

**Registered Number: 34161590**

Registered office:  
Locatellikade 1  
Parnassustoren  
1076 AZ  
Amsterdam  
The Netherlands

**MORGAN STANLEY B.V.**

**Interim financial report**

**30 June 2011**

# MORGAN STANLEY B.V.

<b>CONTENTS</b>	<b>PAGE</b>
Interim management report	1
Directors' responsibility statement	7
Condensed statement of comprehensive income	8
Condensed statement of changes in equity	9
Condensed statement of financial position	10
Condensed statement of cash flows	11
Notes to the condensed financial statements	12
Independent review report to the members of Morgan Stanley B.V.	33

## **MORGAN STANLEY B.V.**

### **INTERIM MANAGEMENT REPORT**

The Directors present their interim management report, responsibility statement and the condensed financial statements for Morgan Stanley B.V. (the "Company") for the six months ended 30 June 2011.

#### **RESULTS AND DIVIDENDS**

The profit for the period, after tax, was €1,322,000 (30 June 2010: €818,000 profit after tax).

On 27 May 2011, the Company declared a final dividend for the year ended 31 December 2010, amounting to €13,175,000, and a first interim dividend for the year ending 31 December 2011, amounting to €698,000, which were both paid on 13 June 2011 (30 June 2010: €nil).

#### **PRINCIPAL ACTIVITY**

The principal activity of the Company is the issuance of financial instruments and the hedging of the obligations arising pursuant to such issuances.

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 activity in the period under review and no significant change in the Company's principal activity is expected.

#### **BUSINESS REVIEW**

During the six months ended 30 June 2011, global market and economic conditions were negatively impacted by concerns about a sovereign debt crisis in Europe and the US federal debt ceiling. Global economic conditions were also affected by the natural disaster in Japan and political unrest in the Middle East and North Africa. European equity and debt markets were affected by adverse economic developments, including investor concerns about the sovereign debt crisis, especially in Greece, Portugal, Ireland, Spain and Italy.

The challenging market conditions present uncertainty for the business outlook, which may adversely impact the financial performance of the Company in the future. The condensed statement of comprehensive income for the period is set out on page 8. The Company made a profit before income tax of €1,775,000 in the period, an increase of €678,000 or 62%, when compared to the six month period ended 30 June 2010. This was primarily attributed to an increase in other income which entirely represents management charges received from other Morgan Stanley Group undertakings, partially offset by a reduction in net interest income earned. The losses and gains on financial instrument instruments classified as held for trading and financial instruments designated at fair value through profit or loss respectively offset to €nil. Net losses on financial instruments classified as held for trading of €30,527,000 represent market movements for the period on derivatives classified as held for trading which have been less favourable when compared to the six month period to 30 June 2010 (2010: €186,411,000 gain).

These derivatives, along with the designated loans and prepaid equities securities contracts, form the hedging strategy for the obligations arising pursuant to the issuance of the structured notes. The income and expense derived from issued structured notes, prepaid equities securities contracts and designated loans are included within net gains on financial instruments designated at fair value through profit or loss. As a result, net losses on financial instruments classified as held for trading offset against net gains on financial instruments designated at fair value through profit and loss of €30,527,000 (2010: €186,411,000 loss).

## **MORGAN STANLEY B.V.**

### **INTERIM MANAGEMENT REPORT**

#### **BUSINESS REVIEW (CONTINUED)**

The condensed statement of financial position for the Company is set out on page 10. The Company's financial position at the end of the period shows total assets of €4,886,835,000 a decrease of €607,301,000 or 11% when compared to the financial position at 31 December 2010. Total liabilities of €4,871,193,000 represent a decrease of €594,750,000 or 11%, when compared to the financial position at 31 December 2010. The Company's financial position is primarily driven by financial liabilities designated at fair value through profit or loss which represents the valuation of issued structured notes held at the end of the reporting period. The value of issued structured notes held at 30 June 2011 has decreased by €621,219,000 since 31 December 2010. This movement represents a net decrease in relation to market valuation movements and maturities of issued structured notes offset by new issuances.

The decrease in the value of issued structured notes at the end of the reporting period has resulted in a reduction in net financial instruments classified as held for trading of €210,686,000 and financial assets designated at fair value through profit or loss of €294,723,000 which both represent the valuation of the related hedging instruments.

Trade payables and trade receivables represents trades that have not settled at the period end. At 30 June 2011, the Company recognised net trade payables of €103,669,000 in relation to pending trades compared to net trade receivables of €13,703,000 at 31 December 2010.

#### **US Sovereign Credit Downgrade**

On 5 August 2011, Standard & Poor's lowered its long term sovereign credit rating on the United States of America from AAA to AA+. While US lawmakers reached agreement to raise the federal debt ceiling on 2 August 2011, the downgrade reflected Standard & Poor's view that the fiscal consolidation plan within that agreement fell short of what would be necessary to stabilise the US government's medium term debt dynamics. Subsequently, Fitch and Moody's reaffirmed the AAA rating, although Moody's has cut its outlook to negative. The Standard & Poor's downgrade could have material adverse impacts on financial markets and economic conditions in the United States and throughout the world.

Because of the unprecedented nature of negative credit rating actions with respect to US government obligations, the ultimate impacts on global markets and our business, financial condition and liquidity are unpredictable and may not be immediately apparent.

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. Note 6 to the condensed financial statements provides qualitative and quantitative disclosures about the Company's management of and exposure to risks, including liquidity risk.

#### **Risk Management**

Risk is an inherent part of the Company's business activity and is managed within the context of the broader Morgan Stanley Group's business activities. The Morgan Stanley Group seeks to identify, assess, monitor and manage each of the various types of risk involved in its activities on a global basis, in accordance with defined policies and procedures and in consideration of the individual legal entities.

## MORGAN STANLEY B.V.

### INTERIM MANAGEMENT REPORT

#### BUSINESS REVIEW (CONTINUED)

##### *Market risk*

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as liquidity, will result in losses for a position or portfolio.

The Morgan Stanley Group manages the market risk associated with its trading activities in consideration of each individual legal entity, but on a global basis, at both a trading division and an individual product level.

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

##### *Credit risk*

Credit risk refers to the risk of loss arising from borrower or counterparty default when a borrower, counterparty or obligor does not meet its obligations.

The Morgan Stanley Group manages credit risk exposure on a global basis as well as giving consideration to each individual legal entity, by ensuring transparency of material credit risks, ensuring compliance with established limits, approving material extensions of credit, escalating risk concentrations to appropriate senior management and mitigating credit risk through the use of collateral and other arrangements.

##### *Liquidity and funding risk*

Liquidity and funding risk refers to the risk that the Company will be unable to meet its funding obligations in a timely manner. Liquidity risk stems from the potential risk that the Company will be unable to obtain necessary funding through borrowing money at favourable interest rates or maturity terms, or selling assets in a timely manner and at a reasonable price. The Morgan Stanley Group's senior management establishes the overall liquidity and funding policies of the Morgan Stanley Group and the liquidity risk management policies and procedures conducted within the Company are consistent with those of the Morgan Stanley Group. The Morgan Stanley Group's liquidity and funding risk management policies are designed to mitigate the potential risk that entities within the Morgan Stanley Group, including the Company, may be unable to access adequate financing to service their financial liabilities when they become payable without material, adverse franchise or business impact. The key objective of the liquidity and funding risk management framework is to support the successful execution of both the Company's and the Morgan Stanley Group's business strategies while ensuring ongoing and sufficient liquidity through the business cycle and during periods of stressed market conditions.

##### *Operational risk*

Operational risk refers to the risk of financial or other loss, or damage to the Company's or the Morgan Stanley Group's reputation, resulting from inadequate or failed internal processes, people, resources, systems or from other internal or external events (e.g. internal or external fraud, legal and compliance risks, damage to physical assets, etc.). Legal and compliance risk is included in the scope of operational risk and is discussed below under "Legal and regulatory risk".

The Company's business is highly dependent on the ability to process, on a daily basis, a large number of transactions across numerous and diverse markets in many currencies. In general, the transactions processed are increasingly complex. The Company relies on the ability of the Morgan Stanley Group's employees, its internal systems, and systems at technology centres operated by third parties to process a high volume of transactions.

## MORGAN STANLEY B.V.

### INTERIM MANAGEMENT REPORT

#### BUSINESS REVIEW (CONTINUED)

The Company also faces the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries it uses to facilitate securities transactions. In the event of a breakdown or improper operation of the Company's or a third party's systems or improper action by third parties or the Morgan Stanley Group's employees, the Company could suffer financial loss, an impairment to its liquidity, a disruption of its businesses, regulatory sanctions or damage to its reputation.

The Company's operations rely on the secure processing, storage and transmission of confidential and other information in its computer systems and may be vulnerable to unauthorised access, mishandling or misuse, computer viruses and other events that could have a security impact on such systems. If one or more of such events occur, this potentially could jeopardise the Company's or the Company's clients' or counterparties' personal, confidential, proprietary or other information processed and stored in, and transmitted through, the Company's computer systems. Furthermore, such events could cause interruptions or malfunctions in the Company's, the Company's clients', the Company's counterparties' or third parties' operations, which could result in reputational damage, litigation or regulatory fines or penalties not covered by insurance maintained by the Company, or adversely affect the business, financial condition or results of operations.

The Morgan Stanley Group has established an operational risk management process which operates on a global and regional basis to identify, measure, monitor and control risk. Effective operational risk management is essential to reducing the impact of operational risk incidents and mitigating legal, regulatory, and reputational risks.

Despite the business contingency plans the Morgan Stanley Group has in place, the Company's ability to conduct its business may also be adversely affected by a disruption in the infrastructure that supports its business and the communities in which it is located. This may include a disruption involving physical site access, terrorist activities, disease pandemics, catastrophic events, electrical, environmental, communications or other services used by the Company, the Morgan Stanley Group's employees or third parties with whom the Company conducts business.

The business continuity management function is responsible for identifying key risks and threats to the Morgan Stanley Group's resilience and planning to ensure a recovery strategy and required resources are in place for the resumption of critical business functions following a disaster or other business interruption. Disaster recovery plans are in place for critical facilities and resources on a global basis. The key components of the disaster recovery plans include: crisis management; business recovery plans; applications/data recovery; work area recovery; and other elements addressing management, analysis, training and testing.

#### *Legal and regulatory risk*

Legal and regulatory risk includes the risk of exposure to fines, penalties, judgements, damages and/or settlements in conjunction with regulatory or legal actions as a result of non-compliance with applicable legal or regulatory requirements or litigation. Legal risk also includes contractual risk such as the risk that a counterparty's performance obligations will be unenforceable. In the current environment of rapid and possibly transformational regulatory change, the Morgan Stanley Group also views regulatory change as a component of legal risk.

## **MORGAN STANLEY B.V.**

### **INTERIM MANAGEMENT REPORT**

#### **BUSINESS REVIEW (CONTINUED)**

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

Significant changes in the way that major financial services institutions are regulated are occurring in the UK, Europe, the US and worldwide. The reforms being discussed and, in some cases, already implemented, include several that contemplate comprehensive restructuring of the regulation of the financial services industry. Such measures will likely lead to stricter regulation of financial institutions generally, and heightened prudential requirements for systemically important firms in particular. Such measures could include taxation of financial transactions, an increase in the number of jurisdiction taxing liabilities and employee compensation as well as reforms of the over-the-counter ("OTC") derivatives markets, such as mandated exchange trading and clearing, position limits, margin, capital and registration requirements.

Many of these reforms, if enacted, may materially affect the Company's and the Morgan Stanley Group's business, financial condition, results of operations and cash flows in the future.

#### **Going Concern**

The economic conditions for the first half of the year were challenging and present difficulties and uncertainty for the business outlook which may adversely impact the financial performance of the Company in the future. The Morgan Stanley Group's senior management views capital as an important source of financial strength. The Morgan Stanley Group actively manages its consolidated 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 and, therefore, in the future may expand or contract its capital base to address the changing needs of its businesses.

In line with this active management, during June 2011, the Morgan Stanley Group strengthened its capital position by converting its outstanding Series B Non-Cumulative Non-Voting Perpetual Convertible Preferred Stock with a face value of \$7.8 billion and a 10% dividend issued to Mitsubishi UFJ Financial Group Inc, for 385,464,097 shares in Morgan Stanley's common stock.

As set out above, the Company operates within the global liquidity management framework of the Morgan Stanley Group. This framework is expected to continue to provide sufficient liquidity to the Morgan Stanley Group and to the Company, and the Company's capital and liquidity position is satisfactory.

Taking all of these factors into consideration, the Directors have no reason to believe that the Company will not 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.

## **MORGAN STANLEY B.V.**

### **INTERIM MANAGEMENT REPORT**

#### **DIRECTORS**

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

P W Banks	(resigned 25 March 2011)
A J S Crawford	(resigned 18 January 2011)
R H L de Groot	
H Herrmann	
H K A Lee	(resigned 15 April 2011)
P J G de Reus	
R J Rinkes	(appointed 13 July 2011)
J A Solan	(resigned 26 April 2011)
TMF Management B.V.	

#### **EVENTS AFTER THE REPORTING DATE**

Since the end of the reporting period, the voting rights of the shares have been amended to confer the right to cast one vote, with a maximum of one vote per shareholder.

In addition, the Company has paid a second interim dividend for the year ending 31 December 2011, amounting to €524,000.

Subsequently the Company's immediate parent undertaking, Morgan Stanley International Holdings Inc, agreed on the sale and transfer of one ordinary share of €100 to Morgan Stanley International Limited and 150,178 ordinary shares of €100 each to Archimedes Investments Cooperatieve U.A. Following the sale and transfer of these ordinary shares, Archimedes Investments Cooperatieve U.A. became the Company's immediate parent undertaking.

Further details are disclosed in note 8 of the condensed financial statements.

#### **AUDIT COMMITTEE**

The Company qualifies as an organisation of public interest pursuant to Dutch and European Union ("EU") law. The Morgan Stanley Group has an audit committee that complies with the international corporate governance rules. The Company has therefore taken the exemption provided for groups and has not established an audit committee.

Approved by the Board and signed on its behalf on 26 August 2011.

R.H.L. de Groot

H. Herrmann

P.J.G. de Reus

R. J. Rinkes

TMF Management B.V.

## MORGAN STANLEY B.V.

### 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 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 Netherlands Civil Code on the basis of the Company's international connections and gives a true and fair view of the assets, liabilities, financial position and result of the Company; and
- (b) the interim management report includes a fair review of the important events that have occurred during the period and the impact on the condensed set of 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 on 26 August 2011.

R.H.L. de Groot

H. Herrmann

P.J.G. de Reus

R. J. Rinkes

TMF Management B.V.

**MORGAN STANLEY B.V.**

**CONDENSED STATEMENT OF COMPREHENSIVE INCOME**  
**Six months ended 30 June 2011**

	<b>Six months ended 30 June 2011 €'000 (unaudited)</b>	<b>Six months ended 30 June 2010 €'000 (unaudited)</b>
Net (losses)/gains on financial instruments classified as held for trading	(30,527)	186,411
Net gains/(losses) on financial instruments designated at fair value through profit or loss	30,527	(186,411)
Interest income	212	339
Interest expense	(103)	(127)
Other income	1,666	885
<b>PROFIT BEFORE INCOME TAX</b>	<b>1,775</b>	<b>1,097</b>
Income tax expense	(453)	(279)
<b>PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>1,322</b>	<b>818</b>

All operations were continuing in the current and prior period.

The notes on pages 12 to 32 form an integral part of the condensed financial statements.

## MORGAN STANLEY B.V.

### CONDENSED STATEMENT OF CHANGES IN EQUITY Six months ended 30 June 2011

	Note	Share capital €'000	Retained earnings €'000	Total equity €'000
Balance at 1 January 2010 (audited)		15,018	11,537	26,555
Profit and total comprehensive income for the period		-	818	818
<b>Balance at 30 June 2010 (unaudited)</b>		<u>15,018</u>	<u>12,355</u>	<u>27,373</u>
Balance at 1 January 2011 (audited)		15,018	13,175	28,193
Profit and total comprehensive income for the period		-	1,322	1,322
<b>Transactions with owners:</b>				
- Dividends to equity holders of the Company	4	-	(13,873)	(13,873)
<b>Balance at 30 June 2011 (unaudited)</b>		<u>15,018</u>	<u>624</u>	<u>15,642</u>

The notes on pages 12 to 32 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 2011****(Including Proposed Appropriation of Results)**

	Note	30 June 2011 €'000 (unaudited)	31 December 2010 €'000 (audited)
<b>ASSETS</b>			
Loans and receivables:			
Cash at bank		893	1,035
Trade receivables		27,801	94,979
Other receivables		27,696	27,648
		<u>56,390</u>	<u>123,662</u>
Financial assets classified as held for trading	2	131,613	377,004
Financial assets designated at fair value through profit or loss	3	4,698,678	4,993,401
Current tax		154	69
<b>TOTAL ASSETS</b>		<u><b>4,886,835</b></u>	<u><b>5,494,136</b></u>
<b>LIABILITIES AND EQUITY</b>			
Financial liabilities at amortised cost:			
Trade payables		131,470	81,276
Other payables		12,208	1,228
		<u>143,678</u>	<u>82,504</u>
Financial liabilities classified as held for trading	2	144,920	179,625
Financial liabilities designated at fair value through profit or loss	3	4,582,595	5,203,814
<b>TOTAL LIABILITIES</b>		<u><b>4,871,193</b></u>	<u><b>5,465,943</b></u>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>			
Share capital		15,018	15,018
Retained earnings		624	13,175
<b>TOTAL EQUITY</b>		<u><b>15,642</b></u>	<u><b>28,193</b></u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u><b>4,886,835</b></u>	<u><b>5,494,136</b></u>

These condensed financial statements were approved by the Board and authorised for issue on 26 August 2011.

Signed on behalf of the Board

R.H.L. de Groot

H. Herrmann

P.J.G. de Reus

R.J. Rinkes

TMF Management B.V.

The notes on pages 12 to 32 form an integral part of the condensed financial statements.

**MORGAN STANLEY B.V.**

**CONDENSED STATEMENT OF CASH FLOWS**  
**Six months ended 30 June 2011**

		Six months ended 30 June 2011 €'000 (unaudited)	Six months ended 30 June 2010 €'000 (unaudited)
<b>OPERATING ACTIVITIES</b>	Note		
Profit for the period		1,322	818
<i>Adjustments for:</i>			
Interest income		(212)	(339)
Interest expense		103	127
Income tax expense		453	279
Profit before changes in operating assets and liabilities		<u>1,666</u>	<u>885</u>
Changes in operating assets			
Decrease in loans and receivables, excluding cash at bank		67,342	3,848
Decrease in financial assets classified as held for trading		245,391	30,958
Decrease/ (increase) in financial assets designated at fair value through profit or loss		<u>294,723</u>	<u>(1,599,997)</u>
		<u>607,456</u>	<u>(1,565,191)</u>
Changes in operating liabilities			
Increase in financial liabilities at amortised cost		61,075	30,027
(Decrease)/ increase in financial liabilities classified as held for trading		(34,705)	132,158
(Decrease)/ increase in financial liabilities designated at fair value through profit or loss		<u>(621,219)</u>	<u>1,396,077</u>
		<u>(594,849)</u>	<u>1,558,262</u>
Interest received		-	83
Interest paid		(4)	-
Income taxes paid		<u>(538)</u>	<u>(626)</u>
		<u>(542)</u>	<u>(543)</u>
<b>NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES</b>		<u>13,731</u>	<u>(6,587)</u>
<b>FINANCING ACTIVITIES</b>			
Dividends paid to equity holders of the Company	4	<u>(13,873)</u>	-
<b>NET CASH FLOWS USED IN FINANCING ACTIVITIES</b>		<u>(13,873)</u>	-
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		(142)	(6,587)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>		<u>1,035</u>	<u>6,596</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>		<u>893</u>	<u>9</u>

The notes on pages 12 to 32 form an integral part of the condensed financial statements.

## MORGAN STANLEY B.V.

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS Six months ended 30 June 2011

#### 1. BASIS OF PREPARATION

##### i Statement of compliance

The Company prepares its annual financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. These condensed financial statements have been prepared in accordance with IAS 34 as adopted by the EU.

##### ii Accounting policies

In preparing these condensed financial statements, the Company has applied consistently the accounting policies and methods of computation used in the Company's financial statements for the year ended 31 December 2010.

Certain limited presentational changes have been made within the condensed statement of cash flows to prior period amounts to conform to the current period presentation. Specifically, adjustments have been made to the profit for the period relating to non-cash accruals for interest income, interest expense and income tax expense, and cash flows for interest received and income taxes paid have been included. These changes have no impact on the net cash flows from operating activities. The changes do not impact the prior period condensed statement of financial position.

##### iii New standards and interpretations adopted during the period

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

IAS 24 '*Related Party Disclosures*' was revised by the International Accounting Standards Board ("IASB") in November 2009 for retrospective application in annual periods beginning on or after 1 January 2011. The revised standard was endorsed by the EU in July 2010.

As part of the May 2010 Improvements to IFRS, the IASB made amendments to the following standard that is relevant to the Company's operations: IAS 1 '*Presentation of Financial Statements*' for retrospective application in accounting periods beginning on or after 1 January 2011. These improvements were endorsed by the EU in February 2011.

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

##### iv New standards and interpretations not yet adopted

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

An amendment to IAS 1 '*Presentation of financial statements*' was issued by the IASB in June 2011 for retrospective application in annual periods beginning on or after 1 July 2012.

As part of the May 2010 Improvements to IFRS, the IASB made amendments to IFRS 7 '*Financial instruments: Disclosures*' ("IFRS 7") (for application in accounting periods beginning on or after 1 January 2011) and in October 2010 an amendment to IFRS 7 was issued by the IASB for prospective application in annual periods beginning on or after 1 July 2011.

IFRS 9 '*Financial instruments*' was issued by the IASB in November 2009 for retrospective application in annual periods beginning on or after 1 January 2013. Although there are expected to be significant changes to the presentation of financial instruments by the Company, there is not expected to be a significant impact on net assets.

An amendment to IAS 12 '*Income taxes*' was issued by the IASB in December 2010 for retrospective application in annual periods beginning on or after 1 January 2012.

## MORGAN STANLEY B.V.

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Six months ended 30 June 2011

#### 1. BASIS OF PREPARATION (CONTINUED)

IFRS 13 '*Fair Value Measurement*' was issued by the IASB in May 2011 for prospective application in annual periods beginning on or after 1 January 2013. The expected impact of adopting this standard on the Company's financial statements is currently being assessed.

##### v Use of estimates and sources of uncertainty

The preparation of financial information requires the Company to make judgements, estimates and assumptions regarding the valuation of certain financial instruments 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.

#### 2. 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 2011		31 December 2010	
	Assets €'000	Liabilities €'000	Assets €'000	Liabilities €'000
Derivatives	131,613	144,920	377,004	179,625

## MORGAN STANLEY B.V.

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Six months ended 30 June 2011

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

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

*Issued structured notes* - These 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 or credit-linked notes. The instruments are designated at fair value 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. These contracts, along with the loans designated at fair value 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 contracts are designated at fair value 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.

*Designated loans* - These are loans to other Morgan Stanley Group undertakings that, along with the prepaid equity securities contracts 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. These loans are designated at fair value as the risks to which the Company is a contractual party are managed on a fair value basis as part of the Company's trading portfolio and the risk is reported to key management personnel on this basis.

	30 June 2011		31 December 2010	
	Assets €'000	Liabilities €'000	Assets €'000	Liabilities €'000
Issued structured notes	-	4,582,595	-	5,203,814
Prepaid equity securities contracts	2,188,865	-	1,370,462	-
Designated loans	2,509,813	-	3,622,939	-
	<u>4,698,678</u>	<u>4,582,595</u>	<u>4,993,401</u>	<u>5,203,814</u>

## MORGAN STANLEY B.V.

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Six months ended 30 June 2011

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

The change in fair value of issued structured notes recognised through the condensed statement of comprehensive income attributable to own credit risk is a gain of €30,314,000 (30 June 2010: loss of €34,492,000) and cumulatively is a gain of €60,297,000 (31 December 2010: cumulative gain of €29,983,000). This change is determined as the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risk.

The change in fair value of prepaid equity securities contracts and designated loans recognised through the condensed statement of comprehensive income attributable to changes in credit risk is a gain of €33,490,000 (30 June 2010: gain of €31,330,000) and cumulatively is a gain of €16,189,000 (31 December 2010: cumulative loss of €17,301,000).

The change in fair value of financial instruments designated at fair value through profit or loss attributable to credit risk for the period is offset by a net loss of €63,804,000 (30 June 2010: gain of €3,162,000) and cumulatively is a net loss of €76,486,000 (31 December 2010: cumulative loss of €12,682,000), in changes in the fair value of financial instruments classified as held for trading attributable to credit risk.

The carrying amount of financial liabilities designated at fair value was €202,286,000 lower than the contractual amount due at maturity (31 December 2010: €167,802,000 lower).

#### 4. DIVIDENDS

The following amounts represent the dividends paid in the current and prior period:

	Six months ended 30 June 2011		Six months ended 30 June 2010	
	Per share €	Total €'000	Per share €	Total €'000
Final dividends on ordinary shares	87.73	13,175	-	-
Interim dividends on ordinary shares	4.65	698	-	-
	<u>92.38</u>	<u>13,873</u>	<u>-</u>	<u>-</u>

#### 5. 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.

## MORGAN STANLEY B.V.

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS Six months ended 30 June 2011

#### 5. SEGMENT REPORTING (CONTINUED)

##### Business segments

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

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

##### Geographical segments

The Company operates in three Geographic regions as listed below:

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

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

	EMEA		Americas		Asia		Total	
	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June
	2011	2010	2011	2010	2011	2010	2011	2010
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
External revenues net of interest/profit before income tax	1,557	925	9	35	209	137	1,775	1,097

  

	EMEA		Americas		Asia		Total	
	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December
	2011	2010	2011	2010	2011	2010	2011	2010
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Total assets	4,086,643	3,891,868	553,665	612,945	246,513	989,323	4,886,821	5,494,136

Of the Company's external revenue, 100% (30 June 2010: 100%) arises from transactions with other Morgan Stanley Group undertakings.

