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MORGAN STANLEY B.V.

Interim financial report

30 June 2010

For identification purpose only.
Goes together with review report
dated 31 AUG 2010

MORGAN STANLEY B.V.

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MORGAN STANLEY B.V.

INTERIM MANAGEMENT REPORT

The Directors present their interim management report, responsibility statement and the condensed financial statements of Morgan Stanley B.V. (the "Company") for the six months ended 30 June 2010.

As disclosed in the Company's annual financial statements, the Company has changed its annual accounting reference date from 30 November to 31 December to align with the changed year end of its ultimate parent undertaking, Morgan Stanley. Accordingly, these condensed financial statements are for the six months ended 30 June 2010. With the exception of the comparatives for the condensed statement of financial position and related notes, which are as at 31 December 2009, the comparative figures reflected within the condensed financial statements are for the six months ended 31 May 2009 which is considered comparable for the purposes of International Accounting Standard 34 *"Interim Financial Reporting"* as adopted by the European Union *("EU")*.

RESULTS AND DIVIDENDS

The profit for the period, after tax, was €818,000 (2009: €1,011,000).

During the period no dividends were paid or proposed (2009: €nil).

PRINCIPAL ACTIVITY

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".

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

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

The modest economic recovery initiated in 2009 continues to be evident in the wider economy, although the Company continues to be impacted by challenging market conditions. These conditions present difficulties and uncertainty for the business outlook which may adversely impact the financial performance of the Company in the future. The condensed statement of comprehensive income for the period is set out on page 5. The profit for the current period decreased by €193,000, 19% from the prior period. This was primarily driven by a reduction in interest income, which was partially offset by an increase in fees received due to an increased level of issuances.

The condensed statement of financial position is presented on page 7. Due to increased issuances during the period total assets at the end of the period were €4,459,917,000 an increase of 54% from 31 December 2009.

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.

BUSINESS REVIEW (CONTINUED)

Risk Management (continued)

Market risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instruments 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.

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 financial obligations.

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

Liquidity and funding risk

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

The Morgan Stanley Group's senior management establishes the overall liquidity and capital policies of the Morgan Stanley Group. The Morgan Stanley Group's liquidity and funding risk management policies are designed to mitigate the potential risk that the Morgan Stanley Group and the Company may be unable to access adequate financing to service its financial obligations without material franchise or business impact. The key objectives of the liquidity and funding risk management framework are to support the successful execution of the Morgan Stanley Group's and the Company's business strategies while ensuring sufficient liquidity through the business cycle and during periods of stressed market conditions. The Morgan Stanley Group has established regional committees to oversee the activities of its subsidiaries from a regional perspective.

This liquidity and funding risk management framework continues to provide sufficient liquidity to the Morgan Stanley Group and to the Company, and the Company's capital and liquidity position is satisfactory.

Going Concern

Taking all of the above factors into consideration, the Directors have no reason to believe that the Company will not have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the interim management report and condensed financial statements.

DIRECTORS

The following changes have occurred to the composition of the Board of Directors since 31 December 2009:

J.Y. Bahurel	(resigned 2 July 2010)
P.W. Banks	(appointed 7 July 2010)
R.H.L. de Groot	(appointed 1 July 2010)
H.K.A. Lee	(appointed 7 July 2010)
P.J.G. de Reus	(appointed 1 July 2010)

MORGAN STANLEY B.V.

INTERIM MANAGEMENT REPORT

EVENTS AFTER THE REPORTING PERIOD

There have been no significant events since the reporting date.

AUDIT COMMITTEE

The Company qualifies as an organisation of public interest pursuant Dutch and EU law. The Morgan Stanley Group has an audit committee that complies with international corporate governance rules. The Company has therefore taken the exemption for groups and has not installed an audit committee.

Approved by the Board and signed on its behalf on

Directors

A.J.S. Crawford	P.W. Banks	R.H.L. de Groot	H. Herrmann	H.K.A. Lee
P.J.G. de Reus	J.A. Solan	TMF Management B.V.		

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RESPONSIBILITY STATEMENT

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

(a) the condensed set of financial statements have been prepared in accordance with International Accounting Standard 34 "*Interim Financial Reporting*" as adopted by the European Union ("EU") and Title 9 of Book 2 of the Netherlands Civil Code on the basis of the Company's international connections and gives a true and fair view of the assets, liabilities, financial position and result of the Company; and

(b) the interim management report includes a fair review of the important events that have occurred during the period and the impact on the condensed financial statements and provides a description of the principal risks and uncertainties that the Company faces for the remaining six months of the financial year.

Approved by the Board and signed on its behalf on

Directors

A.J.S. Crawford P.W. Banks R.H.L. de Groot H. Herrmann H.K.A. Lee

P.J.G. de Reus J.A. Solan TMF Management B.V.

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CONDENSED STATEMENT OF COMPREHENSIVE INCOME
Six months ended 30 June 2010

	Six months ended 30 June 2010 €'000 (unaudited)	Six months ended 31 May 2009 €'000 (unaudited)
Net gains on financial instruments classified as held for trading	186,411	81,771
Net (losses) on financial instruments designated at fair value through profit or loss	(186,411)	(81,783)
Interest income	339	791
Interest expense	(127)	(144)
Other income	885	722
PROFIT BEFORE INCOME TAX	1,097	1,357
Income tax expense	(279)	(346)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	818	1,011

All operations were continuing in the current and prior period.

The notes on pages 9 to 23 form an integral part of the condensed financial statements.

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CONDENSED STATEMENT OF CHANGES IN EQUITY
Six months ended 30 June 2010

	Share capital €'000	Retained earnings €'000	Total €'000
At 1 December 2008 (audited)	15,018	9,998	25,016
Profit and total comprehensive income for the period	-	1,011	1,011
Balance at 31 May 2009 (unaudited)	15,018	11,009	26,027
Balance at 1 January 2010 (audited)	15,018	11,537	26,555
Profit and total comprehensive income for the period	-	818	818
Balance at 30 June 2010 (unaudited)	15,018	12,355	27,373

The notes on pages 9 to 23 form an integral part of the condensed financial statements.

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CONDENSED STATEMENT OF FINANCIAL POSITION
As at 30 June 2010

	Notes	30 June 2010 €'000 (unaudited)	31 December 2009 €'000 (audited)
ASSETS			
Loans and receivables:			
Cash at bank		21	6,596
Trade receivables		13,530	10,659
Other receivables		27,497	33,960
		41,048	51,215
Financial assets classified as held for trading	2	-	30,958
Financial assets designated at fair value through profit or loss	3	4,418,676	2,818,679
Current tax		193	-
TOTAL ASSETS		4,459,917	2,900,852
LIABILITIES AND EQUITY			
Financial liabilities at amortised cost:			
Bank overdraft		12	-
Trade payables		60,788	18,300
Other payables		231	12,565
		61,031	30,865
Financial liabilities classified as held for trading	2	132,158	-
Financial liabilities designated at fair value through profit or loss	3	4,239,355	2,843,278
Current tax		-	154
TOTAL LIABILITIES		4,432,544	2,874,297
EQUITY			
Share capital		15,018	15,018
Retained earnings		12,355	11,537
TOTAL EQUITY		27,373	26,555
TOTAL LIABILITIES AND EQUITY		4,459,917	2,900,852

The notes on pages 9 to 23 form an integral part of the condensed financial statements.

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CONDENSED STATEMENT OF CASH FLOWS
Six months ended 30 June 2010

	Six months ended 30 June 2010 €'000 (unaudited)	Six months ended 31 May 2009 €'000 (unaudited)
OPERATING ACTIVITIES		
Profit for the period	818	1,011
Adjustments for:		
Income tax payable	(347)	347
Profit before changes in operating assets and liabilities	471	1,358
Change in operating assets		
Decrease in loans and receivables	3,592	10,215
Decrease / (increase) in financial assets classified as held for trading	30,958	(107,486)
Increase in financial assets designated at fair value through profit or loss	(1,599,997)	(63,646)
	(1,565,447)	(160,917)
Change in operating liabilities		
Increase in financial liabilities at amortised cost	30,154	12,103
Increase / (decrease) in financial liabilities classified as held for trading	132,158	(119,672)
Increase in financial liabilities designated at fair value through profit or loss	1,396,077	329,206
	1,558,389	221,637
NET CASH FLOWS (USED IN) / FROM OPERATING ACTIVITIES	(6,587)	62,078
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(6,587)	62,078
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	6,596	1,259
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	9	63,337

The notes on pages 9 to 23 form an integral part of the condensed financial statements.

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NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2010

1. BASIS OF PREPARATION

i. Accounting policies

The Company prepares its annual financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU"). These condensed financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 *'Interim Financial Reporting'* ("IAS 34"), as adopted by the EU.

As disclosed in the Company's annual financial statements, the Company has changed its annual accounting reference date from 30 November to 31 December to align with the changed year end of its ultimate parent undertaking, Morgan Stanley. Accordingly, these condensed financial statements are for the six months ended 30 June 2010. With the exception of the comparatives for the condensed statement of financial position, which are as at 31 December 2009, the comparative figures reflected within the condensed financial statements are for the six months ended 31 May 2009, which is considered comparable for the purposes of IAS 34.

In preparing these condensed financial statements, the Company has applied consistently the accounting policies and methods of computation used in the Company's annual financial statements for the 13 month period ended 31 December 2009.

During the period the Company made improvements to the fair value pricing methodology of certain of its financial instruments measured at fair value. These improvements have resulted in a better estimate of the exit price of certain financial liabilities designated at fair value, and their related hedges, where the holder has the right to put the instrument back to the Company. This change has no impact on the net assets of the Company but has resulted in an increase in the fair value estimate recognised on the condensed statement of financial position in respect of financial liabilities designated at fair value and of the related hedges, as disclosed in Note 3. Prior period comparatives have not been restated.

New standards and interpretations adopted during the period

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

As part of the April 2009 Annual Improvements to IFRS, the International Accounting Standards Board ("IASB") made amendments to the following standards that are relevant to the Company's operations: IFRS 8 *'Operating Segments'*, IAS 1 *'Presentation of Financial Statements'*, IAS 7 *'Statement of Cash Flows'*, IAS 18 *'Revenue'* and IAS 39 *'Financial Instruments: Recognition and Measurement'*. (for application in accounting periods beginning on or after 1 January 2010). These Annual Improvements were endorsed by the EU in March 2010.

New standards and interpretations not yet adopted

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

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

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1. BASIS OF PREPARATION (CONTINUED)

IAS 24 'Related party disclosures' was revised by the IASB in November 2009 for retrospective application in annual periods beginning on or after 1 January 2011. The revised standard was endorsed by the EU in July 2010.

As part of the May 2010 Improvements to IFRSs, the IASB made amendments to the following standards that are relevant to the Company's operations: IFRS 7 '*Financial instruments: disclosures*' and IAS 1 '*Presentation of Financial Statements*' (for application in accounting periods beginning on or after 1 January 2011).

ii. Use of estimates and sources of uncertainty

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

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

Financial assets and financial liabilities classified as held for trading are summarised in the table below:

	30 June 2010		31 December 2009	
	Assets €'000	Liabilities €'000	Assets €'000	Liabilities €'000
Derivatives	-	132,158	30,958	-

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

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

Issued structured notes - These instruments contain an embedded derivative which significantly modifies the cash flows of the issuance. The return on the instrument is linked to an underlying that is not clearly and closely related to the debt host including, but not limited to, equity, credit or commodity-linked notes. The instruments are designated at fair value as the risks to which the Company is a contractual party are risk managed on a fair value basis as part of the Company's trading portfolio and the risk is reported to key management personnel on this basis.

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

Designated loans - These are loans to other Morgan Stanley Group companies that, along with the prepaid equity securities contracts and the derivative contracts classified as held for trading, are part of the hedging strategy for the obligations arising pursuant to the issuance of the structured notes. These loans are designated at fair value as the risks to which the Company is a contractual party are managed on a fair value basis as part of the Company's trading portfolio and the risk is reported to key management personnel on this basis.

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

	30 June 2010		31 December 2009	
	Assets €'000	Liabilities €'000	Assets €'000	Liabilities €'000
Issued structured notes	-	4,239,355	-	2,843,278
Prepaid equity securities contracts	1,475,708	-	708,046	-
Designated loans	2,942,968	-	2,110,633	-
	4,418,676	4,239,355	2,818,679	2,843,278

The change in fair value of issued structured notes recognised through the condensed statement of comprehensive income attributable to own credit risk is a loss of €34,492,000 (31 May 2009: loss of €52,707,000) and cumulatively is a gain of €29,792,000 (31 December 2009: gain of €64,284,000). This change is determined as the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risk.

The change in fair value of prepaid equity securities contracts and designated loans recognised through the condensed statement of comprehensive income attributable to changes in credit risk is a gain of €31,330,000 (31 May 2009: gain of €75,931,000) and cumulatively is a loss of €33,656,000 (31 December 2009: loss of €64,986,000).

The change in fair value attributable to credit risk for the period is offset by a net gain of €3,162,000 (31 May 2009: loss of €23,224,000), and cumulatively is a gain of €3,864,000 (31 December 2009: gain of €702,000), 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 €15,283,000 lower than the contractual amount due at maturity (31 December 2009: €37,825,000).

4. 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. Transactions between business segments are on normal commercial terms and conditions.

Business segment

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 / profit before income tax and total assets disclosed in the following table reflect the regional view of the Company's operations, on a managed basis. The basis for attributing external revenues (net of interest expense) and total assets is determined by trading desk location.

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4. SEGMENT REPORTING (CONTINUED)

Geographical segments	EMEA		Americas		Asia		Total	
	30 June 2010 €'000	31 May 2009 €'000	30 June 2010 €'000	31 May 2009 €'000	30 June 2010 €'000	31 May 2009 €'000	30 June 2010 €'000	31 May 2009 €'000
External revenues net of interest / Profit before income tax	925	1,150	35	-	137	207	1,097	1,357
	EMEA		**Americas**		**Asia**		**Total**	
	30 June 2010 €'000	31 Dec 2009 €'000	30 June 2010 €'000	31 Dec 2009 €'000	30 June 2010 €'000	31 Dec 2009 €'000	30 June 2010 €'000	31 Dec 2009 €'000
Total assets	3,446,600	2,272,294	326,095	114,648	687,222	513,910	4,459,917	2,900,852

5. 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 continues to be the issuance of structured notes and the economic 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 economic hedges of its obligations by purchasing financial instruments from other Morgan Stanley Group companies.

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

Credit risk

Credit risk refers to the risk of loss arising from 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 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 maximum exposure to credit risk of the Company as at 30 June 2010 is the carrying amount of the financial assets held in the condensed statement of financial position without taking account of any collateral held or any other credit enhancement.

The Company enters into the majority of its financial asset transactions with other Morgan Stanley Group companies, where both the Company and the Morgan Stanley Group companies 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.

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5. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the entity may encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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.

The Company hedges all of its financial liabilities with financial assets entered into with other Morgan Stanley Group companies, where both the Company and other Morgan Stanley Group companies 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 principal elements 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") and liquidity reserves. Comprehensive financing guidelines (secured funding, long-term funding strategy, surplus capacity, diversification and staggered maturities) support the Morgan Stanley Group target liquidity profile.

Contingency Funding Plan - CFP is the Morgan Stanley Group's primary liquidity risk management tool. The CFP models a potential, prolonged liquidity contraction over a one-year time period and sets forth a course of action to effectively manage a liquidity event. The CFP and liquidity risk exposures 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 European Financial Risk Committee.

CFP is produced on a Morgan Stanley Group as well as major group and subsidiary level to capture specific cash requirements and cash availability at various legal entities. The CFP assumes that Morgan Stanley does not have access to cash that may be held at certain subsidiaries due 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 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 it was unable to access adequate financing to service its financial liabilities when they become payable.

The Morgan Stanley Group's CFP model incorporates scenarios with a wide range of potential cash outflows during a liquidity stress event, including, but not limited to, the following: (i) repayment of all unsecured debt maturing within one year and no incremental unsecured debt issuance; (ii) maturity roll-off of outstanding letters of credit with no further issuance and replacement of cash collateral; (iii) return of unsecured securities borrowed and any cash raised against these securities; (iv) additional collateral that would be required by counterparties in the event of a three-notch long-term credit ratings downgrade; (v) higher haircuts on or lower availability of secured funding; (vi) client cash withdrawals; (vii) drawdowns on unfunded commitments provided to third parties; and (viii) discretionary unsecured debt buybacks.

Liquidity Reserves - The Morgan Stanley Group seeks to maintain target liquidity reserves that are sized to cover daily funding needs and meet strategic liquidity targets as outlined in CFP. These liquidity reserves are held in the form of cash deposits and pools of central bank eligible unencumbered securities. The Morgan Stanley liquidity reserve is managed globally and consists of overnight cash deposits and unencumbered U.S. and European government bonds, agencies and agency pass throughs. The Morgan Stanley Group believes that diversifying the form in which its liquidity reserves are maintained (cash and securities) enhances its ability to quickly and efficiently source funding in a stressed environment. The Morgan Stanley Group's funding requirements and target liquidity reserves may vary based on changes to the level and composition of its statement of financial position, timing of specific transactions, client financing activity, market conditions and seasonal factors.

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5. FINANCIAL RISK MANAGEMENT (CONTINUED)

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. Maturities of financings are designed to manage exposure to refinancing risk in any one period.

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, 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 in the U.S., European and Asian markets, targeting global investors and currencies such as U.S. dollar, Euro, British pound, Australian dollar and Japanese Yen.

In managing both the Company's and the Morgan Stanley Group'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 receivables arising from its Institutional Securities sales and trading activities. The liquid nature of these assets provides the Company and the Morgan Stanley Group with flexibility in financing and managing its business.

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 2010. 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.

30 June 2010	On demand	Less than one year	Equal to or more than one year but less than two years	Equal to or more than two years but less than five years	Equal to or more than five years	Total
	€'000	€'000	€'000	€'000	€'000	€'000
Financial assets						
Loans and receivables:						
Cash at bank	21	-	-	-	-	21
Trade receivables	13,530	-	-	-	-	13,530
Other receivables	27,497	-	-	-	-	27,497
Financial assets designated at fair value through the profit or loss:						
Prepaid equity securities contracts	776,430	296,803	65,086	316,908	20,481	1,475,708
Designated loans	2,274,867	40,167	405,387	113,787	108,760	2,942,968
Total financial assets	3,092,345	336,970	470,473	430,695	129,241	4,459,724

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5. FINANCIAL RISK MANAGEMENT (CONTINUED)

Maturity analysis (continued)

30 June 2010	On demand €'000	Less than one year €'000	Equal to or more than one year but less than two years €'000	Equal to or more than two years but less than five years €'000	Equal to or more than five years €'000	Total €'000
Financial liabilities						
Financial liabilities at amortised cost:						
Bank overdraft	12	-	-	-	-	12
Trade payables	60,788	-	-	-	-	60,788
Other payables	231	-	-	-	-	231
Financial assets classified as held for trading:						
Derivatives	74,727	115	38,540	14,731	4,045	132,158
Financial liabilities designated at fair value through profit or loss:						
Issued structured notes	2,929,407	336,855	431,933	415,964	125,196	4,239,355
Total financial liabilities	3,065,165	336,970	470,473	430,695	129,241	4,432,544

31 December 2009	On demand €'000	Less than one year €'000	Equal to or more than one year but less than two years €'000	Equal to or more than two years but less than five years €'000	Equal to or more than five years €'000	Total €'000
Financial assets						
Loans and receivables:						
Cash at bank	6,596	-	-	-	-	6,596
Trade receivables	10,659	-	-	-	-	10,659
Other receivables	33,960	-	-	-	-	33,960
Financial assets classified as held for trading:						
Derivatives	27,814	500	441	2,188	15	30,958
Financial liabilities designated at fair value through profit or loss:						
Prepaid equity securities contracts	331,726	164,580	88,138	40,527	83,075	708,046
Designated loans	1,446,513	278,250	113,666	235,114	37,090	2,110,633
Total financial assets	1,857,268	443,330	202,245	277,829	120,180	2,900,852

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NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2010

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

Maturity analysis (continued)

31 December 2009	On demand €'000	Less than one year €'000	Equal to or more than one year but less than two years €'000	Equal to or more than two years but less than five years €'000	Equal to or more than five years €'000	Total €'000
Financial liabilities						
Financial liabilities at amortised cost:						
Trade payables	18,300	-	-	-	-	18,300
Other payables	12,565	-	-	-	-	12,565
Financial liabilities designated at fair value through profit or loss:						
Issued structured notes	1,799,694	443,330	202,245	277,829	120,180	2,843,278
Total financial liabilities	1,830,559	443,330	202,245	277,829	120,180	2,874,143

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.

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.

The Company is managed within the Morgan Stanley Group's global framework. The market risk management policies and procedures of the Company are consistent with those of the Morgan Stanley Group, including reporting of material risks identified to appropriate key management personnel of the Company.

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 risk-mirroring contracts that it purchases from other Morgan Stanley Group companies to hedge the 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. As such, the Company is not exposed to any market risk on these financial instruments.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
Six months ended 30 June 2010

6. 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 does 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.

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

Derivatives

Over-the-counter ("OTC") derivative contracts include forward, swap and option contracts related to equity prices, interest rates or foreign currencies.

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. In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry. OTC derivative products valued by the Company using pricing models are generally categorised in Level 2 of the fair value hierarchy. In instances where significant inputs are unobservable, they are categorised as Level 3 of the fair value hierarchy.

Designated loans

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

Issued structured notes and prepaid equity securities contracts

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 or currencies. Fair value of structured notes and prepaid equity securities contracts is estimated using valuation models described above for the derivative and debt features 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 rates. The impact of own credit spreads is also included based on observed secondary bond market spreads. Structured notes and prepaid equity securities contracts are generally categorised in Level 2 of the fair value hierarchy. In instances where significant inputs are unobservable, they are categorised as Level 3 of the fair value hierarchy.

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6. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (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 comparable transactions and other observable market data are considered for purposes of validating assumptions underlying the model.

Financial assets and financial liabilities recognised at fair value

The Company's financial assets and financial liabilities recognised at fair value have been broken down into a three level hierarchy based on the observability of inputs. The following tables present the carrying value of the Company's financial assets and liabilities across the fair value hierarchy:

30 June 2010

	Quoted prices in active market (Level 1) €'000	Valuation techniques using observable inputs (Level 2) €'000	Valuation techniques with significant non-observable inputs (Level 3) €'000	Total €'000
Financial assets designated at fair value through profit or loss:				
Prepaid equity securities contracts	-	1,398,810	76,898	1,475,708
Designated loans	-	2,942,968	-	2,942,968
Total financial assets held at fair value	-	4,341,778	76,898	4,418,676
Financial liabilities classified as held for trading:				
Derivatives	-	115,808	16,350	132,158
Financial liabilities designated at fair value through profit or loss:				
Issued structured notes	-	3,996,025	243,330	4,239,355
Total financial liabilities at fair value	-	4,111,833	259,680	4,371,513

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6. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

Financial assets and financial liabilities recognised at fair value (continued)

31 December 2009

	Quoted prices in active market (Level 1) €'000	**Valuation techniques using observable inputs (Level 2) €'000**	**Valuation techniques with significant non-observable inputs (Level 3) €'000**	**Total €'000**
Financial assets held for trading:				
Derivatives	-	29,552	1,406	30,958
Financial assets designated at fair value through profit or loss:			-	
Prepaid equity securities contracts	-	635,558	72,488	708,046
Designated loans	-	2,110,633	-	2,110,633
Total financial assets held at fair value	-	2,775,743	73,894	2,849,637
Financial liabilities designated at fair value through profit or loss:				
Issued structured notes	-	2,731,208	112,070	2,843,278
Total financial liabilities at fair value	-	2,731,208	112,070	2,843,278

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Six months ended 30 June 2010

6. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

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

The following table presents the changes in the fair value of the Company's Level 3 financial assets and financial liabilities for the period ended 30 June 2010:

30 June 2010	Balance at 1 January 2010	Total gains/ (losses) recognised in profit or loss	Purchases	Sales	Issuances	Settlements	Net transfers in and / or out of Level 3 (1)	Balance at 30 June 2010	Unrealised gains/(losses) for level 3 assets / liabilities outstanding as at 30 June 2010 (2)
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€000
Financial assets designated at fair value through profit or loss:									
Prepaid equity securities contracts	72,488	4,029	39,596	-	-	(15,969)	(23,246)	76,898	4,135
Financial liabilities classified as held for trading:									
Net derivative contracts (3)	1,406	(1,299)	-	-	-	(18,271)	1,814	(16,350)	(1,139)
Financial liabilities designated at fair value through profit or loss:									
Issued structured notes	(112,070)	1,998	-	-	(148,481)	26,233	(11,010)	(243,330)	1,417
	(38,176)	4,728	39,596	-	(148,481)	(8,007)	(32,442)	(182,782)	4,413

(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 unrealized gains or (losses) for the period ended 30 June 2010 related to assets and liabilities still outstanding at 30 June 2010.
(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.

During the period ended 30 June 2010, the Company reclassified approximately €25,890,000 of financial liabilities from Level 2 to Level 3. The reclassifications were due to either a reduction in the volume of recently executed transactions and market price quotations for these instruments, or a lack of available broker quotes, such that certain unobservable inputs became significant to the fair value measurement.

During the period ended 30 June 2010, the Company reclassified approximately €23,246,000 of financial assets and €16,694,000 of financial liabilities from Level 3 to Level 2. The reclassifications were due to an increase in market price quotations for these or comparable instruments such that significant inputs for the fair value measurement became observable.

6. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

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

31 December 2009

	Balance at 1 December 2008	Total gains / (losses) recognised in profit or loss	Purchases	Sales	Issuances	Settlements	Net transfers in and / or out of Level 3 (1)	Balance at 31 December 2009	Unrealised gains/(losses) for level 3 assets / liabilities outstanding as at 31 December 2009 (2)
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€000
Financial assets classified as held for trading:									
Net derivative contracts (3)	-	(6,728)	-	-	-	13,596	(5,462)	1,406	(6,728)
Financial assets designated at fair value through profit or loss:									
Prepaid equity securities contracts	-	(67,829)	56,012	-	-	(15,844)	100,149	72,488	(67,829)
Financial liabilities designated at fair value through profit or loss:									
Issued structured notes	(9,571)	72,678	-	-	(80,903)	20,010	(114,284)	(112,070)	72,678
Total financial assets held at fair value	(9,571)	(1,879)	56,012	-	(80,903)	17,762	(19,597)	(38,176)	(1,879)

(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 unrealized gains or (losses) for the period ended 31 December 2010 related to assets and liabilities still outstanding at 30 June 2010.
(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.

During the period ended 31 December 2009, the Company reclassified approximately €94,687,000 of financial assets, and €114,284,000 of financial liabilities from Level 2 to Level 3. The reclassifications were due to either a reduction in the volume of recently executed transactions and market price quotations for these instruments, or a lack of available broker quotes, such that certain unobservable inputs became significant to the fair value measurement.

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

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

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6. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

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 judgment if a statistical technique is not appropriate. Where a financial instrument has more than one unobservable parameter, the sensitivity analysis reflects the greatest increase or decrease to fair value by varying the assumptions individually. It is unlikely that all unobservable parameters would concurrently be 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 table presents the sensitivity of the fair value of Level 3 financial assets and financial liabilities as at year end to reasonably possible alternative assumptions.

30 June 2010	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	76,898	9,323	(11,112)
Financial liabilities classified as held for trading:			
- Net derivatives contracts(1)			
- Equity	16,350	4,188	(2,817)
Financial liabilities designated at fair value through profit or loss:			
- Issued structured notes	243,330	13,511	(13,929)

31 December 2009	Fair value €'000	Effect of reasonably possible alternative assumptions: Increase in fair value €'000	Decrease in fair value €'000
Financial assets classified as held for trading:			
- Net derivatives contracts[1]			
- Credit	1,150	1,700	(900)
- Equity	256	300	(200)
Financial assets designated at fair value through profit or loss:			
- Prepaid equity securities contracts	72,488	-	(400)
Financial liabilities designated at fair value through profit or loss:			
- Issued structured notes	112,070	2,000	(1,500)

(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.

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Six months ended 30 June 2010

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

Signed on behalf of the Board

Directors

A.J.S. Crawford	P.W. Banks	R.H.L. de Groot	H. Herrmann	H.K.A. Lee
P.J.G. de Reus	J.A. Solan	TMF Management B.V.		

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INDEPENDENT REVIEW REPORT TO THE MEMBERS OF MORGAN STANLEY B.V.

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To the shareholders of
Morgan Stanley B.V.
Amsterdam

Date	Reference
August 31, 2010	3100054184/OP9979/ak

Review report

Introduction

We have reviewed the accompanying (condensed) company interim financial information for the six month period ended June 30, 2010, of Morgan Stanley B.V., Amsterdam, which comprises the condensed statement of comprehensive income for the 6 months' period ended June 30, 2010, the condensed statement of changes in equity, the condensed statement of financial position as per June 30, 2010 and the condensed statement of cash flows. Management is responsible for the preparation and presentation of this (condensed) company 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 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) company interim financial information as at June 30, 2010 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

Deloitte Accountants B.V.

W.H.E. van Ommeren