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Registered office:
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Amsterdam Zuidoost
The Netherlands

MORGAN STANLEY B.V.

Report and financial statements

31 December 2013

MORGAN STANLEY B.V.

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DIRECTORS' REPORT

The Directors present their report and financial statements (which comprise the statement of comprehensive income, statement of changes in equity, statement of financial position, statement of cash flows and the related notes, 1 to 20) for Morgan Stanley B.V. (the "Company") for the year ended 31 December 2013.

RESULTS AND DIVIDENDS

The profit for the year, after tax, was €4,576,000 (2012: €3,679,000).

During the year, no dividends were paid or proposed (2012: €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'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 year under review and no significant change in the Company's principal activity is expected.

BUSINESS REVIEW

During 2013, global market and economic conditions showed improvement from 2012, though significant uncertainty remained. Investor sentiment was boosted by encouraging signs of improvement in the global economy during the second half of 2013. The United States ("US") economy continued its moderate growth pace, but while as a whole the recession in the euro-area came to an end, significant pockets of slow or negative growth remained in Europe. Global market and economic conditions were also challenged by investor concerns about the US longer-term budget outlook and the scaling back of monetary stimulus, the remaining European sovereign debt issues and slowing economic growth in emerging markets. Shorter term concerns over the US budget standoff were resolved in late 2013 as Congress came to a tentative agreement on federal government funding for the next two fiscal years. Elsewhere, especially in parts of Europe, growth remains hindered by fiscal and longer term structural issues in the economy.

In Europe, major equity market indices finished higher at 31 December 2013 compared to 31 December 2012. Euro-area gross domestic product started to grow in the second quarter of 2013, and the European Central Bank ("ECB") views this as a gradual recovery in economic conditions, albeit with significant downside risks. The euro-area unemployment rate increased to 12% at 31 December 2013 from 11.9% at 31 December 2012. At 31 December 2013, the Bank of England's benchmark interest rate was 0.5%, which was unchanged from 31 December 2012. To stimulate economic activity in Europe, during 2013 the ECB lowered the benchmark interest rate from 0.75% to 0.25% and indicated that it will keep open its special liquidity facilities until at least the middle of 2014.

The statement of comprehensive income for the year is set out on page 8. The Company made a profit before income tax of €6,094,000 in the current year, an increase of €1,219,000 from the prior year due to the higher level of Structured Notes in issuance during the current year on which management charges are received. Management charges are reflected in 'Other income' in the statement of comprehensive income.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Net gains on financial instruments classified as held for trading and net losses on financial instruments designated at fair value through profit or loss offset to €nil, which is consistent with the Company's function and the prior year. The Company hedges its Structured Notes with derivatives classified as held for trading along with loans designated at fair value and prepaid equity securities contracts. Net losses on financial instruments designated at fair value through profit or loss of €509,271,000 represents fair value movements for the year on the issued Structured Notes, prepaid equity securities contracts and loans designated at fair value (2012: €81,202,000 gain). This loss has arisen as a result of unfavourable fair value movements on the assets underlying certain Structured Notes issued that are hedged by derivatives classified as held for trading, on which a corresponding gain of €509,271,000 has been recognised (2012: €81,202,000 loss).

Interest expense and interest income primarily relate to the yield payable on Convertible Preferred Equity Certificates ("CPECs"), and interest receivable on the loan of the cash consideration from the CPECs issuance to another Morgan Stanley Group undertaking. The current year includes twelve months of the yield payable and interest receivable, compared to nine months in the prior year.

The statement of financial position for the Company is set out on page 10. The Company's total assets at 31 December 2013 are €8,170,610,000, an increase of €1,650,925,000 or 25% when compared to 31 December 2012. Total liabilities of €8,145,533,000 represent an increase of €1,646,349,000 or 25%, when compared to total liabilities at 31 December 2012. These movements are primarily attributed to the value of issued Structured Notes held at 31 December 2013, which has increased by €1,571,410,000 since 31 December 2012. This increase represents new issuances and fair value movements, offset by maturities in the year. The increase in the value of issued Structured Notes has resulted in an increase in the valuation of the related hedging instruments, whereby financial assets designated at fair value through profit or loss and net financial instruments classified as held for trading have increased by €1,201,488,000 and €400,079,000 respectively.

The performance of the Company is included in the results of the Morgan Stanley Group which are disclosed in the Morgan Stanley Group's Annual Report on Form 10-K to the US Securities and Exchange Commission. The Morgan Stanley Group manages its key performance indicators on a global basis but in consideration of individual legal entities. For this reason, the Company's Directors believe that providing further performance indicators for the Company itself would not enhance an understanding of the development, performance or position of the business of the Company.

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

Risk management

Risk is an inherent part of both Morgan Stanley's and 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. The Company's own risk management policies and procedures are consistent with those of the Morgan Stanley Group.

Note 15 to the financial statements provides more detailed qualitative and quantitative disclosures about the Company's management of and exposure to financial risks.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

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 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 on a global basis, at both a trading division and an individual product level, which includes consideration of market risk for each individual legal entity.

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 when a borrower, counterparty or issuer does not meet its obligations to the Company.

Credit risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to appropriate key management personnel of the Company.

The Morgan Stanley Group manages credit risk exposure on a global consolidated basis and in consideration of individual legal entities. Its credit risk management policies and procedures establish the framework for identifying, measuring, monitoring and controlling credit risk whilst ensuring transparency of material credit risks, ensuring compliance with established limits and escalating risk concentrations to appropriate senior management.

Liquidity and funding risk

Liquidity and funding risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity and funding risk also encompasses the Company's ability to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern.

The primary goal of the Morgan Stanley Group's liquidity risk management framework is to ensure that the Morgan Stanley Group, including the Company, have access to adequate funding across a wide range of market conditions. The framework is designed to enable the Morgan Stanley Group to fulfil its financial obligations and support the execution of the Company's business strategies. The Company's capital management framework is further described in note 19.

Morgan Stanley continues to actively manage its capital and liquidity position to ensure adequate resources are available to support the activities of the Morgan Stanley Group, including the Company, to enable the Morgan Stanley Group to withstand market stresses, and to meet regulatory stress testing requirements proposed by regulators globally.

Operational risk

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

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Operational risk (continued)

The Company's business is highly dependent on its ability to process, on a daily basis, a large number of transactions across numerous and diverse markets in many currencies. In addition, new products or services may be introduced or change processes, resulting in new operational risk that may not be fully appreciated or identified. 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 unaffiliated third parties to process a high volume of transactions.

The Company also faces the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or 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 or unauthorised 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. In addition, the interconnectivity of multiple financial institutions with central agencies, exchanges and clearing houses, and the increased importance of these entities, increases the risk that an operational failure at one institution or entity may cause an industry-wide operational failure that could materially impact the Company's ability to conduct business.

The Company's operations rely on the secure processing, storage and transmission of confidential and other information in its computer systems and the systems of third parties with which the Company does business with or that facilitate its business activities, such as vendors. Like other financial services firms, the Company and its third party providers have been and continue to be subject to unauthorised access, mishandling or misuse, computer viruses or malware cyber attacks, denial of service attacks and other events. Events such as these could have a security impact on the Company's systems and 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 and our third party providers' 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, client dissatisfaction, litigation or regulatory fines or penalties not covered by insurance maintained by the Company, and adversely affect the business, financial condition or results of operations.

The Morgan Stanley Group has established an operational risk management process that 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.

Legal and regulatory risk

Legal and regulatory risk includes the risk of exposure to fines, penalties, judgements, damages and/ or settlements in connection with regulatory or legal actions as a result of non-compliance with applicable legal or regulatory requirements and standards or litigation. Legal risk also includes contractual and commercial risk such as the risk that a counterparty's performance obligations will be unenforceable. The Morgan Stanley Group is generally subject to extensive regulation in the different jurisdictions in which it conducts its business. In the current environment of rapid and possibly transformational regulatory change, the Morgan Stanley Group also views regulatory change as a component of legal risk.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Legal and regulatory risk (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 business conduct, ethics and practices are complied with. 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, information barriers, potential conflicts of interest, structured transactions, use and safekeeping of customer funds and securities, lending and credit granting, anti-money laundering, privacy and recordkeeping. In addition, the 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 United Kingdom ("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 reforms of the over-the-counter ("OTC") derivatives markets, such as mandated exchange trading and clearing, position limits, margin, capital and registration requirements. Changes in tax legislation in the UK and worldwide, such as increased taxation of financial transactions, liabilities and employees compensation, are also possible.

Going concern

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

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

DIRECTORS' REPORT

DIRECTORS

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

R H L de Groot
H Herrmann
P J G de Reus
Z Wu
TMF Management B.V.

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

EVENTS AFTER THE REPORTING DATE

There have been no significant events since the reporting date.

AUDIT COMMITTEE

The Company qualifies as an organisation of public interest pursuant to Dutch and European Union ("EU") law. Morgan Stanley International Limited, a shareholder in the Company, has an audit committee that complies with the applicable corporate governance rules and also functions as the audit committee of the Company; accordingly, the Company has therefore taken the exemption for groups and has not established its own audit committee.

AUDITOR

Deloitte Accountants B.V. have expressed their willingness to continue in office as auditor of the Company and a resolution to re-appoint them will be proposed at the forthcoming annual general meeting.

Approved by the Board and signed on its behalf by

24 April 2014

R H L de Groot H Herrmann P J G de Reus

Z Wu 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 financial statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB") and as endorsed by the EU, have been prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

- the management report represented by the Directors' report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that the Company faces.

Approved by the Board and signed on its behalf by

24 April 2014

R H L de Groot H Herrmann P J G de Reus

Z Wu TMF Management B.V.

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2013

	Note	2013 €'000	2012 €'000
Net gains/(losses) on financial instruments classified as held for trading		509,271	(81,202)
Net (losses)/gains on financial instruments designated at fair value through profit or loss		(509,271)	81,202
Interest income	4	25,554	20,033
Interest expense	4	(25,459)	(19,936)
Other income	5	6,094	4,875
Other expense	6	(95)	(97)
PROFIT BEFORE INCOME TAX		6,094	4,875
Income tax expense	7	(1,518)	(1,196)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		4,576	3,679

All operations were continuing in the current and prior year.

The notes on pages 12 to 53 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2013

	Share capital €'000	Retained earnings €'000	Total equity €'000
Balance at 1 January 2012	15,018	1,804	16,822
Profit and total comprehensive income for the year	-	3,679	3,679
Balance at 31 December 2012	15,018	5,483	20,501
Profit and total comprehensive income for the year	-	4,576	4,576
Balance at 31 December 2013	15,018	10,059	25,077

The notes on pages 12 to 53 form an integral part of the financial statements.

MORGAN STANLEY B.V.

Registered number: 34161590

STATEMENT OF FINANCIAL POSITION
As at 31 December 2013
(Including Proposed Appropriation of Results)

	Note	2013	2012
		€'000	€'000
ASSETS			
Loans and receivables:			
Cash and short-term deposits	12a	1,585	1,255
Trade receivables		2,947	1,364
Other receivables	20	1,195,027	1,166,206
		1,199,559	1,168,825
Financial assets classified as held for trading	9	979,451	561,398
Financial assets designated at fair value through profit or loss	10	5,990,950	4,789,462
Current tax assets		650	-
TOTAL ASSETS		8,170,610	6,519,685
LIABILITIES AND EQUITY			
Financial liabilities at amortised cost:			
Convertible preferred equity certificates	8	1,170,579	1,145,195
Trade payables		54,607	22,537
Other payables	20	21	21
		1,225,207	1,167,753
Financial liabilities classified as held for trading	9	283,324	265,350
Financial liabilities designated at fair value through profit or loss	10	6,637,002	5,065,592
Current tax liabilities		-	489
TOTAL LIABILITIES		8,145,533	6,499,184
EQUITY			
Share capital	11	15,018	15,018
Retained earnings		10,059	5,483
Equity attributable to owners of the Company		25,077	20,501
TOTAL EQUITY		25,077	20,501
TOTAL LIABILITIES AND EQUITY		8,170,610	6,519,685

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

Signed on behalf of the Board

24 April 2014

R H L de Groot H Herrmann P J G de Reus

Z Wu TMF Management B.V.

The notes on pages 12 to 53 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS
Year ended 31 December 2013

	Note	2013 €'000	2012 €'000
NET CASH FLOWS FROM OPERATING ACTIVITIES	12b	330	158
NET CASH FLOWS USED IN INVESTING ACTIVITIES		-	(1,125,281)
FINANCING ACTIVITIES			
Issue of convertible preferred equity certificates	8	-	1,125,281
NET CASH FLOWS FROM FINANCING ACTIVITIES		-	1,125,281
NET INCREASE IN CASH AND CASH EQUIVALENTS		330	158
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	12a	1,255	1,097
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	12a	1,585	1,255

The notes on pages 12 to 53 form an integral part of the financial statements.

1. CORPORATE INFORMATION

The Company is incorporated and domiciled in The Netherlands, at the following address:

Luna Arena, Herikerbergweg 238, 1101 CM, Amsterdam Zuidoost, The Netherlands.

The Company is engaged in the issuance of Structured Notes and the hedging of the obligations arising pursuant to such issuances with prepaid equity securities contracts, loans designated at fair value and derivatives from other Morgan Stanley Group undertakings.

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 changes in fair value of the Structured Notes issuances are fully hedged by the changes in fair value of these contracts.

The Company's immediate parent undertaking is Archimedes Investments Coöperatieve U.A., which is registered in The Netherlands. Copies of its financial statements can be obtained from Luna Arena, Herikerbergweg 238, 1101 CM, Amsterdam Zuidoost, 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. Morgan Stanley is incorporated in the state of Delaware, the United States of America.

2. BASIS OF PREPARATION

Statement of compliance

The Company has prepared its annual financial statements in accordance with IFRSs issued by the IASB as adopted by the EU, Interpretations issued by the IFRS Interpretations Committee and Dutch law.

New standards and interpretations adopted during the year

The following standards and amendments to standards relevant to the Company's operations were adopted during the year. Except where otherwise stated, these standards and amendments to standards did not have a material impact on the Company's financial statements.

An amendment to International Accounting Standard ("IAS") 1 '*Presentation of financial statements*' ("IAS 1") was issued by the IASB in June 2011 for application in annual periods beginning on or after 1 July 2012. The revised standard was endorsed by the EU in June 2012.

An amendment to IFRS 7 *'Financial instruments: Disclosures – offsetting financial assets and financial liabilities'* ("IFRS 7") was issued by the IASB in December 2011 for retrospective application in annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The amendment was endorsed by the EU in December 2012. The amendments require disclosures regarding the Company's financial instruments that are either offset in the statement of financial position or subject to an enforceable master netting arrangement or similar agreement, which are included in note 16.

IFRS 13 *'Fair value measurement'* ("IFRS 13") was issued by the IASB in May 2011 for prospective application in annual periods beginning on or after 1 January 2013 and was endorsed by the EU in December 2012. There was no material impact to the Company as a result of adopting the measurement requirements of IFRS 13. Additional disclosures required by IFRS 13 are included in note 17.

As part of the May 2012 Improvements to IFRSs, the IASB made amendments to the following standards that are relevant to the Company's operations: IAS 1 and IAS 34 *'Interim financial reporting'* (for application in accounting periods beginning on or after 1 January 2013). The improvements were endorsed by the EU in March 2013.

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

2. BASIS OF PREPARATION (CONTINUED)

New standards and interpretations not yet adopted

At the date of authorisation of these financial statements, the following standards and amendments to standards 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 and amendments to standards will have a material impact on the Company's financial statements.

An amendment to IAS 32 '*Financial instruments: Presentation – offsetting financial instruments*' was issued by the IASB in December 2011, for retrospective application in annual periods beginning on or after 1 January 2014. The amendment was endorsed by the EU in December 2012.

IFRS 9 '*Financial instruments*' ("IFRS 9") was issued by the IASB in November 2009. Amendments to IFRS 9 were issued by the IASB in November 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. Retrospective application is required and IFRS 9 is anticipated to be effective for annual periods beginning on or after 1 January 2018, however the early adoption of amendments relating to own credit is permitted.

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

Basis of measurement

The financial statements of the Company are prepared under the historical cost basis except for certain financial instruments that have been measured at fair value as explained in the accounting policies below.

Use of estimates and sources of uncertainty

The preparation of the Company's 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 financial statements and related disclosures. The Company believes that the estimates utilised in preparing the 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 note 17.

The going concern assumption

The Company's business activities, together with the factors likely to affect its future development, performance and position, are reflected in the Business Review section of the Directors' report on pages 1 to 5. In addition, the notes to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

As set out in the Directors' report, retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy.

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 annual report and financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Functional currency

Items included in the financial statements are measured and presented in Euros, the currency of the primary economic environment in which the Company operates.

All currency amounts in the financial statements and Directors' report are rounded to the nearest thousand Euros.

b. Foreign currencies

All monetary assets and liabilities denominated in currencies other than Euros are translated into Euros at the rates ruling at the reporting date. Transactions in currencies other than Euros are recorded at the rates prevailing at the dates of the transactions. All translation differences are taken through the statement of comprehensive income. Exchange differences recognised in the statement of comprehensive income are presented in 'Other income' or 'Other expense', except where noted in 3(c) below.

c. Financial instruments

The Company classifies its financial assets into the following categories on initial recognition: financial assets classified as held for trading, financial assets designated at fair value through profit or loss, and loans and receivables.

The Company classifies its financial liabilities into the following categories on initial recognition: financial liabilities classified as held for trading, financial liabilities designated at fair value through profit or loss and financial liabilities at amortised cost.

More information regarding these classifications is included below:

i) Financial instruments classified as held for trading

Financial instruments classified as held for trading, including all derivatives, are initially recorded on trade date at fair value (see note 3(d) below). All subsequent changes in fair value, foreign exchange differences, interest and dividends are reflected in the statement of comprehensive income in 'Net gains/ (losses) on financial instruments classified as held for trading'. Transaction costs are excluded from the initial fair value measurement of the financial instrument. These costs are recognised in the statement of comprehensive income in 'Other expense'.

ii) Financial instruments designated at fair value through profit or loss

The Company has designated certain financial assets and financial liabilities at fair value through profit or loss when the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis.

From the date the transaction in a financial instrument designated at fair value through profit or loss is entered into (trade date) until settlement date, the Company recognises any unrealised fair value changes in the contract as financial instruments designated at fair value through profit or loss. On settlement date, the fair value of consideration given or received is recognised as a financial instrument designated at fair value through profit or loss (see note 3(d) below). All subsequent changes in fair value, foreign exchange differences, interest and dividends are reflected in the statement of comprehensive income in 'Net (losses)/ gains on financial instruments designated at fair value through profit or loss'.

Transaction costs are excluded from the initial fair value measurement of the financial instrument. These costs are recognised in the statement of comprehensive income in 'Other expense'.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

iii) Loans and receivables and financial liabilities at amortised cost

Financial assets classified as loans and receivables are initially recognised on settlement date at fair value (see note 3(d) below) and subsequently measured at amortised cost less allowance for impairment. Interest is recognised in the statement of comprehensive income in ‘Interest income’, using the effective interest rate method as described below. Transaction costs that are directly attributable to the acquisition of the financial asset are added to or deducted from the fair value on initial recognition. Impairment losses and reversals of impairment losses on financial assets classified as loans and receivables are recognised in the statement of comprehensive income in ‘Other expense’.

Financial liabilities at amortised cost are initially recognised on settlement date at fair value (see note 3(d) below) and subsequently measured at amortised cost. Interest is recognised in the statement of comprehensive income in ‘Interest expense’ using the effective interest rate method as described below. Transaction costs that are directly attributable to the issue of the financial liability are added to or deducted from the fair value on initial recognition.

The CPECs issued by the Company are classified as financial liabilities at amortised cost in accordance with the substance of the contractual arrangement. The yield on the CPECs is recognised in the statement of comprehensive income in ‘Interest expense’ using the effective interest rate method as described below.

The effective interest rate method is a method of calculating the amortised cost of a financial instrument (or a group of financial instruments) and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument (or, where appropriate a shorter period) to the carrying amount of the financial instrument. The effective interest rate is established on initial recognition of the financial instrument. The calculation of the effective interest rate includes all fees and commissions paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument.

d. Fair value

Fair value measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the “exit price”) in an orderly transaction between market participants at the measurement date.

Where the Company manages a group of financial assets and financial liabilities on the basis of its net exposure to either market or credit risk, the Company measures the fair value of that group of financial instruments consistently with how market participants would price the net risk exposure at the measurement date.

In determining fair value, the Company uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value that maximises the use of relevant observable inputs and minimises the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company’s assumptions about the assumptions other market participants would use in pricing the asset or liability, developed based on the best information available in the circumstances.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

The hierarchy is broken down into three levels based on the observability of inputs as follows:

- Level 1 – Quoted prices (unadjusted) in an active market for identical assets or liabilities

  Valuations based on quoted prices in active markets for identical assets or liabilities that the Morgan Stanley Group has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgement.

- Level 2 – Valuation techniques using observable inputs

  Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

- Level 3 – Valuation techniques with significant unobservable inputs

  Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the product. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgement. Accordingly, the degree of judgement exercised by the Company in determining fair value is greatest for instruments categorised in Level 3 of the fair value hierarchy.

The Company considers prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or Level 2 to Level 3 of the fair value hierarchy. In addition, a downturn in market conditions could lead to declines in the valuation of many instruments.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Valuation techniques

Many cash instruments and OTC derivative contracts have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that a party is willing to pay for an asset. Ask prices represent the lowest price that a party is willing to accept for an asset. For financial instruments whose inputs are based on bid-ask prices, the Company does not require that the fair value estimate always be a predetermined point in the bid-ask range. The Company's policy is to allow for mid-market pricing and to adjust to the point within the bid-ask range that meets the Company's best estimate of fair value. For offsetting positions in the same financial instrument, the same price within the bid-ask spread is used to measure both the long and short positions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

Fair value for many cash and OTC contracts is derived using pricing models. Pricing models take into account the contract terms (including maturity), as well as multiple inputs including, where applicable, commodity prices, equity prices, interest rate yield curves, credit curves, correlation, creditworthiness of the counterparty, option volatility and currency rates. Where appropriate, valuation adjustments are made to account for various factors such as liquidity risk (bid-ask adjustments), credit quality, model uncertainty and concentration risk.

Adjustments for liquidity risk adjust model-derived valuations of financial instruments for the bid-mid or mid-ask spread required to properly reflect the exit price of a risk position. Bid-mid and mid-ask spreads are marked to levels observed in trader activity, broker quotes or other external third-party data. Where these spreads are unobservable for the particular position in question, spreads are derived from observable levels of similar positions.

Credit valuation adjustments are applied to both cash instruments and OTC derivatives. For cash instruments, the impact of changes in its own credit spreads is considered when measuring the fair value of liabilities and the impact of changes in the counterparty's credit spreads is considered when measuring the fair value of assets. For OTC derivatives, the impact of changes in both the Company's and the counterparty's credit standing is considered when measuring fair value. In determining the expected exposure the Company simulates the distribution of the future exposure to a counterparty, then applies market-based default probabilities to the future exposure, leveraging external third-party credit default swap ("CDS") spread data. Where CDS spread data are unavailable for a specific counterparty, bond market spreads, CDS spread data based on the counterparty's credit rating or CDS spread data that reference a comparable counterparty may be utilised. The Company also considers collateral held and legally enforceable master netting agreements that mitigate the Company's exposure to each counterparty.

Adjustments for model uncertainty are taken for positions where underlying models are reliant on significant inputs that are neither directly nor indirectly observable, hence requiring reliance on established theoretical concepts in their derivation. These adjustments are derived by making assessments of the possible degree of variability using statistical approaches and market-based information where possible. The Company generally subjects all valuations and models to a review process initially and on a periodic basis thereafter.

The Company may apply a concentration adjustment to certain of its OTC derivatives portfolios to reflect the additional cost of closing out a particularly large risk exposure. Where possible, these adjustments are based on observable market information but in many instances significant judgement is required to estimate the costs of closing out concentrated risk exposures due to the lack of liquidity in the marketplace.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that the Company believes market participants would use in pricing the asset or liability at the measurement date.

Valuation process

The Valuation Review Group ("VRG") within the Financial Control Group ("FCG") is responsible for the Company's fair value valuation policies, processes and procedures. VRG is independent of the business units and reports to the Chief Financial Officer of the Morgan Stanley Group ("CFO"), who has final authority over the valuation of the Company's financial instruments. VRG implements valuation control processes to validate the fair value of the Company's financial instruments measured at fair value including those derived from pricing models. These control processes are designed to ensure that the values used for financial reporting are based on observable inputs wherever possible. In the event that observable inputs are not available, the control processes are designed to ensure that the valuation approach utilised is appropriate and consistently applied and that the assumptions are reasonable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

The Company's control processes apply to all financial instruments, unless otherwise noted. These control processes include:

Model Review. VRG, in conjunction with the Market Risk Department and, where appropriate, the Credit Risk Management Department, both of which report to the Chief Risk Officer of the Morgan Stanley Group ("CRO"), independently review valuation models' theoretical soundness, the appropriateness of the valuation methodology and calibration techniques developed by the business units using observable inputs. Where inputs are not observable, VRG reviews the appropriateness of the proposed valuation methodology to ensure it is consistent with how a market participant would arrive at the unobservable input. The valuation methodologies utilised in the absence of observable inputs may include extrapolation techniques and the use of comparable observable inputs. As part of the review, VRG develops a methodology to independently verify the fair value generated by the business unit's valuation model. Before trades are executed using new valuation models, those models are required to be independently reviewed. All of the Company's valuation models are subject to an independent annual VRG review.

Independent Price Verification. The business units are responsible for determining the fair value of financial instruments using approved valuation models and valuation methodologies. Generally on a monthly basis, VRG independently validates the fair values of financial instruments determined using valuation models by determining the appropriateness of the inputs used by the business units and by testing compliance with the documented valuation methodologies approved in the model review process described above.

VRG uses recently executed transactions, other observable market data such as exchange data, broker/ dealer quotes, third-party pricing vendors and aggregation services for validating the fair values of financial instruments generated using valuation models. VRG assesses the external sources and their valuation methodologies to determine if the external providers meet the minimum standards expected of a third-party pricing source. Pricing data provided by approved external sources are evaluated using a number of approaches; for example, by corroborating the external sources' prices to executed trades, by analysing the methodology and assumptions used by the external source to generate a price and/ or by evaluating how active the third-party pricing source (or originating sources used by the third-party pricing source) is in the market. Based on this analysis, VRG generates a ranking of the observable market data to ensure that the highest-ranked market data source is used to validate the business unit's fair value of financial instruments.

For financial instruments where the fair value is based on unobservable inputs, VRG reviews the business unit's valuation techniques to ensure these are consistent with market participant assumptions.

The results of this independent price verification and any adjustments made by VRG to the fair value generated by the business units are presented to management of the Morgan Stanley Group's three business segments (i.e. Institutional Securities, Wealth Management and Investment Management), the CFO and the CRO on a regular basis.

Review of Transactions where the valuation is based on unobservable inputs. VRG reviews the models and valuation methodology used to price all new material Level 3 transactions and both the FCG and Market Risk Department management must approve the fair value of the trade that is initially recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

Gains and losses on inception

In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (i.e. the fair value of the consideration given or received). In certain circumstances, however, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Company recognises a gain or loss on inception of the transaction.

When the use of unobservable market data has a significant impact on determining fair value at the inception of the transaction, the entire initial gain or loss indicated by the valuation technique as at the transaction date is not recognised immediately in the statement of comprehensive income and is recognised instead when the market data becomes observable.

e. Derecognition of financial assets and liabilities

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risk and rewards of ownership of the asset.

The Company derecognises financial liabilities when the Company's obligations are discharged, cancelled or they expire.

f. Impairment of financial assets

At each reporting date, an assessment is made as to whether there is any objective evidence of impairment in the value of a financial asset classified as loans and receivables. Impairment losses are recognised if an event has occurred which will have an adverse impact on the expected future cash flows of an asset and the expected impact can be reliably estimated.

Impairment losses on loans and receivables are measured as the difference between the carrying amount of the loans and receivables and the present value of estimated cash flows discounted at the asset's original effective interest rate. Such impairment losses are recognised in the statement of comprehensive income within 'Other expense' and are recognised against the carrying amount of the impaired asset on the statement of financial position. Interest on the impaired asset continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset.

If in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed as detailed by financial asset in note 3(c)(iii). Any reversal is limited to the extent that the value of the asset may not exceed the original amortised cost of the asset had no impairment occurred.

g. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash and demand deposits with banks, along with highly liquid investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Income tax

The tax expense represents the sum of the tax currently payable.

The tax currently payable is calculated based on taxable profit for the year. Taxable profit may differ from profit before income tax as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date. Current tax is charged or credited in the statement of comprehensive income.

Current tax assets are offset against current tax liabilities when there is a legally enforceable right to set off current tax assets against current tax liabilities and the Company intends to settle its current tax assets and current tax liabilities on a net basis or to realise the asset and settle the liability simultaneously.

i. Offsetting of financial assets and financial liabilities

Where there is a currently 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, financial assets and financial liabilities are offset and the net amount is presented on the statement of financial position. In the absence of such conditions, financial assets and financial liabilities are presented on a gross basis.

4. 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.

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

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 statement of comprehensive income.

5. OTHER INCOME

	2013 €'000	2012 €'000
Management charges to other Morgan Stanley Group undertakings	6,094	4,875

6. OTHER EXPENSE

	2013 €'000	2012 €'000
Auditors remuneration:		
Audit of the Company's financial statements	95	97

Of the auditors remuneration, €35,000 (2012: €35,000) was paid to Deloitte Accountants B.V. for audit services.

The Company employed no staff during the year (2012: none).

7. INCOME TAX EXPENSE

	2013 €'000	2012 €'000
Current tax expense		
Current year	1,524	1,219
Adjustments in respect of prior years	(6)	(23)
Income tax expense	1,518	1,196

Reconciliation of effective tax rate

The current year income tax expense is lower (2012: lower) than that resulting from applying the average standard rate of corporation tax in The Netherlands for the year of 25.0% (2012: 25.0%). The main differences are explained below:

	2013 €'000	2012 €'000
Profit before income tax	6,094	4,875
Income tax using the average standard rate of corporation tax in The Netherlands of 25.0% (2012: 25.0%)	1,524	1,219
Impact on tax of:		
Tax over provided in prior years	(6)	(23)
Total income tax expense in the statement of comprehensive income	1,518	1,196

8. CONVERTIBLE PREFERRED EQUITY CERTIFICATES

	€'000
At 1 January 2012	-
Issued during the year	1,125,281
Yield payable	19,914
At 31 December 2012	1,145,195
Yield payable	25,384
At 31 December 2013	1,170,579

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 cash consideration was subsequently loaned to another Morgan Stanley Group undertaking.

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

The CPECs carry no voting rights. The Company and the holder has 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 issuance, however, the CPECs may be redeemed earlier at the option of the Company or on liquidation of the Company.

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

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

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

	2013		**2012**	
	Assets €'000	**Liabilities €'000**	**Assets €'000**	**Liabilities €'000**
Derivatives	979,451	283,324	561,398	265,350

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

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

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

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

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

	2013		2012	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	€'000	**€'000**	**€'000**	**€'000**
Issued Structured Notes	-	6,637,002	-	5,065,592
Prepaid equity securities contracts	1,805,691	-	1,905,196	-
Loans	4,185,259	-	2,884,266	-
	5,990,950	6,637,002	4,789,462	5,065,592

The change in fair value of issued Structured Notes recognised through the statement of comprehensive income attributable to own credit risk is a loss of €53,205,000 (2012: loss of €98,248,000) and cumulatively is a gain of €88,934,000 (2012: cumulative gain of €142,139,000). This change is determined as the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risk.

The change in fair value of prepaid equity securities contracts and loans recognised through the statement of comprehensive income attributable to own credit risk is a gain of €66,011,000 (2012: gain of €123,694,000) and cumulatively is a loss of €74,929,000 (2012: cumulative loss of €140,940,000).

The change in fair value of financial instruments designated at fair value through profit or loss attributable to own credit risk for the year is offset by a net loss of €12,806,000 (2012: loss of €25,446,000) and cumulatively is a net loss of €14,005,000 (2012: cumulative loss of €1,199,000), in changes in the fair value of financial instruments classified as held for trading attributable to own credit risk.

The carrying amount of financial liabilities designated at fair value was €258,660,000 higher than the contractual amount due at maturity (2012: €451,000,000 lower).

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

The following table presents 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.

31 December 2013	Single name equities €'000	Equity indices €'000	Equity portfolio €'000	Other €'000	Total €'000
Certificates and warrants	1,949,054	125,508	461,638	-	2,536,200
Notes	401,068	2,339,586	959,780	400,368	4,100,802
Total financial liabilities designated at fair value through profit or loss	2,350,122	2,465,094	1,421,418	400,368	6,637,002

31 December 2012	Single name equities €'000	Equity indices €'000	Equity portfolio €'000	Other €'000	Total €'000
Certificates and warrants	1,243,407	75,908	371,045	-	1,690,360
Notes	346,672	1,696,448	919,283	412,829	3,375,232
Total financial liabilities designated at fair value through profit or loss	1,590,079	1,772,356	1,290,328	412,829	5,065,592

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 to hedge the Structured Notes are valued as detailed in note 3(d) and note 17(a), and have similar valuation inputs to the liabilities they hedge.

11. EQUITY

Ordinary share capital

	Ordinary shares of €100 each Number
Authorised	
At 1 January 2012 and 31 December 2012	400,000

	Ordinary shares of €100 each €'000
Issued and fully paid	
At 1 January 2012, 31 December 2012 and 31 December 2013	15,018

On 9 December 2013 the Articles of Association of the Company were amended whereby the concept of authorised share capital was abolished and whereby the voting rights attached to the Company's shares were amended. Following the amendment of the Articles of Association each share confers the right to cast one vote, provided that subject to mandatory law, all resolutions of the General Meeting shall be adopted by unanimous vote in a meeting in which the entire share capital is present or represented.

The holders of ordinary shares are entitled to receive dividends as declared from time to time.

Reserves

The Company uses the contracts that it purchases from other Morgan Stanley Group undertakings to hedge the market price, interest rate, foreign currency and other market risks associated with the issuance of the Structured Notes, consistent with the Company's risk management strategy. Both the contracts and the Structured Note issuances are valued at fair value through profit or loss. As such the Company is not exposed to any market risk on these financial instruments. The changes in fair value of the Structured Note issuances are fully hedged by the changes in fair value of these contracts. Therefore, a legal revaluation reserve under Part 9, Book 2 of the Dutch Civil Code (BW2, article 390(1)) is not necessary.

12. ADDITIONAL CASH FLOW INFORMATION

a. Cash and cash equivalents

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

	2013 €'000	2012 €'000
Cash and short-term deposits	1,585	1,255

b. Reconciliation of cash flows from operating activities

	2013 €'000	2012 €'000
Profit for the year	4,576	3,679
Adjustments for:		
Interest income	(25,554)	(20,033)
Interest expense	25,459	19,936
Income tax expense	1,518	1,196
Operating cash flows before changes in operating assets and liabilities	5,999	4,778
Changes in operating assets		
(Increase)/ decrease in loans and receivables, excluding cash and short-term deposits	(4,850)	8,171
Increase in financial assets classified as held for trading	(418,053)	(350,211)
Increase in financial assets designated at fair value through profit or loss	(1,201,488)	(844,808)
	(1,624,391)	(1,186,848)
Changes in operating liabilities		
Increase/ (decrease) in financial liabilities at amortised cost, excluding bank loans and overdrafts	32,070	(129)
Increase/ (decrease) in financial liabilities classified as held for trading	17,974	(291,596)
Increase in financial liabilities designated at fair value through profit or loss	1,571,410	1,475,326
	1,621,454	1,183,601
Interest paid	(75)	(17)
Income taxes paid	(2,657)	(1,356)
	(2,732)	(1,373)
Net cash flows from operating activities	330	158

13. EXPECTED MATURITY OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered, realised or settled.

At 31 December 2013	Less than or equal to twelve months €'000	More than twelve months €'000	Total €'000
ASSETS			
Loans and receivables:			
Cash and short-term deposits	1,585	-	1,585
Trade receivables	2,947	-	2,947
Other receivables	26,212	1,168,815	1,195,027
	30,744	1,168,815	1,199,559
Financial assets classified as held for trading	403,975	575,476	979,451
Financial assets designated at fair value through profit or loss	1,722,487	4,268,463	5,990,950
Current tax assets	650	-	650
	2,157,856	6,012,754	8,170,610
LIABILITIES			
Financial liabilities at amortised cost:			
Convertible preferred equity certificates	-	1,170,579	1,170,579
Trade payables	54,607	-	54,607
Other payables	21	-	21
	54,628	1,170,579	1,225,207
Financial liabilities classified as held for trading	86,332	196,992	283,324
Financial liabilities designated at fair value through profit or loss	1,991,819	4,645,183	6,637,002
	2,132,779	6,012,754	8,145,533

13. EXPECTED MATURITY OF ASSETS AND LIABILITIES (CONTINUED)

At 31 December 2012	Less than or equal to twelve months €'000	More than twelve months €'000	Total €'000
ASSETS			
Loans and receivables:			
Cash and short-term deposits	1,255	-	1,255
Trade receivables	1,364	-	1,364
Other receivables	22,179	1,144,027	1,166,206
	24,798	1,144,027	1,168,825
Financial assets classified as held for trading	145,047	416,351	561,398
Financial assets designated at fair value through profit or loss	1,189,153	3,600,309	4,789,462
	1,358,998	5,160,687	6,519,685
LIABILITIES			
Financial liabilities at amortised cost:			
Convertible preferred equity certificates	-	1,145,195	1,145,195
Trade payables	22,537	-	22,537
Other payables	21	-	21
	22,558	1,145,195	1,167,753
Financial liabilities classified as held for trading	47,381	217,969	265,350
Financial liabilities designated at fair value through profit or loss	1,266,901	3,798,691	5,065,592
Current tax liabilities	489	-	489
	1,337,329	5,161,855	6,499,184

14. SEGMENTAL 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.

14. SEGMENTAL REPORTING (CONTINUED)

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 statement of comprehensive income and 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 a combination of client and trading desk location.

	EMEA		Americas		Asia		Total	
	2013 €'000	2012 €'000	2013 €'000	2012 €'000	2013 €'000	2012 €'000	2013 €'000	2012 €'000
External revenues net of interest	5,007	4,094	605	440	577	438	6,189	4,972
Profit before income tax	4,930	4,014	596	432	568	429	6,094	4,875
Total assets	5,585,109	4,448,769	1,913,726	1,608,583	671,775	462,333	8,170,610	6,519,685

Of the Company's external revenue, 100% (2012: 100%) arises from transactions with other Morgan Stanley Group undertakings. Further details of such transactions are disclosed in the related party disclosures note 20.

15. FINANCIAL RISK MANAGEMENT

Risk management procedures

Risk is an inherent part of both Morgan Stanley's and the Company's business activity and is managed by the Company within the context of the broader Morgan Stanley Group. The Morgan Stanley Group seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities in accordance with defined policies and procedures. The Company's own risk management policies and procedures are consistent with those of the Morgan Stanley Group.

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

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

Credit risk

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

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

The Morgan Stanley Group manages credit risk exposure on a global consolidated basis and in consideration of individual legal entities. The credit risk management policies and procedures of the Morgan Stanley Group establish the framework for identifying, measuring, monitoring and controlling credit risk while ensuring transparency of material credit risks, ensuring compliance with established limits and escalating risk concentrations to appropriate senior management. Credit risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to appropriate key management personnel of the Company.

The Company enters into the majority of its financial asset transactions with other Morgan Stanley Group undertakings, and both the Company and the other Morgan Stanley Group undertakings are wholly-owned subsidiaries of the same ultimate parent entity, Morgan Stanley. As a result of the implicit support that would be provided by Morgan Stanley, the Company is considered exposed to the credit risk of Morgan Stanley, except where the Company transacts with other Morgan Stanley Group undertakings that have a higher credit rating to that of Morgan Stanley.

The maximum exposure to credit risk of the Company at the reporting date is the carrying amount of the financial assets held in the statement of financial position. The Company has not entered into any credit enhancements to manage its exposure to credit risk.

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

The impact of master netting arrangements and similar agreements on the Company's ability to offset financial assets and financial liabilities is disclosed in note 16.

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

	Gross credit exposure	
Credit rating	**2013**	**2012**
	€'000	**€'000**
AA	1,471	1,040
A	8,168,489	6,518,645
Total	8,169,960	6,519,685

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

At 31 December 2013 there were no financial assets past due but not impaired or individually impaired (2012: €nil).

Liquidity and funding risk

Liquidity and funding risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity and funding risk also encompasses the Company's ability to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern.

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

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

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

Liquidity management policies

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

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

Liquidity Stress Tests. The Morgan Stanley Group uses Liquidity Stress Tests to model liquidity outflows across multiple scenarios over a range of time horizons.

The assumptions underpinning the Liquidity Stress Tests include, but are not limited to, the following: (i) no government support; (ii) no access to unsecured debt markets; (iii) repayment of all unsecured debt maturing within the stress horizon; (iv) higher haircuts and significantly lower availability of secured funding; (v) additional collateral that would be required by trading counterparties and certain exchanges and clearing organisations related to credit rating downgrades; (vi) additional collateral that would be required due to collateral substitutions, collateral disputes and uncalled collateral; (vii) discretionary unsecured debt buybacks; (viii) drawdowns on unfunded commitments provided to third parties; (ix) client cash withdrawals and reduction in customer short positions that fund long positions; (x) limited access to the foreign exchange swap markets; (xi) return of securities borrowed on an uncollateralised basis; and (xii) maturity roll-off of outstanding letters of credit with no further issuance.

The Liquidity Stress Tests are produced for Morgan Stanley and the major operating subsidiaries, as well as at major currency levels, to capture specific cash requirements and cash availability at various legal entities. The Liquidity Stress Tests assume that subsidiaries will use their own liquidity first to fund their obligations before drawing liquidity from Morgan Stanley. It is also assumed that Morgan Stanley will support its subsidiaries and will not have access to cash that may be held at certain subsidiaries that are subject to regulatory, legal or tax constraints.

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

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

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

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

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

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

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

Funding management policies

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

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

Balance sheet management

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

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

Maturity analysis

In the following maturity analysis of financial assets and financial liabilities, derivative contracts, financial assets designated at fair value through profit or loss and financial liabilities designated at fair value through profit or loss are disclosed according to their earliest contractual maturity; all such amounts are presented at their fair value, consistent with how these financial instruments are managed. All other amounts represent the undiscounted cash flows receivable and payable by the Company arising from its financial assets and financial liabilities to earliest contractual maturities as at 31 December 2013 and 31 December 2012. Receipt 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.

31 December 2013	On demand €'000	Less than 1 year €'000	Equal to or more than 1 year but less than 2 years €'000	Equal to or more than 2 years but less than 5 years €'000	Equal to or more than 5 years €'000	Total €'000
Financial assets						
Loans and receivables:						
Cash and short-term deposits	1,585	-	-	-	-	1,585
Trade receivables	2,947	-	-	-	-	2,947
Other receivables	1,195,027	-	-	-	-	1,195,027
Financial assets classified as held for trading:						
Derivatives	481,555	54,372	41,334	189,957	212,233	979,451
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	1,209,242	341,145	101,652	136,789	16,863	1,805,691
Loans	491,753	392,839	408,396	2,300,082	592,189	4,185,259
Total financial assets	3,382,109	788,356	551,382	2,626,828	821,285	8,169,960
Financial liabilities						
Financial liabilities at amortised cost:						
Convertible preferred equity certificates	1,170,579	-	-	-	-	1,170,579
Trade payables	54,607	-	-	-	-	54,607
Other payables	21	-	-	-	-	21
Financial liabilities classified as held for trading:						
Derivatives	97,852	24,989	33,236	90,064	37,183	283,324
Financial liabilities designated at fair value through profit or loss:						
Issued Structured Notes	2,034,623	763,367	518,146	2,536,764	784,102	6,637,002
Total financial liabilities	3,357,682	788,356	551,382	2,626,828	821,285	8,145,533

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

31 December 2012	On demand €'000	Less than 1 year €'000	Equal to or more than 1 year but less than 2 years €'000	Equal to or more than 2 years but less than 5 years €'000	Equal to or more than 5 years €'000	Total €'000
Financial assets						
Loans and receivables:						
Cash and short-term deposits	1,255	-	-	-	-	1,255
Trade receivables	1,364	-	-	-	-	1,364
Other receivables	1,166,206	-	-	-	-	1,166,206
Financial assets classified as held for trading:						
Derivatives	26,758	118,919	30,876	200,523	184,322	561,398
Financial assets designated at fair value through profit or loss						
Prepaid equity securities contracts	1,380,558	160,272	135,526	201,151	27,689	1,905,196
Loans	67,401	157,161	188,662	2,008,861	462,181	2,884,266
Total financial assets	2,643,542	436,352	355,064	2,410,535	674,192	6,519,685
Financial liabilities						
Financial liabilities at amortised cost:						
Convertible preferred equity certificates	1,145,195	-	-	-	-	1,145,195
Trade payables	22,537	-	-	-	-	22,537
Other payables	21	-	-	-	-	21
Financial liabilities classified as held for trading:						
Derivatives	22,071	30,618	24,616	127,812	60,233	265,350
Financial liabilities designated at fair value through profit or loss						
Issued Structured Notes	1,432,728	405,734	330,448	2,282,723	613,959	5,065,592
Total financial liabilities	2,622,552	436,352	355,064	2,410,535	674,192	6,498,695

Market risk

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

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

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (continued)

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

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

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

16. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING

In order to manage credit exposure arising from its business activities, the Company applies various credit risk management policies and procedures, see note 15 for further details. Primarily in connection with derivative contracts, prepaid equity securities contracts and issued Structured Notes, the Company enters into master netting arrangements with its counterparties. These agreements provide the Company with the right, in the ordinary course of business and/ or in the event of a counterparty default (such as bankruptcy or a counterparty's failure to pay or perform), to net a counterparty's rights and obligations under such agreement. However, in certain circumstances, the Company may not have such an agreement in place; the relevant insolvency regime (which is based on type of counterparty entity and the jurisdiction of organisation of the counterparty) may not support the enforceability of the agreement; or the Company may not have sought legal advice to support the enforceability of the agreement. In cases where the Company has not determined an agreement to be enforceable, the related amounts are not offset in the tabular disclosures. The enforceability of the master netting agreement is taken into account in the Company's risk management practices and application of counterparty credit limits.

In the 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.

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

	Gross Amounts [1] €'000	Amounts offset in the statement of financial position [2] €'000	Net amounts presented in the statement of financial position €'000	Amounts not offset in the statement of financial position [3][4][5] Financial instruments €'000	Net exposure [6] €'000
31 December 2013					
Assets					
Financial assets classified as held for trading:					
Derivatives	979,451	-	979,451	(283,324)	696,127
Financial assets designated at fair value through profit or loss:					
Prepaid equity securities contracts	1,837,348	(31,657)	1,805,691	(1,313,717)	491,974
TOTAL	2,816,799	(31,657)	2,785,142	(1,597,041)	1,188,101
Liabilities					
Financial liabilities classified as held for trading:					
Derivatives	283,324	-	283,324	(283,324)	-
Financial liabilities designated at fair value through profit or loss:					
Issued Structured Notes	6,668,659	(31,657)	6,637,002	(1,313,717)	5,323,285
TOTAL	6,951,983	(31,657)	6,920,326	(1,597,041)	5,323,285

(1) Amounts include €55,781,000 of financial assets classified as held for trading – derivatives, €491,974,000 of financial assets designated at fair value through profit or loss - prepaid equity securities contracts and €5,008,237,000 of financial liabilities designated at fair value through profit or loss - issued Structured Notes which are either not subject to master netting agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.

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

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

(4) Certain trade receivables and payables that are not presented net within the statement of financial position have legally enforceable master netting agreements or similar arrangements in place which would allow for an additional €2,260,000 to be offset in the event of default.

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

(6) Of the residual net exposure, intercompany cross-product legally enforceable netting arrangements are in place which would allow for an additional €74,643,000 to be offset in the ordinary course of business and/ or in the event of default.

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

	Gross Amounts (1) €'000	Amounts offset in the statement of financial position (2) €'000	Net amounts presented in the statement of financial position €'000	Amounts not offset in the statement of financial position (3)(4)(5) Financial instruments €'000	Net exposure (6) €'000
31 December 2012					
Assets					
Financial assets classified as held for trading:					
Derivatives	561,398	-	561,398	(265,350)	296,048
Financial assets designated at fair value through profit or loss:					
Prepaid equity securities contracts	1,951,430	(46,234)	1,905,196	(869,705)	1,035,491
TOTAL	2,512,828	(46,234)	2,466,594	(1,135,055)	1,331,539
Liabilities					
Financial liabilities classified as held for trading:					
Derivatives	265,350	-	265,350	(265,350)	-
Financial liabilities designated at fair value through profit or loss:					
Issued Structured Notes	5,111,826	(46,234)	5,065,592	(869,705)	4,195,887
TOTAL	5,377,176	(46,234)	5,330,942	(1,135,055)	4,195,887

(1) Amounts include €210,542,000 of financial assets classified as held for trading – derivatives, €348,846,000 of financial assets designated at fair value through profit or loss - prepaid equity securities contracts and €4,195,887,000 of financial liabilities designated at fair value through profit or loss - issued Structured Notes which are either not subject to master netting agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.

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

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

(4) Certain trade receivables and payables that are not presented net within the statement of financial position have legally enforceable master netting agreements or similar arrangements in place which would allow for an additional €1,364,000 to be offset in the event of default.

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

(6) Of the residual net exposure, intercompany cross-product legally enforceable netting arrangements are in place which would allow for an additional €9,383,000 to be offset in the ordinary course of business and/ or in the event of default.

17. 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.

2013	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	-	879,030	100,421	979,451
Financial assets designated at fair value through profit or loss:				
Prepaid equity securities contracts	-	1,778,994	26,697	1,805,691
Loans	-	4,185,259	-	4,185,259
Total financial assets measured at fair value	-	6,843,283	127,118	6,970,401
Financial liabilities classified as held for trading:				
Derivatives	-	274,718	8,606	283,324
Financial liabilities designated at fair value through profit or loss:				
Certificates and warrants	-	2,536,200	-	2,536,200
Notes	-	3,679,098	421,704	4,100,802
Total financial liabilities measured at fair value	-	6,490,016	430,310	6,920,326

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

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

2012

	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	-	421,236	140,162	561,398
Financial assets designated at fair value through profit or loss:				
Prepaid equity securities contracts	-	1,861,756	43,440	1,905,196
Loans	-	2,884,266	-	2,884,266
Total financial assets measured at fair value	-	5,167,258	183,602	5,350,860
Financial liabilities classified as held for trading:				
Derivatives	-	219,844	45,506	265,350
Financial liabilities designated at fair value through profit or loss:				
Certificates and warrants	-	1,690,360	-	1,690,360
Notes	-	2,533,701	841,531	3,375,232
Total financial liabilities measured at fair value	-	4,443,905	887,037	5,330,942

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

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

The Company's valuation approach and fair value hierarchy categorisation for financial instruments recognised at fair value on a recurring basis is as follows:

Financial assets and financial liabilities classified as held for trading

- *Derivatives*

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

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

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

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

- *Prepaid equity securities contracts and issued Structured Notes*

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

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

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

- *Issued Structured Notes*

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

  The Company has a small number of notes where the cash flows due on the notes is dependent on embedded derivatives linked to the interest rate, foreign exchange or commodity markets. The Company values these notes in the same way as for equity-linked notes, by using market standard models and marking the inputs to match prices observed in the inter-dealer OTC markets. Similarly to equity-linked notes, these issuances bear Morgan Stanley's credit risk, and the valuation is assessed accordingly. Most notes are categorised in Level 2 of the fair value hierarchy. In instances where significant inputs are unobservable, they are categorised in Level 3 of the fair value hierarchy.

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

- *Loans*

  The fair value of loans to other Morgan Stanley Group undertakings is estimated based on the present value of expected future cash flows using its best estimate of interest rate yield curves. The loans are categorised in Level 2 of the fair value hierarchy.

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

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

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

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

The following tables present the changes in the fair value of the Company's Level 3 financial assets and financial liabilities for the years ended 31 December 2013 and 31 December 2012. Level 3 instruments may be hedged with instruments classified in Level 2. As a result, the realised and unrealised gains/ (losses) for assets and liabilities within the Level 3 category presented in the tables below do not reflect the related realised and unrealised gains/ (losses) on hedging instruments that have been classified by the Company within the Level 2 category.

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

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

17. 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)

2013	Balance at 1 January 2013 €'000	Total gains or (losses) recognised in statement of comprehensive income (1) €'000	Purchases €'000	Issuances €'000	Settlements €'000	Net transfers in and/ or out of Level 3 (2) €'000	Balance at 31 December 2013 €'000	Unrealised gains or (losses) for level 3 assets /(liabilities) outstanding as at 31 December 2013 (3) €'000
Financial assets classified as held for trading:								
Net derivative contracts: (4)								
Equity	94,656	33,363	-	-	(40,850)	4,646	91,815	3,486
Financial assets designated at fair value through profit or loss:								
Prepaid equity securities contracts	43,440	3,811	8,052	-	(30,021)	1,415	26,697	2,285
Total financial assets measured at fair value	138,096	37,174	8,052	-	(70,871)	6,061	118,512	5,771
Financial liabilities designated at fair value through profit or loss:								
Notes	(841,531)	(24,496)	-	(234,652)	146,163	532,812	(421,704)	(18,264)
Total financial liabilities measured at fair value	(841,531)	(24,496)	-	(234,652)	146,163	532,812	(421,704)	(18,264)

(1) The total gains or (losses) are recognised in the statement of comprehensive income as detailed in the financial instruments accounting policy (note 3c).

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

(3) Amounts represent unrealised gains or (losses) for the year ended 31 December 2013 related to assets and liabilities still outstanding at 31 December 2013. The unrealised gains or (losses) are recognised in the statement of comprehensive income as detailed in the financial instruments accounting policy (note 3c).

(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.

17. 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, the Company reclassified approximately €736,000 of net derivative contracts, €2,366,000 of prepaid equity securities contracts and €19,527,000 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, the Company reclassified approximately €5,382,000 of net derivative contracts, €951,000 of prepaid equity securities contracts and €552,339,000 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.

17. 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)

2012

	Balance at 1 January 2012 €'000	Total gains or (losses) recognised in statement of comprehensive income [(1)] €'000	Purchases €'000	Issuances €'000	Settlements €'000	Net transfers in and/ or out of Level 3 [(2)] €'000	Balance at 31 December 2012 €'000	Unrealised gains or (losses) for level 3 assets /(liabilities) outstanding as at 31 December 2012 [(3)] €'000
Financial assets designated at fair value through profit or loss:								
Prepaid equity securities contracts	57,123	3,783	2,769	-	(8,599)	(11,636)	43,440	1,572
Total financial assets measured at fair value	57,123	3,783	2,769	-	(8,599)	(11,636)	43,440	1,572
Financial liabilities classified as held for trading:								
Net derivative contracts: [(4)]								
Equity	(48,185)	(62,343)	-	-	198,270	6,914	94,656	(7,789)
Financial liabilities designated at fair value through profit or loss:								
Notes	(429,860)	100,245	-	(555,883)	71,911	(27,944)	(841,531)	82,704
Total financial liabilities measured at fair value	(478,045)	37,902	-	(555,883)	270,181	(21,030)	(746,875)	74,915

(1) The total gains or (losses) are recognised in the statement of comprehensive income as detailed in the financial instruments accounting policy (note 3c).

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

(3) Amounts represent unrealised gains or (losses) for the year ended 31 December 2012 related to assets and liabilities still outstanding at 31 December 2012. The unrealised gains or (losses) are recognised in the statement of comprehensive income as detailed in the financial instruments accounting policy (note 3c).

(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.

17. 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 2012, the Company reclassified approximately €3,019,000 of net derivative contracts, €nil of prepaid equity securities contracts and €96,677,000 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 2012, the Company reclassified approximately €9,933,000 of net derivative contracts, €11,636,000 of prepaid equity securities contracts and €68,733,000 of issued Structured Notes from Level 3 to Level 2. The reclassifications were due to the availability of market quotations for these or comparable instruments, or available broker quotes, or consensus data such that certain significant inputs became observable.

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

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

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

   The table below 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. The following disclosures also include qualitative information on the sensitivity of the fair value measurements to changes in the significant unobservable inputs.

17. 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)

2013	Fair value €'000	Valuation technique(s)	Significant unobservable input(s)/ Sensitivity of the fair value to changes in the unobservable inputs	Range [(2)]	Averages [(3)]
ASSETS					
Financial assets classified as held for trading:					
Net derivative contracts: [(1)]					
Equity (4)	91,815	Option model	At the money volatility / (B) (C)	19% to 31%	23%
			Volatility skew / (B) (C)	-1% to 0%	-1%
			Equity - Equity correlation / (A) (C)	45% to 96%	73%
			Equity - Foreign exchange correlation / (B) (C)	-75% to 45%	-31%
		Net asset value ("NAV")	NAV value / (A) (C)	€0 - €88	€46
Financial assets designated at fair value through profit or loss:					
Prepaid equity securities contracts	26,697	Option model	At the money volatility / (A) (C)	16% to 25%	20%
			Volatility skew / (A) (C)	-1% to 0%	-1%
			Equity - Equity correlation / (B) (C)	24% to 95%	65%
		CDS model	Funding spread / (B) (C)	96bps to 147bps	129bps
LIABILITIES					
Financial liabilities designated at fair value through profit or loss:					
Notes	(421,704)	Option model	At the money volatility / (B) (C)	15% to 42%	21%
			Volatility skew / (B) (C)	-2% to 0%	-1%
			Equity - Equity correlation / (B) (C)	46% to 96%	74%
			Equity - Foreign exchange correlation / (B) (C)	-70% to 30%	-31%
		NAV	NAV value / (A) (C)	€0 - €88	€46

(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 or basis points ("bps"). A basis point equals 1/100th of 1%; for example, 1,004 basis points would equal 10.04%.

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

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

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

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

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

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

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

- *Correlation* – a pricing input where the payoff is driven by more than one underlying risk. Correlation is a measure of the relationship between the movements of two variables (i.e. how the change in one variable influences a change in the other variable). The correlation ranges may be wide since any two underlying inputs may be highly correlated (either positively or negatively) or weakly correlated.
- *Volatility* – the measure of the variability in possible returns for an instrument given how much that instrument changes in value over time. Volatility is a pricing input for options and, generally, the lower the volatility, the less risky the option. The level of volatility used in the valuation of a particular option depends on a number of factors, including the nature of the risk underlying that option (e.g. the volatility of a particular underlying equity security may be significantly different from that of a particular underlying commodity index), the tenor and the strike price of the option.
- *Volatility skew* – the measure of the difference in implied volatility for options with identical underliers and expiry dates but with different strikes. The implied volatility for an option with a strike price that is above or below the current price of an underlying asset will typically deviate from the implied volatility for an option with a strike price equal to the current price of that same underlying asset.
- *Funding spread* – the difference between the interbank funding rate and a specific bank funding rate. Embedded within this spread is the cost of the optionality for the client to put back certificates at any time to be repaid at par.

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

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

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

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

17. 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)

2013	Fair value €'000	Effect of reasonably possible alternative assumptions: Increase in fair value €'000	Effect of reasonably possible alternative assumptions: Decrease in fair value €'000
Financial assets classified as held for trading:			
Net derivative contracts:(1)			
Equity	91,815	1,548	(1,991)
Financial assets designated at fair value through profit or loss:			
Prepaid equity securities contracts	26,697	322	(368)
Financial liabilities designated at fair value through profit or loss:			
Notes	(421,704)	(1,870)	2,359

(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.

2012	Fair value €'000	Effect of reasonably possible alternative assumptions: Increase in fair value €'000	Effect of reasonably possible alternative assumptions: Decrease in fair value €'000
Financial assets classified as held for trading:			
Net derivative contracts:(1)			
Equity	94,656	7,463	(4,378)
Financial assets designated at fair value through profit or loss:			
Prepaid equity securities contracts	43,440	1,191	(1,155)
Financial liabilities designated at fair value through profit or loss:			
Notes	(841,531)	(8,654)	5,533

(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.

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

18. 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.

19. CAPITAL MANAGEMENT

The Morgan Stanley Group manages its capital on a global basis with consideration for its legal entities. The capital managed by the Morgan Stanley Group broadly includes ordinary share capital, preference share capital, subordinated loans and reserves.

The Morgan Stanley Group's required capital estimation is based on the Required Capital Framework, an internal capital adequacy measure. The framework is a risk-based use of capital measure, which is compared with the Morgan Stanley Group's regulatory capital to ensure the Morgan Stanley Group maintains an amount of going concern capital after absorbing potential losses from extreme stress events where applicable, at a point in time. The Morgan Stanley Group defines the difference between its regulatory capital and aggregate Required Capital as its Parent capital.

The Required Capital Framework will evolve over time in response to changes in the business and regulatory environment and to incorporate enhancements in modelling techniques.

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.

The Morgan Stanley Group also aims to adequately capitalise at a legal entity level whilst safeguarding that entity's ability to continue as a going concern and ensuring that it meets all regulatory capital requirements, so that it can continue to provide returns for the Morgan Stanley Group.

In order to maintain or adjust the capital structure as described above, the Company may adjust the amount of dividends paid, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Company manages the following items as capital:

	2013 €'000	2012 €'000
Share capital	15,018	15,018
Reserves	10,059	5,483
	25,077	20,501

20. RELATED PARTY DISCLOSURES

Parent and subsidiary relationships

Parent and ultimate controlling entity

The Company's immediate parent undertaking is Archimedes Investments Coöperatieve U.A., which is registered in The Netherlands. Copies of its financial statements can be obtained from Luna Arena, Herikerbergweg 238, 1101 CM, Amsterdam Zuidoost, The Netherlands.

The ultimate parent undertaking and controlling entity and the largest group of which the Company is a member and for which group financial statements are prepared is Morgan Stanley. Morgan Stanley is incorporated in the state of Delaware, the United States of America and copies of its financial statements can be obtained from www.morganstanley.com/investorrelations.

Key management compensation

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company. Key management personnel include the Board of Directors of the Company, plus key business unit management.

Compensation paid to key management personnel in respect of their services rendered to the Company is:

	2013	**2012**
	€'000	**€'000**
Short-term employee benefits	22	21
Post-employment benefits	1	1
Share-based payments	4	2
Other long-term employee benefits	2	4
TMF management fees	424	303
	453	331

The share-based payment costs disclosed above reflect the amortisation of equity-based awards granted to key management personnel over the last three years and are therefore not directly aligned with other staff costs in the current year.

Key management personnel compensation is borne by other Morgan Stanley Group undertakings in both the current and prior year.

Transactions with related parties

The Morgan Stanley Group conducts business for clients globally through a combination of both functional and legal entity organisational structures. Accordingly, the Company is closely integrated with the operations of the Morgan Stanley Group and enters into transactions with other Morgan Stanley Group undertakings on an arm's length basis for the purposes of utilising financing, trading and risk management, and infrastructure services. The nature of these relationships along with information about the transactions and outstanding balances is given below. The Company has not recognised any expense and has made no provision for impairment relating to the amount of outstanding balances from related parties (2012: €nil).

In addition, the management and execution of business strategies on a global basis results in many Morgan Stanley transactions impacting a number of Morgan Stanley Group undertakings. The Morgan Stanley Group operates a number of intra-group policies to ensure that, where possible, revenues and related costs are matched. For the year ended 31 December 2013, a net gain of €14,607,000 was recognised in the statement of comprehensive income arising from such policies (2012: €7,035,000).

20. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions with related parties (continued)

Funding

The Company receives general funding from and provides general funding to other Morgan Stanley Group undertakings.

General funding is undated, unsecured, floating rate lending. Funding may be received or provided for specific transaction related funding requirements, or for general operational purposes. The interest rates are established by the Morgan Stanley Group Treasury function for all entities within the Morgan Stanley Group and approximate the market rate of interest that the Morgan Stanley Group incurs in funding its business. Additionally, other funding includes CPECs due to the Company's direct parent undertaking, Archimedes Investments Coöperatieve U.A.. The specific terms of the related yield are detailed in note 8.

Details of the outstanding balances on these funding arrangements and the related interest income or expense recognised in the statement of comprehensive income during the year are shown in the table below:

	2013		2012	
	Interest €'000	**Balance €'000**	**Interest €'000**	**Balance €'000**
Amounts due from the Company's indirect parent undertaking	24,788	1,068,859	18,746	1,045,553
Amounts due from other Morgan Stanley Group undertakings	766	126,168	1,287	120,653
	25,554	1,195,027	20,033	1,166,206
Amounts due to the Company's direct parent undertaking	25,384	1,170,579	19,914	1,145,195
Amounts due to other Morgan Stanley Group undertakings	-	21	5	21
	25,384	1,170,600	19,919	1,145,216

20. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions with related parties (continued)

Trading and risk management

The Company issues Structured Notes and hedges the obligations arising from the issuance by entering into prepaid equity securities contracts, derivative contracts and loans designated at fair value through profit or loss with other Morgan Stanley Group undertakings. All such transactions are entered into on an arm's length basis. The total amounts receivable and payable on issued Structured Notes, prepaid equity securities contracts, derivative contracts and loans designated at fair value through profit or loss were as follows:

	2013 €'000	2012 €'000
Amounts due from the Company's indirect parent undertakings on unsettled securities and derivative transactions	13,379	26,442
Amounts due from other Morgan Stanley Group undertakings	6,959,969	5,325,782
	6,973,348	5,352,224
Amounts due to the Company's indirect parent undertakings on unsettled securities and derivative transactions	9,291	14,766
Amounts due to other Morgan Stanley Group undertakings	2,097,213	1,348,114
	2,106,504	1,362,880

Infrastructure services

In the current and prior year, the Company uses infrastructure services including the provision of office facilities, operated by other Morgan Stanley Group undertakings at no charge.

ADDITIONAL INFORMATION
Year ended 31 December 2013

Independent auditor's report

The independent auditor's report is recorded on the next page.

Statutory rules concerning appropriation of the net result

The Articles of Association of the Company provide that the net result for the year is at the disposition of the General Meeting of Shareholders.

Distribution can only be made to the extent that the Shareholder's equity exceeds the reserves provided for by the Articles of Association. The Board of Directors must grant its approval which it can only withhold in the event that it knows or reasonably should have known that, following the distribution, the Company will not be able to continue with the payments of its debts becoming due and payable in the foreseeable future.

Appropriation of the net result for the year

The statement of financial position is presented after the proposed appropriation of net result for the year ended 31 December 2013. The Directors propose to add profit to the statement of comprehensive income as part of the equity shareholders' funds.

Subsequent events

There have been no significant events since the reporting date.

Deloitte.

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Independent auditor's report

To: the Shareholders of Morgan Stanley B.V.

Report on the financial statements

We have audited the accompanying financial statements 2013 of Morgan Stanley B.V., Amsterdam, which comprise the statement of financial position as per December 31, 2013, the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes, comprising a summary of the significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the Director's Report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Deloitte.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the financial statements

In our opinion, the financial statements give a true and fair view of the financial position of Morgan Stanley B.V. as per December 31, 2013 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Director's Report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the Director's Report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, April 25, 2014

Deloitte Accountants B.V.

W.H. E. van Ommeren