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MORGAN STANLEY B.V.

Interim financial report

30 June 2012

MORGAN STANLEY B.V.

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MORGAN STANLEY B.V.

INTERIM MANAGEMENT REPORT

The Directors present their interim management report, Directors' responsibility statement and the condensed financial statements for Morgan Stanley B.V. (the "Company") for the six months ended 30 June 2012.

RESULTS AND DIVIDENDS

The profit for the six months ended 30 June 2012, after tax, was €1,693,000 (30 June 2011: €1,322,000 profit after tax).

No dividends were paid in the six months ended 30 June 2012.

A final dividend for the year ended 31 December 2010 of €13,175,000 and an interim dividend for the year ended 31 December 2011 of €98,000 were paid during the six months ended 30 June 2011.

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

BUSINESS REVIEW

During the six month period ended 30 June 2012, market and economic conditions improved modestly in the first quarter but were negatively impacted in the second quarter by renewed concerns about the deepening European sovereign debt crisis, lack of robust economic recovery in the United States ("US") and slowing economic growth in emerging markets.

In Europe, real gross domestic product growth stabilised in the first quarter of 2012 but weakened in the second quarter of 2012. At 30 June 2012, major equity market indices in Europe were either higher or flat compared with the beginning of the year. However, for the second quarter of 2012, these indices were lower compared with the beginning of the quarter as investors' concerns about the sovereign debt crisis, especially in Greece, Ireland, Italy, Portugal and Spain (the "European Peripherals") and the sovereign debt exposures in the European banking system heightened. The euro-area unemployment rate increased to 11.2% at 30 June 2012 from 10.6% at 31 December 2011. In early July 2012, the European Central Bank ("ECB") lowered the benchmark interest rate from 1.00% to 0.75% in order to stimulate economic activity in Europe. The Bank of England's ("BOE") benchmark interest rate was 0.5% and was unchanged from 31 December 2011. To inject further monetary stimulus into the economy in the UK, the BOE increased the size of its quantitative easing program in the first quarter of 2012 and again in early July 2012. During the first six months of 2012, funding conditions for euro-area banks eased as the ECB conducted its second three-year refinancing operation and widened the pool of eligible collateral for refinancing operations. European Union leaders agreed on a new bailout and debt-restructuring agreement designed to reduce Greece's debt in February 2012 and reached another agreement to ease the recapitalisation of struggling European banks in late June 2012. In the first six months of 2012, several major rating agencies downgraded the credit ratings for some euro-zone countries and some European Union member countries such as Italy, the UK and Spain entered into a technical recession (two consecutive quarters of negative gross domestic product).

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

The condensed statement of comprehensive income for the six months ended 30 June 2012 is set out on page 8. The Company made a profit before income tax of €2,257,000 in the six months ended 30 June 2012, an increase of €482,000 from the six months ended 30 June 2011. The movement relates to an increase in other income which represents management charges received from other Morgan Stanley Group undertakings. The increase in other income is due to a higher level of Structured Notes in issuance during the current period, on which management charges are received.

On 30 March 2012, the Company issued 11,252,813 of Convertible Preferred Equity Certificates (“CPECs”) of €100 each to one of its 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 on which interest income is received. The holder of the CPECs is entitled to receive a yield payable by the Company and for the period from issue to 30 June 2012 the yield payable amounted to €6,955,000. Interest income and interest expense have increased as a result of these transactions.

The losses and gains on financial instruments classified as held for trading and the financial instruments designated at fair value through profit or loss respectively offset to €nil, which is consistent with the Company’s function and the prior period. Net gains on financial instruments designated at fair value through profit or loss of €25,085,000 represents fair value movements for the six months ended 30 June 2012 on the issued Structured Notes, prepaid equity security contracts and loans designated at fair value. The gain has arisen as a result of favourable movements on the assets underlying the Structured Notes issued, which are hedged by derivatives classified as held for trading, when compared to the prior period (30 June 2011: €30,527,000 gain). Net losses on financial instruments classified as held for trading of €25,085,000 represent fair value movements for the six months ended 30 June 2012 on derivatives classified as held for trading (30 June 2011: €30,527,000 loss). These derivatives, along with the loans designated at fair value and prepaid equity securities contracts, form the hedging strategy for the obligations arising pursuant to the issuance of the Structured Notes.

The condensed statement of financial position for the Company is set out on page 10. The Company’s total assets at 30 June 2012 are €7,007,785,000, an increase of €2,820,420,000 or 67%, when compared to the financial position at 31 December 2011. Total liabilities at 30 June 2012 of €6,989,270,000 represent an increase of €2,818,727,000 or 68%, when compared to the financial position at 31 December 2011. The Company’s financial position is primarily driven by financial liabilities designated at fair value through profit or loss, which represent the valuation of issued Structured Notes held at the end of the period and the CPECs, classified within financial liabilities at amortised cost, issued during the six months ended 30 June 2012. The value of issued Structured Notes held at 30 June 2012 has increased by €1,004,256,000 since 31 December 2011. This movement represents new issuances and fair value movements in the year offset by maturities of issued Structured Notes.

The increase in the value of issued Structured Notes has resulted in an increase in financial assets designated at fair value through profit or loss of €976,745,000, and a decrease in the net financial instruments classified as held for trading of €45,779,000. Both represent the valuation of the related hedging instruments. Additionally the issuance of the CPECs resulted in the receipt of cash which was loaned to another Morgan Stanley Group undertaking and therefore other receivables have increased.

Trade payables and trade receivables represent trades that have not settled at the period end. At 30 June 2012, the Company recognised net trade payables of €33,843,000 in relation to pending trades compared to €8,784,000 at 31 December 2011.

The risk management section below sets out the Company's and the Morgan Stanley Group's policies for the management of liquidity and cash flow risk and other significant business risks. Note 8 to the condensed financial statements provides qualitative and quantitative disclosures about the Company's management of and exposure to financial risks, including liquidity risk.

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INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

Risk management

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

Market risk

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

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

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

Credit risk

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

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

Liquidity and capital resources

Liquidity and funding risk refers to the risk that the Company will be unable to meet its funding obligations in a timely manner. Liquidity risk stems from the potential risk that the Company will be unable to obtain necessary funding through borrowing money at favourable interest rates or maturity terms, or selling assets in a timely manner and at a reasonable price.

The Morgan Stanley Group's senior management establishes the overall liquidity and funding policies of the Morgan Stanley Group and the liquidity risk management policies and procedures conducted within the Company are consistent with those of the Morgan Stanley Group. The Morgan Stanley Group's liquidity and funding risk management policies are designed to mitigate the potential risk that entities within the Morgan Stanley Group, including the Company, may be unable to access adequate financing to service their financial liabilities when they become payable without material, adverse franchise or business impact. The key objective of the liquidity and funding risk management framework is to support the successful execution of both the Company's and the Morgan Stanley Group's business strategies while ensuring ongoing and sufficient liquidity through the business cycle and during periods of stressed market conditions.

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, to enable the Morgan Stanley Group to withstand market stresses, and to meet regulatory stress testing requirements proposed by regulators globally.

On 21 June 2012, Moody's Investors Service ("Moody's") downgraded the ratings of 15 banks on review for downgrade in the context of a broad review of global banks with capital markets operations. Morgan Stanley Group's long- and short-term debt ratings were lowered two notches to Baa1/P-2 from A2/P-1.

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Liquidity and capital resources (continued)

While certain aspects of a credit ratings downgrade are quantifiable pursuant to contractual provisions, the impact it will have on the Morgan Stanley Group's business and results of operation in future periods is inherently uncertain and will depend on a number of inter-related factors, including among others, the magnitude of the downgrade, individual client behaviour and future mitigating actions the Morgan Stanley Group may take.

Operational risk

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

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

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

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

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

The Morgan Stanley Group continues to operate its Eurozone Crisis Planning Group to formulate strategy, planning and execution associated with the European sovereign debt crisis and focus on the associated legal and operational issues. This planning group has directed a number of focused risk management reviews to ensure the Morgan Stanley Group is prepared in the case of a Eurozone country default or exit.

INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Legal and regulatory risk

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

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

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

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

Continuing market uncertainty

During the six month period to 30 June 2012 the Morgan Stanley Group has been exposed to the deteriorating economic and financial conditions in selected Eurozone countries. Although there has been a significant reduction in the industry's net exposure to certain Eurozone countries, there is still the risk of sovereign defaults, including contagion risk, and potential for the economic environment to worsen. The Morgan Stanley Group regularly performs stress testing to ensure the Morgan Stanley Group, including the Company has sufficient resources at their disposal to absorb losses associated with certain stressed scenarios. The global regulatory environment is continually changing and it remains difficult to assess the full impact on the Company. It is likely that there will be further material changes in the way major financial institutions are regulated and the impact of these changes are continually assessed by the Morgan Stanley Group.

These conditions present difficulties and uncertainty for the business outlook which may adversely impact the financial performance of the Company in the future.

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INTERIM MANAGEMENT REPORT

BUSINESS REVIEW (CONTINUED)

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's Group's and the Company's strategy and steps have been taken to strengthen the Morgan Stanley Group capital position. 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 remains committed to maintaining a strong capital position.

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

DIRECTORS

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

R H L de Groot	
H Herrmann	(appointed 16 February 2012)
P J G de Reus	
R J Rinkes	(resigned 9 January 2012)
Z Wu	(appointed 8 March 2012)
TMF Management B.V.	

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 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 an audit committee.

Approved by the Board on August 28, 2012 and signed on its behalf by

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:

- (a) the condensed set of financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 ‘*Interim Financial Reporting*’ (“IAS 34”) as adopted by the EU and Title 9 of Book 2 of the Netherlands Civil Code on the basis of the Company’s international connections and give a true and fair view of the assets, liabilities, financial position and result of the Company; and
- (b) the interim management report includes a fair review of the important events that have occurred during the six months ended 30 June 2012 and the impact on the condensed set of financial statements and provides a description of the principal risks and uncertainties that the Company faces for the remaining six months of the financial year.

Approved by the Board on 28 August 2012, and signed on its behalf by

R H L de Groot

H Herrmann

P J G de Reus

Z Wu

TMF Management B.V.

MORGAN STANLEY B.V.**CONDENSED STATEMENT OF COMPREHENSIVE INCOME**
Six months ended 30 June 2012

	Six months ended 30 June 2012 €000 (unaudited)	Six months ended 30 June 2011 €000 (unaudited)
Net losses on financial instruments classified as held for trading	(325,085)	(30,527)
Net gains on financial instruments designated at fair value through profit or loss	325,085	30,527
Interest income	6,973	212
Interest expense	(6,973)	(103)
Other income	2,257	1,666
PROFIT BEFORE INCOME TAX	2,257	1,775
Income tax expense	(564)	(453)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	1,693	1,322

All operations were continuing in the current and prior period.

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

MORGAN STANLEY B.V.

CONDENSED STATEMENT OF CHANGES IN EQUITY Six months ended 30 June 2012

	Note	Share capital €000	Retained earnings €000	Total equity €000
Balance at 1 January 2011 (audited)		15,018	13,175	28,193
Profit and total comprehensive income for the period		-	1,322	1,322
Transactions with owners:				
- Dividends to equity holders of the Company	5	-	(13,873)	(13,873)
Balance at 30 June 2011 (unaudited)		<u>15,018</u>	<u>624</u>	<u>15,642</u>
Balance at 1 January 2012 (audited)		15,018	1,804	16,822
Profit and total comprehensive income for the period		-	1,693	1,693
Balance at 30 June 2012 (unaudited)		<u>15,018</u>	<u>3,497</u>	<u>18,515</u>

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

MORGAN STANLEY B.V.

Registered Number: 34161590

CONDENSED STATEMENT OF FINANCIAL POSITION**As at 30 June 2012****(Including Proposed Appropriation of Results)**

	Note	30 June 2012 €000 (unaudited)	31 December 2011 €000 (audited)
ASSETS			
Loans and receivables:			
Cash at bank		6,877	1,097
Trade receivables		938	11,966
Other receivables		1,151,579	18,461
		<u>1,159,394</u>	<u>31,524</u>
Financial assets classified as held for trading	3	926,992	211,187
Financial assets designated at fair value through profit or loss	4	4,921,399	3,944,654
TOTAL ASSETS		<u><u>7,007,785</u></u>	<u><u>4,187,365</u></u>
LIABILITIES AND EQUITY			
Financial liabilities at amortised cost:			
Convertible preferred equity certificates	2	1,132,236	-
Trade payables		34,781	20,750
Other payables		395	1,932
		<u>1,167,412</u>	<u>22,682</u>
Financial liabilities classified as held for trading	3	1,226,902	556,946
Financial liabilities designated at fair value through profit or loss	4	4,594,522	3,590,266
Current tax		434	649
TOTAL LIABILITIES		<u>6,989,270</u>	<u>4,170,543</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Share capital		15,018	15,018
Retained earnings		3,497	1,804
TOTAL EQUITY		<u>18,515</u>	<u>16,822</u>
TOTAL LIABILITIES AND EQUITY		<u><u>7,007,785</u></u>	<u><u>4,187,365</u></u>

These condensed financial statements were approved by the Board and authorised for issue on 28 August 2012

Signed on behalf of the Board

R H L de Groot

H Herrmann

P J G de Reus

Z Wu

TMF Management B.V.

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

MORGAN STANLEY B.V.**CONDENSED STATEMENT OF CASH FLOWS****Six months ended 30 June 2012**

		Six months ended 30 June 2012 €000 (unaudited)	Six months ended 30 June 2011 €000 (unaudited)
NET CASH FLOWS FROM OPERATING ACTIVITIES	6b	<u>5,780</u>	<u>13,731</u>
NET CASH FLOWS USED IN INVESTING ACTIVITIES		<u>(1,125,281)</u>	<u>-</u>
FINANCING ACTIVITIES			
Dividends paid to equity holders of the Company	5	-	(13,873)
Issue of convertible preferred equity certificates	2	<u>1,125,281</u>	<u>-</u>
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		<u>1,125,281</u>	<u>(13,873)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		5,780	(142)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		<u>1,097</u>	<u>1,035</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		<u><u>6,877</u></u>	<u><u>893</u></u>

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2012

1. BASIS OF PREPARATION

i. Statement of compliance

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

ii. Accounting policies

In preparing the condensed financial statements, the Company has applied consistently the accounting policies and methods of computation used in the Company’s annual financial statements for the year ended 31 December 2011, with the following addition relating to the issuance of CPECs in the current period.

Financial liabilities at amortised cost

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 condensed statement of comprehensive income in ‘Interest expense’ using the effective interest rate method.

New standards and interpretations not yet adopted

At the date of authorisation of these condensed 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 1 ‘*Presentation of financial statements*’ 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 – transfers of financial assets’ was issued by the IASB in October 2010 for prospective application in annual periods beginning on or after 1 July 2011. The amendment was endorsed by the EU in November 2011.

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.

An amendment to IFRS 7 ‘*Financial instruments: disclosures – offsetting financial assets and financial liabilities*’ was issued by the IASB in December 2011 for retrospective application in annual periods beginning on or after 1 January 2013, including interim periods.

IFRS 9 ‘*Financial instruments*’ was issued by the IASB in November 2009 for retrospective application in annual periods beginning on or after 1 January 2015. 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.

IFRS 13 ‘*Fair value measurement*’ was issued by the IASB in May 2011 for prospective application in annual periods beginning on or after 1 January 2013.

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 ‘*Presentation of financial statements*’, IAS 32 ‘*Financial instruments: presentation*’ and IAS 34 (for application in accounting periods beginning on or after 1 January 2013).

MORGAN STANLEY B.V.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS Six months ended 30 June 2012

1. BASIS OF PREPARATION (CONTINUED)

iii. Use of estimates and sources of uncertainty

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

2. CONVERTIBLE PREFERRED EQUITY CERTIFICATES

	Convertible preferred equity certificates of €100 each: €000
At 1 January 2011, 30 June 2011 and 31 December 2011	-
Issued during period	1,125,281
Yield payable	6,955
At 30 June 2012	<u>1,132,236</u>

The Company issued 11,252,813 of CPECs of €100 each on 30 March 2012, which it has classified as financial liabilities. 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.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2012

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

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

	30 June 2012		31 December 2011	
	Assets	Liabilities	Assets	Liabilities
	€000	€000	€000	€000
Derivatives	926,992	1,226,902	211,187	556,946

4. 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 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 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 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 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.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Six months ended 30 June 2012

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

	30 June 2012		31 December 2011	
	Assets €000	Liabilities €000	Assets €000	Liabilities €000
Issued Structured Notes	-	4,594,522	-	3,590,266
Prepaid equity securities contracts	1,222,498	-	829,187	-
Loans	3,698,901	-	3,115,467	-
	<u>4,921,399</u>	<u>4,594,522</u>	<u>3,944,654</u>	<u>3,590,266</u>

The change in fair value of issued Structured Notes recognised through the condensed statement of comprehensive income attributable to own credit risk is a gain of €1,093,000 (30 June 2011: gain of €0,314,000) and cumulatively is a gain of €241,480,000 (31 December 2011: cumulative gain of €240,387,000). 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 condensed statement of comprehensive income attributable to changes in credit risk is a gain of €10,010,000 (30 June 2011: gain of €33,490,000) and cumulatively is a loss of €254,624,000 (31 December 2011: cumulative loss of €64,634,000).

The change in fair value of financial instruments designated at fair value through profit or loss attributable to credit risk for the period is offset by a net loss of €1,103,000 (30 June 2011: loss of €63,804,000) and cumulatively is a net gain of €13,144,000 (31 December 2011: cumulative gain of €24,247,000), in changes in the fair value of financial instruments classified as held for trading attributable to credit risk.

The carrying amount of financial liabilities designated at fair value was €22,000,000 lower than the contractual amount due at maturity (31 December 2011: €16,000,000 higher).

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.

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

30 June 2012	Single name equities €000	Equity indices €000	Equity portfolio €000	Other €000	Total €000
Certificates and warrants	1,630,575	34,687	433,878	-	2,099,140
Notes	<u>213,288</u>	<u>1,322,621</u>	<u>596,476</u>	<u>362,997</u>	<u>2,495,382</u>
Total financial liabilities designated at fair value through profit or loss	<u><u>1,843,863</u></u>	<u><u>1,357,308</u></u>	<u><u>1,030,354</u></u>	<u><u>362,997</u></u>	<u><u>4,594,522</u></u>

31 December 2011	Single name equities €000	Equity indices €000	Equity portfolio €000	Other €000	Total €000
Certificates and warrants	1,306,957	81,788	349,255	-	1,738,000
Notes	<u>128,541</u>	<u>1,100,962</u>	<u>387,019</u>	<u>235,744</u>	<u>1,852,266</u>
Total financial liabilities designated at fair value through profit or loss	<u><u>1,435,498</u></u>	<u><u>1,182,750</u></u>	<u><u>736,274</u></u>	<u><u>235,744</u></u>	<u><u>3,590,266</u></u>

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, derivatives and loans that the Company enters into to hedge the Structured Notes are valued under the Company's accounting policies and as detailed in note 9(a), and have similar valuation inputs to the liabilities they hedge.

5. DIVIDENDS

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

	Six months ended 30 June 2012		Six months ended 30 June 2011	
	Per share €	Total €000	Per share €	Total €000
2010 Final dividend on ordinary shares	-	-	87.73	13,175
2011 First interim dividend on ordinary shares	-	-	4.65	698
		<u>-</u>		<u>13,873</u>

On 2 August 2011 the Company paid a second interim dividend for the year ended 31 December 2011, amounting to €24,000, which was not accrued in the condensed financial statements for the six months ended 30 June 2011.

MORGAN STANLEY B.V.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Six months ended 30 June 2012

6. 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:

	30 June 2012	31 December 2011
	€000	€000
Cash at bank	<u>6,877</u>	<u>1,097</u>

b. Reconciliation of cash flows from operating activities

	Six months ended	Six months ended
	30 June 2012	30 June 2011
	€000	€000
Profit for the period	1,693	1,322
<i>Adjustments for:</i>		
Interest income	(6,973)	(212)
Interest expense	6,973	103
Income tax expense	564	453
Operating cash flows before changes in operating assets and liabilities	<u>2,257</u>	<u>1,666</u>
Changes in operating assets		
Decrease in loans and receivables, excluding cash at bank	10,165	67,342
(Increase)/decrease in financial assets classified as held for trading	(715,805)	245,391
(Increase)/decrease in financial assets designated at fair value through profit or loss	<u>(976,745)</u>	<u>294,723</u>
	<u>(1,682,385)</u>	<u>607,456</u>
Changes in operating liabilities		
Increase in financial liabilities at amortised cost	12,481	61,075
Increase/(decrease) in financial liabilities classified as held for trading	669,956	(34,705)
Increase/(decrease) in financial liabilities designated at fair value through profit or loss	<u>1,004,256</u>	<u>(621,219)</u>
	<u>1,686,693</u>	<u>(594,849)</u>
Interest paid	(6)	(4)
Income taxes paid	<u>(779)</u>	<u>(538)</u>
	<u>(785)</u>	<u>(542)</u>
Net cash flows from operating activities	<u><u>5,780</u></u>	<u><u>13,731</u></u>

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7. SEGMENT REPORTING

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

Business segments

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

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

Geographical segments

The Company operates in three geographic regions as listed below:

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

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

	EMEA		Americas		Asia		Total	
	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June
	2012	2011	2012	2011	2012	2011	2012	2011
	€000	€000	€000	€000	€000	€000	€000	€000
External revenues net of interest/profit before income tax	1,845	1,557	287	9	125	209	2,257	1,775

	EMEA		Americas		Asia		Total	
	30 June	31 December	30 June	31 December	30 June	31 December	30 June	31 December
	2012	2011	2012	2011	2012	2011	2012	2011
	€000	€000	€000	€000	€000	€000	€000	€000
Total assets	6,436,768	2,920,331	267,443	796,319	303,574	470,715	7,007,785	4,187,365

Of the Company's external revenue, 100% (30 June 2011: 100%) arises from transactions with other Morgan Stanley Group undertakings.

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NOTES TO THE CONDENSED FINANCIAL STATEMENTS Six months ended 30 June 2012

8. 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 from a borrower or counterparty default.

The Morgan Stanley Group manages credit risk exposure on a global basis, but in consideration of each individual legal entity, including those of the Company. The credit risk management policies and procedures of the Morgan Stanley Group include ensuring transparency of material credit risks, ensuring compliance with established limits, approving material extensions of credit 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, including derivatives classified as held for trading, 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 Company has therefore not entered into any credit enhancements to manage its exposure to credit risk.

The maximum exposure to credit risk of the Company at the reporting date is the carrying amount of the financial assets held in the condensed statement of financial position.

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

Maximum exposure to credit risk by credit rating(1):

Credit rating	Gross credit exposure	
	30 June 2012	31 December 2011
	€000	€000
AA	2,763	78
A	7,005,022	4,187,287
Total	<u>7,007,785</u>	<u>4,187,365</u>

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

At 30 June 2012 there were no financial assets past due but not impaired or individually impaired (31 December 2011: None).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2012

8. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk management procedures (continued)

Liquidity risk

Liquidity and funding risk refers to the risk that the Company will be unable to meet its funding obligations in a timely manner. Liquidity risk stems from the potential risk that the Company will be unable to obtain necessary funding through borrowing money at favourable interest rates or maturity terms, or selling assets in a timely manner and at a reasonable price.

The Morgan Stanley Group's senior management establishes the overall liquidity and funding policies of the Morgan Stanley Group and the liquidity risk management policies and procedures conducted within the Company are consistent with those of the Morgan Stanley Group. The Morgan Stanley Group's liquidity and funding risk management policies are designed to mitigate the potential risk that entities within the Morgan Stanley Group, including the Company, may be unable to access adequate financing to service their financial liabilities when they become payable without material, adverse franchise or business impact. The key objective of the liquidity and funding risk management framework is to support the successful execution of both the Morgan Stanley Group's and the Company's business strategies while ensuring ongoing and sufficient liquidity through the business cycle and during periods of stressed market conditions.

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. These elements support the Morgan Stanley Group's target liquidity profile.

Contingency Funding Plan. The CFP describes the data and information flows, limits and triggers, escalation procedures, roles and responsibilities and available mitigating actions in the event of a liquidity stress. The CFP assesses current and future funding sources and uses and establishes a plan for monitoring and managing a potential liquidity stress event. A set of escalation triggers identifies early signs of stress and activates a response plan.

Liquidity Stress Tests. Liquidity stress tests 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 one year; (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 multi-notch 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.

MORGAN STANLEY B.V.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS Six months ended 30 June 2012

8. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk management procedures (continued)

Liquidity risk (continued)

The Liquidity Stress Tests are produced at the Morgan Stanley Group and major operating subsidiary level, as well as 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 does 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 issued Structured Notes with financial instruments that match the maturity profile of the Structured Notes, the Company is not considered a major 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 they were unable to access adequate financing to service their financial liabilities when they become payable.

The CFP and Liquidity Stress Tests are evaluated on an on-going basis and reported to the Firm Risk Committee, Asset/Liability Management Committee, and other appropriate risk committees including the Morgan Stanley International Limited Board Risk Committee.

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. These liquidity targets are based on the Morgan Stanley Group’s risk tolerance, balance sheet level and composition, subsidiary funding needs, and upcoming debt maturities, which are 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 consists of highly liquid and diversified cash and cash equivalents and unencumbered securities (including US government securities, US agency securities, US agency mortgage-backed securities, Federal Deposit Insurance Corporation (“FDIC”)-guaranteed corporate debt and non-US government securities).

Funding management policies

The Morgan Stanley Group’s funding management policies are designed to provide for financings that are executed 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 include consideration of the funding risk of each legal entity. These sources may include the Morgan Stanley Group’s equity capital, long-term debt, repurchase agreements, securities lending, deposits, commercial paper, letters of credit and lines of credit. The Morgan Stanley Group has active financing programs for both standard and structured products, targeting global investors and currencies.

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 consist of highly liquid marketable securities and short-term collateralised receivables arising from its Institutional Securities sales and trading activities. The liquid nature of these assets provides the Morgan Stanley Group and the Company with flexibility in financing and managing its business.

MORGAN STANLEY B.V.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2012

8. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk management procedures (continued)

Liquidity 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 30 June 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.

	On demand €000	Less than one year €000	Equal to or more than one year but not more than two years €000	Equal to or more than two years but less than five years €000	Equal to or more than five years €000	Total €000
30 June 2012						
Financial assets						
Loans and receivables:						
Cash at bank	6,877	-	-	-	-	6,877
Trade receivables	938	-	-	-	-	938
Other receivables	1,151,579	-	-	-	-	1,151,579
Financial assets classified as held for trading:						
Derivatives	74,855	28,803	54,741	457,960	310,633	926,992
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	322,071	705,225	29,048	138,659	27,495	1,222,498
Loans	1,137,502	303,457	427,857	1,549,903	280,182	3,698,901
Total financial assets	<u>2,693,822</u>	<u>1,037,485</u>	<u>511,646</u>	<u>2,146,522</u>	<u>618,310</u>	<u>7,007,785</u>
Financial liabilities						
Financial liabilities at amortised cost:						
Convertible preferred equity certificates	1,132,236	-	-	-	-	1,132,236
Trade payables	34,781	-	-	-	-	34,781
Other payables	395	-	-	-	-	395
Financial liabilities classified as held for trading:						
Derivatives	443,994	48,330	190,356	443,376	110,846	1,226,902
Financial liabilities designated at fair value through profit or loss:						
Issued Structured Notes	1,073,467	989,155	321,290	1,703,146	507,464	4,594,522
Total financial liabilities	<u>2,684,873</u>	<u>1,037,485</u>	<u>511,646</u>	<u>2,146,522</u>	<u>618,310</u>	<u>6,988,836</u>

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NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2012

8. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk management procedures (continued)

Liquidity risk (continued)

Maturity analysis(continued)

	On demand €000	Less than one year €000	Equal to or more than one year but not more than two years €000	Equal to or more than two years but less than five years €000	Equal to or more than five years €000	Total €000
31 December 2011						
Financial assets						
Loans and receivables:						
Cash at bank	1,097	-	-	-	-	1,097
Trade receivables	11,966	-	-	-	-	11,966
Other receivables	18,461	-	-	-	-	18,461
Financial assets classified as held for trading:						
Derivatives	76,243	16,926	5,878	77,022	35,118	211,187
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	479,908	44,536	203,031	74,129	27,583	829,187
Loans	1,400,197	215,357	145,210	1,081,505	273,198	3,115,467
Total financial assets	<u>1,987,872</u>	<u>276,819</u>	<u>354,119</u>	<u>1,232,656</u>	<u>335,899</u>	<u>4,187,365</u>
Financial liabilities						
Financial liabilities at amortised cost:						
Trade payables	20,750	-	-	-	-	20,750
Other payables	1,932	-	-	-	-	1,932
Financial liabilities classified as held for trading:						
Derivatives	261,294	38,317	35,913	185,724	35,698	556,946
Financial liabilities designated at fair value through profit or loss:						
Issued Structured Notes	1,686,425	238,502	318,206	1,046,932	300,201	3,590,266
Total financial liabilities	<u>1,970,401</u>	<u>276,819</u>	<u>354,119</u>	<u>1,232,656</u>	<u>335,899</u>	<u>4,169,894</u>

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NOTES TO THE CONDENSED FINANCIAL STATEMENTS **Six months ended 30 June 2012**

8. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk management procedures (continued)

Market risk

Market risk is defined under IFRS 7 '*Financial instruments: disclosures*' 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.

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 system. 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.

9. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

a. Fair value hierarchy disclosure

Financial instruments recognised at fair value are broken down for disclosure purposes into a three level fair value hierarchy based on the observability of inputs as follows:

- Quoted prices (unadjusted) in an active market for identical assets or liabilities (Level 1) – 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 do not entail a significant degree of judgement.
- Valuation techniques using observable inputs (Level 2) – 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.
- Valuation techniques with significant unobservable inputs (Level 3) – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

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NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2012

9. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

a. Fair value hierarchy disclosure (continued)

Fair value control processes

The Company employs control processes to validate the fair value of its financial instruments, including those derived from pricing models. These control processes are designed to assure 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 assure that the valuation approach utilised is appropriate and consistently applied and that the assumptions are reasonable. These control processes include reviews of the pricing model's theoretical soundness and appropriateness by Morgan Stanley Group personnel with relevant expertise who are independent from the trading desks.

Additionally, groups independent from the trading divisions within the financial control, market risk and credit risk management departments participate in the review and validation of the fair values generated from pricing models, as appropriate. Where a pricing model is used to determine fair value, recently executed comparable transactions and other observable market data are considered for purposes of validating assumptions underlying the model.

Financial assets and liabilities recognised at fair value

The following tables present the carrying value of the Company's financial assets and liabilities, recognised at fair value, classified according to the fair value hierarchy described above:

30 June 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	-	829,265	97,727	926,992
Financial assets designated at fair value through profit or loss:				
Prepaid equity securities contracts	-	1,146,515	75,983	1,222,498
Loans	-	3,698,901	-	3,698,901
Total financial assets measured at fair value	-	5,674,681	173,710	5,848,391
Financial liabilities classified as held for trading:				
Derivatives	-	1,123,220	103,682	1,226,902
Financial liabilities designated at fair value through profit or loss:				
Certificates and warrants	-	2,099,140	-	2,099,140
Notes	-	1,902,928	592,454	2,495,382
Total financial liabilities measured at fair value	-	5,125,288	696,136	5,821,424

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NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2012

9. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

a. Fair value hierarchy disclosure (continued)

31 December 2011

	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	-	173,008	38,179	211,187
Financial assets designated at fair value through profit or loss:				
Prepaid equity securities contracts	-	772,064	57,123	829,187
Loans	-	3,115,467	-	3,115,467
Total financial assets measured at fair value	-	4,060,539	95,302	4,155,841
Financial liabilities classified as held for trading:				
Derivatives	-	470,582	86,364	556,946
Financial liabilities designated at fair value through profit or loss:				
Certificates and warrants	-	1,738,000	-	1,738,000
Notes	-	1,422,406	429,860	1,852,266
Total financial liabilities measured at fair value	-	3,630,988	516,224	4,147,212

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2012

9. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

a. Fair value hierarchy disclosure (continued)

The Company's valuation approach and fair value hierarchy categorisation for certain classes of financial instruments recognised at fair value is as follows:

Financial assets and financial liabilities classified as held for trading

- *Derivatives*

OTC derivative contracts include forward, swap and option contracts related to interest rates, foreign currencies or equity 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 credit default swaps. 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 within 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.

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

- *Prepaid equity security contracts and issued Structured Notes*

The Company issues Structured Notes and trades prepaid equity security contracts that have coupons or repayment terms linked to the performance of debt or equity securities, indices or currencies. The fair value of Structured Notes and prepaid equity security 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 that the notes are linked to, interest rate yield curves, option volatility and currency, commodity or equity rates. 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 issued Structured Notes and prepaid equity security 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.

- *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 generally categorised in Level 2 of the fair value hierarchy.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2012

9. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

a. Fair value hierarchy disclosure (continued)

• *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.

• *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 can typically be redeemed at short notice and so the certificates and warrants provide minimal exposure to the credit risk of Morgan Stanley.

b. Changes in Level 3 assets and liabilities measured at fair value

The following tables present the changes in the fair value of the Company's Level 3 financial assets and financial liabilities for the period ended 30 June 2012 and 31 December 2011. Level 3 instruments may be hedged with instruments classified in Level 2. As a result, the realised and unrealised gains or losses do not reflect the related realised and unrealised gains or losses on the loans that have been classified by the Company within Level 2.

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 or losses during the period for assets and liabilities within the Level 3 category presented in the tables below may include changes in fair value during the period that were attributable to both observable (e.g. changes in market interest rates) and unobservable (e.g. changes in unobservable long-dated volatilities) inputs.

MORGAN STANLEY B.V.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2012

9. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

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

30 June 2012

	Balance at 1 January 2012 €000	Total gains or (losses) recognised in condensed statement of comprehensive income €000	Purchases €000	Issuances €000	Settlements €000	Net transfers in and/or out of Level 3 (1) €000	Balance at 30 June 2012 €000	Unrealised gains / (losses) for Level 3 assets /liabilities outstanding as at 30 June 2012 (2) €000
Financial assets designated at fair value through profit or loss:								
Prepaid equity securities contracts	57,123	(3,383)	28,545	-	(7,355)	1,053	75,983	2,508
Total financial assets measured at fair value	<u>57,123</u>	<u>(3,383)</u>	<u>28,545</u>	<u>-</u>	<u>(7,355)</u>	<u>1,053</u>	<u>75,983</u>	<u>2,508</u>
Financial liabilities classified as held for trading:								
Net derivative contracts (3)	(48,185)	(27,198)	-	-	69,133	295	(5,955)	(11,055)
Financial liabilities designated at fair value through profit or loss:								
Issued Structured Notes	(429,860)	(6,569)	-	(187,496)	22,393	9,078	(592,454)	(8,668)
Total financial liabilities measured at fair value	<u>(478,045)</u>	<u>(33,767)</u>	<u>-</u>	<u>(187,496)</u>	<u>91,526</u>	<u>9,373</u>	<u>(598,409)</u>	<u>(19,723)</u>

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

(2) Amounts represent unrealised gains or (losses) for the period ended 30 June 2012 related to assets and liabilities still outstanding at 30 June 2012.

(3) Net derivative contracts represent Financial assets classified as held for trading – derivative contracts, net of Financial liabilities classified as held for trading – derivative contracts. All cash flows on derivative contracts are presented in settlements.

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 above 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.

MORGAN STANLEY B.V.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2012

9. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

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

During the period ended 30 June 2012, the Company reclassified approximately €1,981,000 of net derivative contracts, €10,616,000 of prepaid equity securities contracts and €2,008,000 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 period ended 30 June 2012, the Company reclassified approximately €2,276,000 of net derivative contracts and €5,563,000 of prepaid equity securities contracts and €71,086,000 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.

31 December 2011

	Balance at 1 January 2011 €000	Total gains or (losses) recognised in statement of comprehensive income €000	Purchases €000	Issuances €000	Settlements €000	Net transfers in and/or out of Level 3 (1) €000	Balance at 31 December 2011 €000	Unrealised gains / (losses) for Level 3 assets /liabilities outstanding as at 31 December 2011 (2) €000
Financial assets classified as held for trading:								
Net derivative contracts (3)	938	(72,970)	-	-	21,874	1,973	(48,185)	(49,127)
Financial assets designated at fair value through profit or loss:								
Prepaid equity securities contracts	117,462	(19,102)	16,723	-	(54,812)	(3,148)	57,123	(22,370)
Total financial assets measured at fair value	118,400	(92,072)	16,723	-	(32,938)	(1,175)	8,938	(71,497)
Financial liabilities designated at fair value through profit or loss:								
Issued Structured Notes	(233,313)	4,855	-	(296,619)	91,630	3,587	(429,860)	42,279
Total financial liabilities measured at fair value	(233,313)	4,855	-	(296,619)	91,630	3,587	(429,860)	42,279

(1) 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.

(2) Amounts represent unrealised gains or (losses) for the year ended 31 December 2011 related to assets and liabilities still outstanding at 31 December 2011.

(3) Net derivative contracts represent Financial assets classified as held for trading – derivative contracts, net of Financial liabilities classified as held for trading – derivative contracts. All cash flows on derivative contracts are presented in settlements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2012

9. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

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

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 above 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.

During the year ended 31 December 2011, the Company reclassified approximately €7,120,000 of net derivative contracts, €5,695,000 of prepaid equity securities contracts and €7,580,000 of issued Structured Notes from Level 2 to Level 3. The reclassifications were due to a reduction in the volume of recently executed transactions or a lack of available broker quotes for these instruments, such that certain significant inputs became unobservable.

During the year ended 31 December 2011, the Company reclassified approximately €5,147,000 of net derivative contracts, €8,843,000 of prepaid equity securities contracts and €1,167,000 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.

c. Significant transfers between Level 1 and Level 2 of the fair value hierarchy

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

d. 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 disclosure above. 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, 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.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2012

9. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

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

The following tables present the sensitivity of the fair value of Level 3 financial assets and financial liabilities to reasonably possible alternative assumptions.

30 June 2012	Fair value €000	Effect of reasonably possible alternative assumptions	
		Increase in fair value €000	Decrease in fair value €000
Financial assets designated at fair value through profit or loss:			
Prepaid equity securities contracts	75,983	17,261	(17,261)
Financial liabilities classified as held for trading:			
Net derivative contracts ⁽¹⁾			
Equity	(5,955)	15,779	(15,779)
Financial liabilities designated at fair value through profit or loss:			
Issued Structured Notes	(592,454)	(33,040)	33,040
31 December 2011			
	Fair value €000	Increase in fair value €000	Decrease in fair value €000
Financial assets designated at fair value through profit or loss:			
Prepaid equity securities contracts	57,123	1,186	(1,137)
Financial liabilities classified as held for trading:			
Net derivatives contracts ⁽¹⁾ :			
Equity	(48,185)	25,430	(23,412)
Financial liabilities designated at fair value through profit or loss:			
Issued Structured Notes	(429,860)	(26,616)	24,549

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

Review report

To: the Shareholders of Morgan Stanley B.V.

Introduction

We have reviewed the accompanying condensed interim financial information of Morgan Stanley B.V., Amsterdam, which comprises the condensed statement of financial position as at June 30, 2012, the condensed statements of comprehensive income, changes in equity, and cash flows for the period of six months ended June 30, 2012, and the notes. Management is responsible for the preparation and presentation of this company condensed interim financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as at June 30, 2012 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Amsterdam, August 30, 2012

Deloitte Accountants B.V.

Already signed: W.H.E. van Ommeren