for the year ended 31 December 2016. This disclosure is limited to quantitative data for each risk category and should be read in conjunction with the risk management procedures detailed in note 15 of the Company's annual financial statements for the year ended 31 December 2016.

Credit risk

Exposure to credit risk

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

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

Exposure to credit risk by class:

Class	30 June 2017			31 December 2016		
	Gross credit exposure (1)	Credit enhancements	Net credit exposure (2)	Gross credit exposure (1)	Credit enhancements	Net credit exposure (2)
	€'000	€'000	€'000	€'000	€'000	€'000
Loans and receivables:						
Cash and short-term deposits	1,348	-	1,348	716	-	716
Trade receivables	89,734	-	89,734	58,482	-	58,482
Other receivables	1,852,761	-	1,852,761	1,648,424	-	1,648,424
Financial assets classified as held for trading:						
Derivatives	714,366	(710,462)	3,904	590,179	(499,624)	90,555
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	159,922	(159,922)	-	367,160	(344,760)	22,400
Loans	7,368,534	-	7,368,534	6,901,910	-	6,901,910
	10,186,665	(870,384)	9,316,281	9,566,871	(844,384)	8,722,487

(1) The carrying amount recognised in the condensed statement of financial position best represents the Company's maximum exposure to credit risk.

(2) Of the residual net credit exposure, intercompany cross product netting arrangements are in place which would allow for an additional €157,665,000 (31 December 2016: €80,841,000) to be offset in the event of default by certain Morgan Stanley counterparties.

The impact of master netting arrangements and similar agreements on the Company's ability to offset financial assets and financial liabilities is disclosed in note 11.

10. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Maximum exposure to credit risk by counterparty[(1)]

Counterparty	30 June 2017 €'000	31 December 2016 €'000
External financial institutions		
AA	239	185
A	1,109	531
Other Morgan Stanley Group undertakings		
A	8,650,998	7,907,134
BBB	1,534,319	1,659,021
	10,186,665	9,566,871

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

At 30 June 2017 there were no financial assets past due but not impaired or individually impaired (31 December 2016: €nil).

Liquidity and funding risk

Maturity analysis

In the following maturity analysis of financial assets and financial liabilities, derivative contracts, financial assets designated at fair value through profit or loss and financial liabilities designated at fair value through profit or loss are disclosed according to their earliest contractual maturity; all such amounts are presented at their fair value, consistent with how these financial instruments are managed. All other amounts represent undiscounted cash flows receivable and payable by the Company arising from its financial assets and financial liabilities to earliest contractual maturities as at 30 June 2017 and 31 December 2016. Receipts of financial assets and repayments of financial liabilities that are subject to immediate notice are treated as if notice were given immediately and are classified as on demand. This presentation is considered by the Company to appropriately reflect the liquidity risk arising from these financial assets and financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial assets and financial liabilities is managed by the Company.

10. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

Maturity analysis (continued)

30 June 2017	On demand €'000	Less than one year €'000	Equal to or more than one year but less than two years €'000	Equal to or more than two years but less than five years €'000	Equal to or more than five years €'000	Total €'000
Financial assets						
Loans and receivables:						
Cash and short-term deposits	1,348	-	-	-	-	1,348
Trade receivables	89,734	-	-	-	-	89,734
Other receivables	1,852,761	-	-	-	-	1,852,761
Financial assets classified as held for trading:						
Derivatives	426,037	37,317	72,788	113,624	64,600	714,366
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	32,850	127,072	-	-	-	159,922
Loans	2,210,227	1,149,770	773,947	1,948,864	1,285,726	7,368,534
Total financial assets	4,612,957	1,314,159	846,735	2,062,488	1,350,326	10,186,665
Financial liabilities						
Financial liabilities at amortised cost:						
Convertible preferred equity certificates	1,125,281	-	-	-	-	1,125,281
Trade payables	690,112	-	-	-	-	690,112
Other payables	57,836	-	-	-	-	57,836
Financial liabilities classified as held for trading:						
Derivatives	238,883	51,703	22,726	49,530	57,614	420,456
Financial liabilities designated at fair value through profit or loss:						
Issued Structured Notes	2,466,906	1,262,456	824,009	2,012,958	1,292,712	7,859,041
Total financial liabilities	4,579,018	1,314,159	846,735	2,062,488	1,350,326	10,152,726

10. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

Maturity analysis (continued)

31 December 2016	On demand €'000	Less than one year €'000	Equal to or more than one year but less than two years €'000	Equal to or more than two years but less than five years €'000	Equal to or more than five years €'000	Total €'000
Financial assets						
Loans and receivables:						
Cash and short-term deposits	716	-	-	-	-	716
Trade receivables	58,482	-	-	-	-	58,482
Other receivables	1,648,424	-	-	-	-	1,648,424
Financial assets classified as held for trading:						
Derivatives	349,470	28,366	33,811	125,652	52,880	590,179
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	228,062	47,124	91,974	-	-	367,160
Loans	2,172,686	1,036,855	732,811	1,834,298	1,125,260	6,901,910
Total financial assets	4,457,840	1,112,345	858,596	1,959,950	1,178,140	9,566,871
Financial liabilities						
Financial liabilities at amortised cost:						
Convertible preferred equity certificates	1,125,281	-	-	-	-	1,125,281
Trade payables	480,022	-	-	-	-	480,022
Other payables	59,216	-	-	-	-	59,216
Financial liabilities classified as held for trading:						
Derivatives	290,306	39,607	49,313	76,113	58,963	514,302
Financial liabilities designated at fair value through profit or loss:						
Issued Structured Notes	2,466,991	1,072,738	809,283	1,883,837	1,119,177	7,352,026
Total financial liabilities	4,421,816	1,112,345	858,596	1,959,950	1,178,140	9,530,847

10. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk

Equity price sensitivity analysis

The sensitivity analysis below is determined based on the exposure to equity price risk at 30 June 2017 and 31 December 2016 respectively.

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

	Impact on Total Comprehensive Income Gains/(losses)	
	30 June 2017 €'000	**31 December 2016 €'000**
Financial instruments classified as held for trading	(769,912)	(698,486)
Financial assets designated at fair value through profit or loss	(15,992)	(36,716)
Financial liabilities designated at fair value through profit or loss	785,904	735,202
	-	-

The Company's equity risk price risk is mainly concentrated on equity securities in EMEA.

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

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

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

11. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING

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

The following tables present information about the offsetting of financial instruments and related collateral amounts. The effect of master netting arrangements, collateral agreements and other credit enhancements on the Company's exposure to credit risk is disclosed in note 10. The information below is limited to quantitative information and should be read in conjunction with note 16 of the Company's annual financial statements for the year ended 31 December 2016.

	Gross amounts (1)	Amounts offset in the condensed statement of financial position	Net amounts presented in the condensed statement of financial position	Amounts not offset in the condensed statement of financial position (2) (3) (4)		Net exposure(5)
				Financial instruments	Cash collateral	
	€'000	€'000	€'000	€'000	€'000	€'000
30 June 2017						
Assets						
Financial assets classified as held for trading:						
Derivatives	714,366	-	714,366	-	(710,462)	3,904
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	159,922	-	159,922	-	(159,922)	-
TOTAL	874,288	-	874,288	-	(870,384)	3,904
Liabilities						
Financial liabilities classified as held for trading:						
Derivatives	420,456	-	420,456	-	(399,450)	21,006
Financial liabilities designated at fair value through profit or loss:						
Issued Structured Notes	7,859,041	-	7,859,041	-	-	7,859,041
TOTAL	8,279,497	-	8,279,497	-	(399,450)	7,888,047

(1) Amounts include €3,904,000 of financial assets classified as held for trading – derivatives, €nil of financial assets designated at fair value through profit or loss - prepaid equity securities contracts, €21,006,000 of financial liabilities classified as held for trading - derivatives and €6,853,941,000 of financial liabilities designated at fair value through profit or loss - issued Structured Notes which are either not subject to master netting agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.

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

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

(4) In addition to the balances disclosed in the table related to cash collateral, certain trade receivables and payables of €71,990,000 that are not presented net within the condensed statement of financial position have legally enforceable master netting agreements or similar arrangements in place and can be offset in the ordinary course of business and/or in the event of default.

(5) Of the residual net exposure, intercompany cross-product legally enforceable netting arrangements are in place which would allow for an additional €157,665,000 to be offset in the ordinary course of business and/or in the event of default.

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

	Gross amounts (1)	Amounts offset in the condensed statement of financial position (2)	Net amounts presented in the condensed statement of financial position	Amounts not offset in the condensed statement of financial position (3) (5) (6)		Net exposure (7)
				Financial instruments	Cash collateral (4)	
	€'000	€'000	€'000	€'000	€'000	€'000
31 December 2016						
Assets						
Financial assets classified as held for trading:						
Derivatives	590,179	-	590,179	(290,847)	(208,777)	90,555
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	367,160	-	367,160	-	(344,760)	22,400
TOTAL	957,339	-	957,339	(290,847)	(553,537)	112,955
Liabilities						
Financial assets classified as held for trading:						
Derivatives	514,302	-	514,302	(290,847)	(149,870)	73,585
Financial liabilities designated at fair value through profit or loss:						
Issued Structured Notes	7,352,026	-	7,352,026	-	-	7,352,026
TOTAL	7,866,328	-	7,866,328	(290,847)	(147,870)	7,425,611

(1) Amounts include €90,555,000 of financial assets classified as held for trading - derivatives, €22,400,000 of financial assets designated at fair value through profit or loss - prepaid equity securities contracts, €73,585,000 of financial liabilities classified as held for trading - derivatives and €6,288,204,000 of financial liabilities classified as designated at fair value through profit or loss - issued Structured Notes which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.

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

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

(4) Cash collateral used to mitigate credit risk on exposures arising under derivatives contracts and prepaid equity securities contracts is determined and settled on a net basis and has been recognised in the condensed statement of financial position within trade receivables.

(5) In addition to the balances disclosed in the table related to cash collateral, certain trade receivables and payables of €53,104,000 not presented net within the condensed statement of financial position have legally enforceable master netting agreements in place and can be offset in the ordinary course of business and/or in the event of default.

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

(7) Of the residual net exposure, intercompany cross-product legally enforceable netting arrangements are in place which would allow for an additional €80,841,000 to be offset in the ordinary course of business and/ or in the event of default.

12. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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

The following tables present the carrying value of the Company's financial assets and financial liabilities recognised at fair value on a recurring basis, classified according to the fair value hierarchy. The information below is limited to quantitative information and should be read in conjunction with note 17 of the Company's annual financial statements for the year ended 31 December 2016.

30 June 2017	Quoted prices in active market (Level 1) €'000	Valuation techniques using observable inputs (Level 2) €'000	Valuation techniques with significant unobservable inputs (Level 3) €'000	Total €'000
Financial assets classified as held for trading:				
Derivatives	-	671,312	43,054	714,366
Financial assets designated at fair value through profit or loss:				
Prepaid equity securities contracts	-	159,922	-	159,922
Loans	-	7,368,534	-	7,368,534
Total financial assets measured at fair value	-	8,199,768	43,054	8,242,822
Financial liabilities classified as held for trading:				
Derivatives	-	390,148	30,308	420,456
Financial liabilities designated at fair value through profit or loss:				
Certificates and warrants	-	2,616,670	-	2,616,670
Notes	-	4,916,756	325,615	5,242,371
Total financial liabilities measured at fair value	-	7,923,574	355,923	8,279,497

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

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

31 December 2016	**Quoted prices in active market (Level 1) €'000**	**Valuation techniques using observable inputs (Level 2) €'000**	**Valuation techniques with significant unobservable inputs (Level 3) €'000**	**Total €'000**
Financial assets classified as held for trading:				
Derivatives	-	541,671	48,508	590,179
Financial assets designated at fair value through profit or loss:				
Prepaid equity securities contracts	-	367,160	-	367,160
Loans	-	6,901,910	-	6,901,910
Total financial assets measured at fair value	-	7,810,741	48,508	7,859,249
Financial liabilities classified as held for trading:				
Derivatives	-	482,007	32,295	514,302
Financial liabilities designated at fair value through profit or loss:				
Certificates and warrants	-	2,421,095	-	2,421,095
Notes	-	4,632,056	298,875	4,930,931
Total financial liabilities measured at fair value	-	7,535,158	331,170	7,866,328

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

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

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

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

The following tables present the changes in the fair value of the Company's Level 3 financial assets and financial liabilities for the period ended 30 June 2017 and year ended 31 December 2016. Level 3 instruments may be hedged with instruments classified in Level 2. As a result, the realised and unrealised gains/ (losses) for assets and liabilities within the Level 3 category presented in the following tables do not reflect the related realised and unrealised gains/ (losses) on hedging instruments that have been classified by the Company within the Level 2 category.

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

The Morgan Stanley Group operates a number of intra-group policies to ensure to ensure arm's length pricing. Where the trading positions included in the tables below are risk managed using financial instruments held by other Morgan Stanley Group undertakings, these policies potentially result in the recognition of offsetting gains or losses in the Morgan Stanley Group.

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

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

30 June 2017

	Balance at 1 January 2017 €'000	Total gains or (losses) recognised in condensed income statement (1) €'000	Purchases €'000	Issuances €'000	Settlements €'000	Net transfers in and/ or out of Level 3 (2) €'000	Balance at 30 June 2017 €'000	Unrealised gains or (losses) for Level 3 assets /(liabilities) outstanding as at 30 June 2017 (3) €'000
Financial assets classified as held for trading:								
Net derivative contracts (4)	16,213	639	-	-	(5,790)	1,684	12,746	(1,137)
Total financial assets measured at fair value	**16,213**	**639**	**-**	**-**	**(5,790)**	**1,684**	**12,746**	**(1,137)**
Financial liabilities designated at fair value through profit or loss:								
Notes	(298,875)	(5,904)	-	(139,044)	43,232	74,976	(325,615)	(3,951)
Total financial liabilities measured at fair value	**(298,875)**	**(5,904)**	**-**	**(139,044)**	**43,232**	**74,976**	**(325,615)**	**(3,951)**

(1) The total gains or (losses) are recognised in the condensed income statement as detailed in the financial instruments accounting policy in the Company's annual financial statements for the year ended 31 December 2016.

(2) For financial assets and financial liabilities that were transferred into and out of Level 3 during the period, gains or (losses) are presented as if the assets or liabilities had been transferred into or out of Level 3 as at the beginning of the period.

(3) Amounts represent unrealised gains or (losses) for the period ended 30 June 2017 related to assets and liabilities still outstanding at 31 December 2016. The unrealised gains or (losses) are recognised in the condensed income statement as detailed in the financial instruments accounting policy in the Company's annual financial statements for the year ended 31 December 2016.

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

During the six months ended 30 June 2017, the Company reclassified approximately €266,000 of net derivative contracts and €17,571,000 of issued Structured Notes from Level 2 to Level 3. The reclassifications were due to the fact that certain unobservable inputs became significant to the fair value measurement.

During the six months ended 30 June 2017, the Company reclassified approximately €1,950,000 of net derivative contracts and €92,547,000 of issued Structured Notes from Level 3 to Level 2. The reclassifications were due to the fact that certain significant inputs for the fair value measurement became observable as certain instruments approach maturity.

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

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

31 December 2016	Balance at 1 January 2016 €'000	Total gains or (losses) recognised in condensed income statement (1) €'000	Purchases €'000	Issuances €'000	Settlements €'000	Net transfers in and/ or out of Level 3 (2) €'000	Balance at 31 December 2016 €'000	Unrealised gains or (losses) for Level 3 assets /(liabilities) outstanding as at 31 December 2016 (3) €'000
Financial assets designated at fair value through profit or loss:								
Prepaid equity securities contracts	20,270	2,820	-	-	(20,098)	(2,992)	-	-
Total financial assets measured at fair value	**20,270**	**2,820**	**-**	**-**	**(20,098)**	**(2,992)**	**-**	**-**
Financial assets classified as held for trading:								
Net derivative contracts (4)	(28,455)	12,248	-	-	(3,950)	36,370	16,213	17,374
Financial liabilities designated at fair value through profit or loss:								
Notes	(320,057)	(50,907)	-	(127,887)	118,882	81,094	(298,875)	(42,689)
Total financial liabilities measured at fair value	**(348,512)**	**(38,659)**	**-**	**(127,887)**	**114,932**	**117,464**	**(282,662)**	**(25,315)**

(1) The total gains or (losses) are recognised in the condensed income statement as detailed in the financial instruments accounting policy in the Company's annual financial statements for the year ended 31 December 2016.

(2) For financial assets and financial liabilities that were transferred into and out of Level 3 during the period, gains or (losses) are presented as if the assets or liabilities had been transferred into or out of Level 3 as at the beginning of the period.

(3) Amounts represent unrealised gains or (losses) for the year ended 31 December 2016 related to assets and liabilities still outstanding at 31 December 2016. The unrealised gains or (losses) are recognised in the condensed income statement as detailed in the financial instruments accounting policy in the Company's annual financial statements for the year ended 31 December 2016.

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

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

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

During the year ended 31 December 2016, the Company reclassified approximately €1,795,000 of net derivative contracts and €47,550,000 of issued Structured Notes from Level 2 to Level 3. The reclassifications were due to a reduction in the volume of recently executed transactions or a lack of available broker quotes for these instruments, such that certain significant inputs became unobservable.

During the year ended 31 December 2016, the Company reclassified approximately €38,165,000 of net derivative contracts, €2,992,000 of prepaid equity securities contracts and €128,644,000 of issued Structured Notes from Level 3 to Level 2. The reclassifications were due to the availability of market quotations for these or comparable instruments, or available broker quotes, or consensus data such that certain significant inputs became observable.

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

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

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

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

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

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

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

30 June 2017	Fair value €'000	Predominant valuation techniques/ Significant unobservable inputs	Range [2] (Averages)[3]
ASSETS			
Financial assets classified as held for trading:			
- Net derivative contracts [1][4]	12,746	Option model	
		At the money volatility	6% to 44% (20%)
		Volatility skew	-1% to 0% (-1%)
		Equity – Equity correlation	35% to 92% (57%)
		Equity – Foreign exchange correlation	-70% to 30% (-30%)
		Interest rate – Foreign exchange correlation	25% to 37% (33%)
		Net asset value ("NAV")	
		NAV	100% (100%)
LIABILITIES			
Financial liabilities designated at fair value through profit or loss:			
- Notes	(325,615)	Option model	
		At the money volatility	6% to 63% (26%)
		Volatility skew	-2% to 0% (-1%)
		Equity – Equity correlation	45% to 87% (65%)
		Equity – Foreign exchange correlation	-51% to 13% (-27%)
		Interest rate – Foreign exchange correlation	25% to 37% (33%)
		NAV	
		NAV	100% (100%)

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

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

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

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

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

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

31 December 2016	Fair value €'000	Predominant valuation techniques/ Significant unobservable inputs		Range [2] (Averages)[3]
ASSETS				
Financial assets classified as held for trading:				
- Net derivative contracts [1][4]	16,213	Option model		
			At the money volatility	7% to 42% (21%)
			Volatility skew	-2% to 0% (-1%)
			Equity – Equity correlation	35% to 95% (60%)
			Equity – Foreign exchange correlation	-85% to 40% (-26%)
		NAV		
			NAV	100% (100%)
LIABILITIES				
Financial liabilities designated at fair value through profit or loss:				
- Notes	(298,875)	Option model		
			At the money volatility	7% to 42% (25%)
			Volatility skew	-2% to 0% (-1%)
			Equity – Equity correlation	35% to 95% (58%)
			Equity – Foreign exchange correlation	-85% to 25% (-30%)
		NAV		
			NAV	100% (100%)

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

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

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

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

A description of significant unobservable inputs included in the tables above for all major categories of assets and liabilities is included within note 17 of the Company's annual financial statements for the year ended 31 December 2016.

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

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

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

The following tables present the sensitivity of the fair value of Level 3 financial assets and financial liabilities as at 30 June 2017 and 31 December 2016 to reasonably possible alternative assumptions, providing quantitative information on the potential variability of the fair value measurement. The information below is limited to quantitative information and should be read in conjunction with note 17 of the Company's annual financial statements for the year ended 31 December 2016.

30 June 2017		**Effect of reasonably possible alternative assumptions**	
	Fair value €'000	**Increase in fair value €'000**	**Decrease in fair value €'000**
Financial assets classified as held for trading:			
Net derivatives contracts[(1)]	12,746	319	(147)
Financial liabilities designated at fair value through profit or loss:			
Notes	(325,615)	(683)	387

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

31 December 2016		**Effect of reasonably possible alternative assumptions**	
	Fair value €'000	**Increase in fair value €'000**	**Decrease in fair value €'000**
Financial assets classified as held for trading:			
Net derivatives contracts[(1)]	16,213	1,294	(1,294)
Financial liabilities designated at fair value through profit or loss:			
Notes	(298,875)	(1,294)	1,294

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

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

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

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

13. ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

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

Regarding the CPECs, its carrying value including the accrued yield in ‘Other payables’, as detailed in note 6, is considered in aggregate as an approximation of its fair value.

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

Introduction
We have reviewed the accompanying interim financial report of Morgan Stanley B.V., Amsterdam, which comprises the condensed statement of financial position as at 30 June 2017, the condensed income statement, condensed statement of comprehensive income, condensed statement of changes in equity, and condensed statement of cash flows for the period of six months ended 30 June 2017, and the notes. Management is responsible for the preparation and presentation of this Company's condensed interim financial report in accordance with IAS 34, '*Interim Financial Reporting*' as adopted by the European Union. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope
We conducted our review in accordance with Dutch law including standard 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*". A review of an interim financial report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial report as at 30 June 2017 is not prepared, in all material respects, in accordance with IAS 34, '*Interim Financial Reporting*', as adopted by the European Union.

Amsterdam,
Deloitte Accountants B.V.

M. van Luijk

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

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Deloitte Touche Tohmatsu Limited