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The Netherlands

MORGAN STANLEY B.V.

Report and financial statements

31 December 2010

MORGAN STANLEY B.V.

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MORGAN STANLEY B.V.

DIRECTORS' REPORT

The Directors present their report and financial statements (which comprise the statement of comprehensive income, statement of changes in equity, statement of financial position, statement of cash flows and the related notes, 1 to 18) for Morgan Stanley B.V. (the "Company") for the year ended 31 December 2010.

RESULTS AND DIVIDENDS

The profit for the year, after tax, was €1,638,000 (2009: €1,539,000 profit after tax).

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

PRINCIPAL ACTIVITY

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

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

FUTURE OUTLOOK

There have not been any significant changes in the Company's principal activity in the year under review and no significant change in the Company's principal activity is expected.

BUSINESS REVIEW

In the prior period, the Company changed its accounting reference date from 30 November to 31 December. The comparative figures are for the thirteen month period to 31 December 2009 and are therefore not entirely comparable with the amounts for the current year.

The statement of comprehensive income for the year is set out on page 6. The Company made a profit before income tax of €2,188,000 in the year, an increase of €143,000 or 7% on the prior period. This increase is primarily attributed to a higher level of certain structured note issuances in the year on which management charges are received from other Morgan Stanley Group undertakings, partially offset by a reduction in net interest income earned. As structured notes issuances are fully hedged, the Company's net losses from these financial instruments are fully offset by the net gains from the hedge instruments held in both the current year and prior period. During the year, the average level of structured notes, designated loans and prepaid equity securities contracts in issue were significantly lower than the previous period. Similarly, the average level of net derivative contracts in issue was also lower than the previous period. This is reflected in the level of related gains and losses in the statement of comprehensive income.

The statement of financial position for the Company is set out on page 8. The Company's financial position at the end of the year shows that the total assets were €5,494,136,000 an increase of €2,593,284,000 or 89% from the prior period end. The Company's financial position is primarily driven by the level of structured note issuances and the fair value of those structured notes in issuance which have increased by €2,360,536,000 from 31 December 2009. This increase has driven a corresponding €2,174,722,000 increase in hedging instruments which are designated at fair value and a €166,421,000 increase in hedging instruments which are classified as held for trading.

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

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DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Current market conditions

During 2010, economic conditions have remained challenging. These conditions present difficulties and uncertainty for the business outlook which may adversely impact the financial performance of the Company in the future.

During the year ended 31 December 2010, Morgan Stanley has continued 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. In August 2010, the Morgan Stanley Group strengthened its capital position by converting \$5.6 billion of subordinated debentures issued to China Investment Corporation Limited into \$5.6 billion of equity shares. Throughout the year, the Morgan Stanley Group has been focussed on the composition of its funding liabilities, reducing reliance on short term funding in favour of more diverse and durable funding sources. This remains an ongoing objective of the Morgan Stanley Group.

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

Risk Management

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

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.

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DIRECTORS' REPORT

BUSINESS REVIEW (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 Company's and the Morgan Stanley Group's business strategies while ensuring ongoing and sufficient liquidity through the business cycle and during periods of stressed market conditions.

Operational risk

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

The Company's business is highly dependent on the ability to process, on a daily basis, a large number of transactions across numerous and diverse markets in many currencies. In general, the transactions processed are increasingly complex. The Company relies on the ability of its 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.

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DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

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

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

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

Legal and regulatory risk

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

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.

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DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Significant changes in the way that major financial services institutions are regulated are occurring in 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.

DIRECTORS

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

J Y Bahurel	(resigned 2 July 2010)
P W Banks	(appointed 7 July 2010, resigned 25 March 2011)
A J S Crawford	(resigned 18 January 2011)
R H L de Groot	(appointed 1 July 2010)
H Herrmann	
H K A Lee	(appointed 7 July 2010, resigned 15 April 2011)
P J G de Reus	(appointed 1 July 2010)
J A Solan	
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. The Morgan Stanley Group has an audit committee that complies with the international corporate governance rules. The Company has therefore taken the exemption for groups and has not established an audit committee.

MORGAN STANLEY B.V.

DIRECTORS' REPORT

AUDITORS

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

Approved by the Board and signed on its behalf by

R H L de Groot

H Herrmann

P J G de Reus

J A Solan

TMF Management B.V.

MORGAN STANLEY B.V.

DIRECTORS' RESPONSIBILITY STATEMENT

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

- the financial statements, which have been prepared in accordance with IFRS as issued by the IASB and as endorsed by the EU, have been prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the management report represented by the Directors' report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that the Company faces.

Approved by the Board and signed on its behalf by

R H L de Groot

H Herrmann

P J G de Reus

J A Solan

TMF Management B.V.

MORGAN STANLEY B.V.

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2010

	Year ended 31 December	1 December 2008 to 31 December
Note	2010 €'000	2009 €'000
Net gains/(losses) on financial instruments classified as held for trading	96,857	(204,013)
Net (losses)/gains on financial instruments designated at fair value through profit or loss	(96,857)	204,013
Interest income	4 667	1,150
Interest expense	4 (122)	(332)
Other income	5 1,736	1,294
Other expense	6 (93)	(67)
PROFIT BEFORE INCOME TAX	<hr/> 2,188	<hr/> 2,045
Income tax expense	7 (550)	(506)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	<hr/> <hr/> 1,638	<hr/> <hr/> 1,539

All operations were continuing in the current year and prior period.

The notes on pages 12 to 43 form an integral part of the financial statements.

MORGAN STANLEY B.V.

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2010

	Share capital €'000	Retained earnings €'000	Total equity €'000
Balance at 1 December 2008	15,018	9,998	25,016
Profit and total comprehensive income for the period	-	1,539	1,539
Balance at 31 December 2009	<u>15,018</u>	<u>11,537</u>	<u>26,555</u>
Profit and total comprehensive income for the year	-	1,638	1,638
Balance at 31 December 2010	<u>15,018</u>	<u>13,175</u>	<u>28,193</u>

The notes on pages 12 to 43 form an integral part of the financial statements.

MORGAN STANLEY B.V.

Registered Number: 34161590

**STATEMENT OF FINANCIAL POSITION
As at 31 December 2010
(Including Proposed Appropriation of Results)**

	Note	2010 €'000	2009 €'000
ASSETS			
Loans and receivables:			
Cash at bank		1,035	6,596
Trade receivables		94,979	10,659
Other receivables	18	27,648	33,960
		<u>123,662</u>	<u>51,215</u>
Financial assets classified as held for trading	8	377,004	30,958
Financial assets designated at fair value through profit or loss	9	4,993,401	2,818,679
Current tax		69	-
TOTAL ASSETS		<u><u>5,494,136</u></u>	<u><u>2,900,852</u></u>
LIABILITIES AND EQUITY			
Financial liabilities at amortised cost:			
Trade payables		81,276	18,300
Other payables	18	1,228	12,565
		<u>82,504</u>	<u>30,865</u>
Financial liabilities classified as held for trading	8	179,625	-
Financial liabilities designated at fair value through profit or loss	9	5,203,814	2,843,278
Current tax		-	154
TOTAL LIABILITIES		<u><u>5,465,943</u></u>	<u><u>2,874,297</u></u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Share capital	10	15,018	15,018
Retained earnings		13,175	11,537
TOTAL EQUITY		<u><u>28,193</u></u>	<u><u>26,555</u></u>
TOTAL LIABILITIES AND EQUITY		<u><u>5,494,136</u></u>	<u><u>2,900,852</u></u>

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

Signed on behalf of the Board on *21 April 2011*

R H L de Groot H Herrmann

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

The notes on pages 12 to 43 form an integral part of the financial statements.

MORGAN STANLEY B.V.

STATEMENT OF CASH FLOWS
Year ended 31 December 2010

	Year ended 31 December 2010 €'000	1 December 2008 to 31 December 2009 €'000
OPERATING ACTIVITIES		
Profit for the year/period	1,638	1,539
<i>Adjustments for:</i>		
Interest income	(667)	(1,150)
Interest expense	122	332
Income tax expense	550	506
Profit before changes in operating assets and liabilities	<u>1,643</u>	<u>1,227</u>
Changes in operating assets		
(Increase)/ decrease in loans and receivables, excluding cash at bank	(77,427)	7,366
Increase in financial assets classified as held for trading	(346,046)	(26,657)
Increase in financial assets designated at fair value through profit or loss	<u>(2,174,722)</u>	<u>(723,667)</u>
	<u>(2,598,195)</u>	<u>(742,958)</u>
Changes in operating liabilities		
Increase in financial liabilities at amortised cost	51,517	27,640
Increase/ (decrease) in financial liabilities classified as held for trading	170,855	(317,337)
Increase in financial liabilities designated at fair value through profit or loss	<u>2,369,306</u>	<u>1,037,226</u>
	<u>2,591,678</u>	<u>747,529</u>
Interest received	86	84
Income taxes paid	(773)	(545)
	<u>(687)</u>	<u>(461)</u>
NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES	<u>(5,561)</u>	<u>5,337</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(5,561)	5,337
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/PERIOD	<u>6,596</u>	<u>1,259</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD	<u><u>1,035</u></u>	<u><u>6,596</u></u>

The notes on pages 12 to 43 form an integral part of the financial statements.

MORGAN STANLEY B.V.

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

1. CORPORATE INFORMATION

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

Locatellikade 1, Parnassustoren, 1076 AZ, Amsterdam, The Netherlands.

The Company is engaged in the issuance of financial instruments and the hedging of obligations pursuant to such issuances.

2. BASIS OF PREPARATION

Statement of compliance

The Company has prepared its financial statements in accordance with IFRS issued by the IASB as adopted by the EU, Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and Dutch law. The primary financial statements in this document are presented in accordance with IAS 1 '*Presentation of Financial Statements*'.

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

In the prior period, the Company changed its accounting reference date from 30 November to 31 December to align with the changed year end of its ultimate parent undertaking, Morgan Stanley. The change resulted in the Company reporting a period of thirteen months to 31 December 2009. The comparative figures reflected in these financial statements are for the thirteen month period to 31 December 2009 as previously reported and therefore are not entirely comparable with amounts shown for the current year.

New standards adopted during the year

As part of the April 2009 Annual Improvements to IFRS, the 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*', IAS 36 '*Impairment of Assets*', 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. These amendments were adopted during the year and did not have a material impact on the Company's financial statements.

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

New standards not yet adopted

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

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.

MORGAN STANLEY B.V.

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

2. BASIS OF PREPARATION (CONTINUED)

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

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

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

Basis of measurement

The financial statements of the Company are prepared under the historical cost convention modified by the inclusion of certain financial instruments at fair value.

Use of estimates and sources of uncertainty

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

3. SUMMARY OF ACCOUNTING POLICIES

a. Functional currency

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

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

b. Foreign currencies

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

MORGAN STANLEY B.V.

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments

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

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

More information regarding these classifications is included below:

i) Financial instruments classified as held for trading

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

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

The Company has designated certain financial assets and financial liabilities at fair value through profit or loss when:

- the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis; or
- the financial asset or financial liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

iii) Loans and receivables and financial liabilities at amortised cost

Financial assets classified as loans and receivables are initially recognised on settlement date at fair value and subsequently measured at amortised cost less allowance for impairment. Interest is recognised in 'Interest income' in the statement of comprehensive income, using the effective interest method. Transaction costs that are directly attributable to the acquisition of the financial asset are added to or deducted from the fair value on initial recognition.

MORGAN STANLEY B.V.

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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

Financial liabilities held at amortised cost are initially recognised on settlement date at fair value and subsequently measured at amortised cost. Interest is recognised in the statement of comprehensive income in 'Interest expense' using the effective interest method as described above. Transaction costs that are directly attributable to the issue of the financial liability are added to or deducted from the fair value on initial recognition.

d. Fair value of financial instruments

Fair value measurement

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

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

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

The Company uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. In addition, a downturn in market conditions could lead to further declines in the valuation of many instruments.

MORGAN STANLEY B.V.

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Valuation techniques

Fair value for many cash and over-the-counter ("OTC") contracts is derived using pricing models. Pricing models take into account the contract terms (including maturity), as well as multiple inputs including, where applicable, equity prices, interest rate yield curves, credit curves, correlation, creditworthiness of the counterparty, option volatility and currency rates. Where appropriate, valuation adjustments are made to account for various factors such as liquidity risk (bid-ask adjustments), credit quality, and model uncertainty. Credit valuation adjustments are applied to both cash instruments and OTC derivatives. For cash instruments, the impact of changes in own credit spreads is considered when measuring the fair value of liabilities and the impact of changes in the counterparty's credit spreads is considered when measuring the fair value of assets. For OTC derivatives, the impact of changes in both the Company's and the counterparty's credit standing is considered when measuring fair value. In determining the expected exposure, the Company considers collateral held and legally enforceable master netting agreements that mitigate the Company's exposure to each counterparty. All valuation adjustments are subject to judgement, are applied on a consistent basis and are based upon observable inputs where available. The Company generally subjects all valuations and models to a review process initially and on a periodic basis thereafter.

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

Gains and losses on inception

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

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

e. Impairment of financial assets

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

f. Recognition of financial assets received as collateral

The Company does not recognise financial assets pledged to the Company as collateral unless the Company is exposed to the risks and rewards associated with ownership of those assets.

MORGAN STANLEY B.V.

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

3. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

g. Income tax

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

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

Current tax assets are offset against current tax liabilities when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and current tax liabilities on a net basis.

h. Cash and cash equivalents

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

i. Offsetting of financial assets and financial liabilities

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

4. INTEREST INCOME AND INTEREST EXPENSE

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

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

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

5. OTHER INCOME

	Year ended 31 December 2010 €'000	1 December 2008 to 31 December 2009 €'000
Management charges to other Morgan Stanley Group undertakings	1,736	1,294

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NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2010

6. OTHER EXPENSE

	Year ended 31 December 2010 €'000	1 December 2008 to 31 December 2009 €'000
Auditors remuneration:		
Audit fees:		
Audit of the Company's financial statements	84	67
Foreign exchange losses	9	-
	<u>93</u>	<u>67</u>

7. INCOME TAX EXPENSE

	Year ended 31 December 2010 €'000	1 December 2008 to 31 December 2009 €'000
Current year/period	558	521
Adjustments in respect of prior periods	(8)	(15)
	<u>550</u>	<u>506</u>

MORGAN STANLEY B.V.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

7. INCOME TAX EXPENSE (CONTINUED)

Reconciliation of effective tax rate

The current year income tax expense is lower than that resulting from applying the standard rate of corporation tax in the Netherlands of 25.5% (2009: 25.5%). The main differences are explained below:

	Year ended 31 December 2010 €'000	1 December 2008 to 31 December 2009 €'000
Profit before income tax	2,188	2,045
Income tax using the standard rate of corporation tax in the Netherlands of 25.5% (2009: 25.5%)	558	521
Impact on tax of:		
Tax over provided in prior periods	(8)	(15)
Total income tax expense in the statement of comprehensive income	550	506

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

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

	2010		2009	
	Assets €'000	Liabilities €'000	Assets €'000	Liabilities €'000
Derivatives	377,004	179,625	30,958	-

MORGAN STANLEY B.V.

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

9. 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 or credit-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. These financial instruments, 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.

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

	2010		2009	
	Assets €'000	Liabilities €'000	Assets €'000	Liabilities €'000
Issued structured notes	-	5,203,814	-	2,843,278
Prepaid equity securities contracts	1,370,462	-	708,046	-
Designated loans	3,622,939	-	2,110,633	-
	<u>4,993,401</u>	<u>5,203,814</u>	<u>2,818,679</u>	<u>2,843,278</u>

MORGAN STANLEY B.V.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2010

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

During the year, the Company made changes to the fair value pricing methodology of certain of its financial instruments measured at fair value. These changes have resulted in a different estimate of the exit price of certain financial liabilities designated at fair value, and their related assets, 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 resulted in an increase of approximately €74,315,000 in the fair value estimate recognised on the statement of financial position in respect of financial liabilities designated at fair value and of the related assets as at 31 December 2010.

The change in fair value of issued structured notes recognised through the statements of comprehensive income attributable to own credit risk is a loss of €34,301,000 (2009: loss of €92,227,000) and cumulatively is a gain of €29,983,000 (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 statement of comprehensive income attributable to changes in credit risk is a gain of €47,685,000 (2009: gain of €108,011,000) and cumulatively is a loss of €17,301,000 (2009: loss of €64,986,000).

The change in fair value attributable to credit risk for the period is offset by a net loss of €13,384,000 (2009: loss of €15,784,000) and cumulatively is a net loss of €12,682,000 (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 €167,802,000 lower than the contractual amount due at maturity (2009: €37,825,000 lower).

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NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2010

10. EQUITY

Ordinary share capital

**Ordinary shares of
€100 each
Number**

Authorised

At 1 December 2008 , 31 December 2009 and 31 December 2010

400,000

**Ordinary shares of
€100 each
€'000**

Issued and fully paid

At 1 December 2008 , 31 December 2009 and 31 December 2010

15,018

At 31 December 2010, the total issued share capital equated to €15,018,000 (2009: €15,018,000) comprising 150,180 ordinary shares of €100 each. All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Reserves

The Company uses the risk-mirroring contracts that it purchases from other Morgan Stanley Group undertakings to match 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. Both the risk mirroring contracts and the structured note issuances are valued at fair value through profit or loss. As such, the Company is not exposed to any market risk on these financial instruments. The changes in fair value of the structured note issuances are fully hedged by the changes in fair value of the risk mirroring contracts. Therefore, a legal revaluation reserve under Part 9, Book 2 of the Dutch Civil Code (BW 2, article 390(1)) is not necessary.

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NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2010

11. EXPECTED MATURITY OF ASSETS AND LIABILITIES

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

At 31 December 2010	Less than twelve months €'000	Equal to or more than twelve months €'000	Total €'000
ASSETS			
Loans and receivables:			
Cash at bank	1,035	-	1,035
Trade receivables	94,979	-	94,979
Other receivables	27,648	-	27,648
	<u>123,662</u>	<u>-</u>	<u>123,662</u>
Financial assets classified as held for trading	212,806	164,198	377,004
Financial assets designated at fair value through profit or loss	2,578,466	2,414,935	4,993,401
Current tax	69	-	69
	<u>2,915,003</u>	<u>2,579,133</u>	<u>5,494,136</u>
LIABILITIES			
Financial liabilities at amortised cost:			
Trade payables	81,276	-	81,276
Other payables	1,228	-	1,228
	<u>82,504</u>	<u>-</u>	<u>82,504</u>
Financial liabilities classified as held for trading	122,279	57,346	179,625
Financial liabilities designated at fair value through profit or loss	2,682,027	2,521,787	5,203,814
	<u>2,886,810</u>	<u>2,579,133</u>	<u>5,465,943</u>

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NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2010

11 EXPECTED MATURITY OF ASSETS AND LIABILITIES (CONTINUED)

At 31 December 2009

	Less than twelve months €'000	Equal to or more than twelve months €'000	Total €'000
ASSETS			
Loans and receivables:			
Cash at bank	6,596	-	6,596
Trade receivables	10,659	-	10,659
Other receivables	33,960	-	33,960
	51,215	-	51,215
Financial assets classified as held for trading	27,534	3,424	30,958
Financial assets designated at fair value through profit or loss	1,992,310	826,369	2,818,679
	2,071,059	829,793	2,900,852
LIABILITIES			
Financial liabilities at amortised cost:			
Trade payables	18,300	-	18,300
Other payables	12,565	-	12,565
	30,865	-	30,865
Financial liabilities designated at fair value through profit or loss	2,013,485	829,793	2,843,278
Current tax	154	-	154
	2,044,504	829,793	2,874,297

None of the Company's assets and liabilities are expected to be recovered or settled more than twelve months after the reporting period (2009: none).

12. 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 the business segments are on normal commercial terms and conditions.

MORGAN STANLEY B.V.

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

12. SEGMENT REPORTING (CONTINUED)

Business segments

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

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

Geographical segments

The Company operates in three geographic regions as listed below:

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

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

	EMEA		Americas		Asia		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
External revenues net of interest	1,882	1,641	75	-	324	471	2,281	2,112
Profit before income tax	1,805	1,588	72	-	311	457	2,188	2,045
Total assets	3,891,868	2,272,294	612,945	114,648	989,323	513,910	5,494,136	2,900,852

Of the Company's external revenue, 96% (2009: 98%) arises from transactions with other Morgan Stanley Group undertakings. Further details of such transactions are disclosed in the related party disclosures note (note 18).

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NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

13. 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 under a Note Programme 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 undertakings.

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 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.

Exposure to credit risk

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

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

At 31 December 2010 there were no financial assets past due but not impaired or individually impaired (2009: None).

MORGAN STANLEY B.V.

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

13. 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 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 financial liabilities with financial assets entered into with other Morgan Stanley Group undertakings, where both the Company and 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 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's target liquidity profile.

Contingency Funding Plan. CFP is the Morgan Stanley Group's primary liquidity risk management tool. The CFP outlines the Company's response to liquidity stress in the markets and incorporates stress testing to identify potential liquidity risk. Liquidity stress tests model multiple scenarios related to idiosyncratic, systemic or a combination of both types of events, across various time horizons. Based on the results of stress testing, the CFP sets forth a course of action to effectively manage through a stressed 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 and Capital 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 they were unable to access adequate financing to service their financial liabilities when they become payable.

MORGAN STANLEY B.V.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Morgan Stanley Group's and the Company's CFP model incorporates a number of assumptions including, but 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) discretionary unsecured debt buybacks; (vii) drawdowns on unfunded commitments provided to third parties; (viii) client cash withdrawals (ix) limited access to the foreign exchange swap markets (x) return of securities borrowed on an uncollateralized basis; and (xi) maturity roll-off of outstanding letters of credit with no further issuance.

Global liquidity reserve. The Morgan Stanley Group seeks to maintain a target liquidity reserve ("the global liquidity reserve") that is sized to cover daily funding needs and meet strategic liquidity targets as outlined in CFP. 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 cash and cash equivalents, central bank eligible unencumbered securities that are owned outright or have been reversed or borrowed primarily on an overnight basis (predominantly consisting of U.S. and European government bonds and U.S. agency and agency mortgage-backed securities). The Morgan Stanley Group's funding requirements and target liquidity reserves may vary based on changes to the level and composition of its balance sheet, timing of specific transactions, client financing activity, market conditions and seasonal factors.

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 US, European and Asian markets, targeting global investors and currencies such as US dollar, Euro, British pound, Australian dollar and Japanese Yen.

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 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 FINANCIAL STATEMENTS
Year ended 31 December 2010

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Maturity analysis

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

	On demand €'000	In 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 2010						
Financial assets						
Loans and receivables:						
Cash at bank	1,035	-	-	-	-	1,035
Trade receivables	94,979	-	-	-	-	94,979
Other receivables	27,648	-	-	-	-	27,648
Financial assets classified as held for trading:						
Derivatives	190,619	129,452	21,029	28,908	6,996	377,004
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	1,051,998	145,350	14,396	93,344	65,374	1,370,462
Designated loans	2,862,641	288,815	85,781	308,211	77,491	3,622,939
Total financial assets	4,228,920	563,617	121,206	430,463	149,861	5,494,067
Financial liabilities						
Financial liabilities at amortised cost:						
Trade payables	81,276	-	-	-	-	81,276
Other payables	1,228	-	-	-	-	1,228
Financial liabilities classified as held for trading:						
Derivatives	158	123,290	31,894	8,928	15,355	179,625
Financial liabilities designated at fair value through profit or loss:						
Issued structured notes	4,118,134	440,327	89,312	421,535	134,506	5,203,814
Total financial liabilities	4,200,796	563,617	121,206	430,463	149,861	5,465,943

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NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2010

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

	On demand €'000	In 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 2009						
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 assets 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	<u>1,446,513</u>	<u>278,250</u>	<u>113,666</u>	<u>235,114</u>	<u>37,090</u>	<u>2,110,633</u>
Total financial assets	<u><u>1,857,268</u></u>	<u><u>443,330</u></u>	<u><u>202,245</u></u>	<u><u>277,829</u></u>	<u><u>120,180</u></u>	<u><u>2,900,852</u></u>
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	<u>1,799,694</u>	<u>443,330</u>	<u>202,245</u>	<u>277,829</u>	<u>120,180</u>	<u>2,843,278</u>
Total financial liabilities	<u><u>1,830,559</u></u>	<u><u>443,330</u></u>	<u><u>202,245</u></u>	<u><u>277,829</u></u>	<u><u>120,180</u></u>	<u><u>2,874,143</u></u>

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NOTES TO THE FINANCIAL STATEMENTS **Year ended 31 December 2010**

13. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk

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

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

To execute these responsibilities, the Morgan Stanley Group monitors the market risk of the firm against limits on aggregate risk exposures, performs a variety of risk analyses, routinely reports risk summaries and maintains the Value at Risk ("VaR") 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 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 undertakings to match the price, interest rate and foreign currency 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.

14. FINANCIAL ASSETS ACCEPTED AS COLLATERAL

The Company accepts financial assets as collateral which, dependent on the terms of the arrangement, the Company is allowed to sell or repledge. The financial assets accepted as collateral, which are all subsequently repledged are received in the form of bonds as part of a collateralisation agency agreement for certain issued structured notes and are mostly conducted under standard documentation used by financial market participants.

The fair value of collateral accepted under these arrangements as at 31 December 2010 was €nil (2009: €2,405,000). Of this amount €nil (2009: €2,405,000) has been sold or repledged to third parties.

MORGAN STANLEY B.V.

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

15. 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.

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 table presents the carrying value of the Company's financial assets and liabilities recognised at fair value, classified according to the fair value hierarchy described above:

MORGAN STANLEY B.V.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2010

15. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

31 December 2010

	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	-	299,443	77,561	377,004
Financial assets designated at fair value through profit or loss:				
Prepaid equity securities contracts	-	1,253,000	117,462	1,370,462
Designated loans	-	3,622,939	-	3,622,939
Total financial assets measured at fair value	-	5,175,382	195,023	5,370,405
Financial liabilities classified as held for trading:				
Derivatives		103,002	76,623	179,625
Financial liabilities designated at fair value through profit or loss:				
Issued structured notes	-	4,970,501	233,313	5,203,814
Total financial liabilities measured at fair value	-	5,073,503	309,936	5,383,439

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NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2010

15. FINANCIAL INSTRUMENTS MEASURED 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 unobservable inputs (Level 3) €'000	Total €'000
Financial assets classified as 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 measured 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 measured at fair value	-	2,731,208	112,070	2,843,278

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

Financial assets classified as held for trading

- *Derivatives*

OTC Derivative Contracts, 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 are widely accepted by the financial services industry. A substantial majority of OTC derivative products valued using pricing models fall into this category and are categorised in Level 2 of the fair value hierarchy. In instances where significant inputs are unobservable, they are categorised in Level 3 of the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2010

15. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

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 estimated 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. Issued structured notes and prepaid equity security contracts are generally 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.

• *Designated loans*

The fair value of loans to other Morgan Stanley Group undertakings 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.

b. Changes in Level 3 assets and liabilities measured 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 year ended 31 December 2010:

MORGAN STANLEY B.V.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2010

15. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

31 December 2010

	Balance at 1 January €'000	Total gains or (losses) recognised in other comprehensive income €'000	Purchases €'000	Issues €'000	Settlements €'000	Net transfers in and/or out of Level 3 (1) €'000	Balance 31 December €'000	Unrealised gains/ (losses) for level 3 assets /liabilities outstanding as at 31 December (2) €'000
Financial assets classified as held for trading:								
Net derivative contracts ⁽³⁾	1,406	3,217	-	-	8,140	(11,825)	938	3,217
Financial assets designated at fair value through profit or loss:								
Prepaid equity securities contracts	72,488	7,126	49,058	-	(22,116)	10,906	117,462	7,126
Total financial assets held at fair value	73,894	10,343	49,058	-	(13,976)	(919)	118,400	10,343
Financial liabilities designated at fair value through profit or loss:								
Issued structured notes	(112,070)	(6,935)	-	(142,479)	23,465	4,706	(233,313)	(6,935)
Total financial liabilities at fair value	(112,070)	(6,935)	-	(142,479)	23,465	4,706	(233,313)	(6,935)

(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 2010 related to assets and liabilities still outstanding at 31 December 2010. The unrealised gains or (losses) are recognised in the statement of comprehensive income as detailed in the financial instruments accounting policy (note 3c).

(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.

As disclosed in note 18, 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, the Company reclassified approximately €11,121,000 liability of net derivative contracts, €10,906,000 of prepaid equity securities contracts and €15,721,000 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.

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NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2010

15. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

During the year, the Company reclassified approximately €704,000 asset of net derivative contracts and €20,427,000 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 2009

	Balance at 1 December 2008 €'000	Total gains or (losses) recognised in other comprehensive income €'000	Purchases €'000	Sales €'000	Issues €'000	Settlements €'000	Net transfers in and / or out of Level 3 (1) €'000	Balance at 31 December 2009 €'000	Unrealised gains/ (losses) for level 3 assets /liabilities outstanding as at 31 December 2009 (2) €'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)
Total financial assets held at fair value	-	(74,557)	56,012	-	-	(2,248)	94,687	73,894	(74,557)
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 liabilities at fair value	(9,571)	72,678	-	-	(80,903)	20,010	(114,284)	(112,070)	72,678

(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 31 December 2009 related to assets and liabilities still outstanding at 31 December 2009. The unrealised gains or (losses) are recognised in the statement of comprehensive income as detailed in the financial instruments accounting policy (note 3c)

(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.

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NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

15. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

As disclosed in note 18, 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 2009, the Company reclassified approximately €5,462,000 of net derivative contracts, €100,149,000 of prepaid equity securities contracts and €114,284,000 of issued structured notes from Level 2 to Level 3. The reclassifications were due to a reduction in the volume of recently executed transactions 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/certain significant inputs for the fair value measurement becoming unobservable.

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 current year and prior period.

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 possible increase or decrease to fair value by varying the assumptions individually. It is unlikely that all unobservable parameters would be concurrently at the extreme range of possible alternative assumptions and therefore the sensitivity shown below is likely to be greater than the actual uncertainty relating to the financial instruments.

The following table presents the sensitivity of the fair value of Level 3 financial assets and financial liabilities as at 31 December 2010 to reasonably possible alternative assumptions.

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NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2010

15. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (CONTINUED)

31 December 2010	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 derivative contracts ⁽¹⁾			
Equity	938	8,156	6,177
Financial assets designated at fair value through profit or loss:			
Prepaid equity securities contracts	117,462	3,328	5,307
Financial liabilities designated at fair value through profit or loss:			
Issued structured notes	233,313	11,484	11,484
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 derivative 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 contract net of Financial liabilities classified as held for trading – derivative contracts

16. FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

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

MORGAN STANLEY B.V.

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

17. CAPITAL MANAGEMENT

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

The Morgan Stanley Group also uses an economic capital framework. The economic capital framework estimates the amount of equity capital required to support the businesses over a wide range of market environments while simultaneously satisfying regulatory, rating agency and investor requirements. The framework evolves over time in response to changes in the business and regulatory environment and to incorporate enhancements in modelling techniques. Economic capital is based on regulatory capital plus additional capital for stress losses.

The Morgan Stanley Group's objectives when managing global capital are:

- to comply with the capital requirements set by the Board of Governors of the Federal Reserve System of the United States, and
- to minimise capital within a legal entity whilst safeguarding that entity's ability to continue as a going concern, so that it can continue to provide returns for the Morgan Stanley Group.

The Morgan Stanley Group sets the amount of capital for each entity in proportion to its risk and in line with regulatory requirements.

The Company actively manages its capital structure and makes adjustments to it in the light of changing economic conditions and the risk characteristics of the underlying assets and liabilities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company manages the following items as capital:

	2010	2009
	€'000	€'000
Ordinary share capital	15,018	15,018
Reserves	13,175	11,537
	<u>28,193</u>	<u>26,555</u>

MORGAN STANLEY B.V.

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

18. RELATED PARTY DISCLOSURES

Parent and ultimate controlling entity

The Company's immediate parent undertaking is Morgan Stanley International Holdings Inc, which is registered in Delaware, the United States of America.

The ultimate parent undertaking and controlling entity and the largest group of which the Company is a member and for which group financial statements are prepared is Morgan Stanley. Morgan Stanley is incorporated in Delaware, the United States of America and copies of its financial statements can be obtained from 25 Cabot Square, Canary Wharf, London E14 4QA.

Key management compensation

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

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

	Year ended 2010 €'000	1 December 2008 to 31 December 2009 €'000
Short-term employee benefits	56	106
Post-employment benefits	1	18
Share-based payments	5	14
Other long-term employee benefits	2	6
Management fees	195	202
	<u>259</u>	<u>346</u>

Prior period short-term employee benefits have been restated to include employers' social security contributions from €99,000 to €106,000.

The share-based payment costs disclosed above reflect the amortisation of equity-based awards granted to key management in the current year and previous periods.

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

Transactions with related parties

The Morgan Stanley Group conducts business for clients globally through a combination of both functional and legal entity organisational structures. Accordingly, the Company is closely integrated with the operations of the Morgan Stanley Group and enters into transactions with other Morgan Stanley Group undertakings on an arm's length basis for the purposes of utilising financing and trading and risk management. The nature of these relationships along with information about the transactions and outstanding balances is given below. The Company has not recognised any expense and has made no provision for impairment relating to the amount of outstanding balances from related parties (2009: nil).

MORGAN STANLEY B.V.

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2010

18. RELATED PARTY DISCLOSURES (CONTINUED)

Funding

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

General funding is undated, unsecured, floating rate lending. Funding may be received or provided for specific transaction related funding requirements, or for general operational purposes. The interest rates are established by the Morgan Stanley Group Treasury function for all entities within the Morgan Stanley Group and approximate the market rate of interest that the Morgan Stanley Group incurs in funding its business.

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

	2010		2009	
	Interest €'000	Balance €'000	Interest €'000	Balance €'000
Amounts due from:				
Morgan Stanley Group undertakings	581	27,648	1,062	33,960
Amounts due to:				
Morgan Stanley Group undertakings	118	1,228	285	12,565

Trading and risk management

The Company issues structured notes and hedges the obligations arising from the issuance by entering into prepaid equity securities contracts, derivative contracts and designated loans with other Morgan Stanley Group undertakings. All such transactions are entered into on an arm's length basis. These transactions may give rise to credit risk either for the Company, or to a related party towards the Company. The total amounts receivable and payable on issued structured notes, prepaid equity securities contracts, derivative contracts and designated loans were as follows:

	2010 €'000	2009 €'000
Amounts due from:		
The Company's direct and indirect parent undertakings	-	2,112,867
Morgan Stanley Group undertakings	5,465,384	747,429
	<u>5,465,384</u>	<u>2,860,296</u>
Amounts due to:		
Morgan Stanley Group undertakings	3,327,119	1,647,147
	<u>3,327,119</u>	<u>1,647,147</u>

MORGAN STANLEY B.V.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2010

18. RELATED PARTY DISCLOSURES (CONTINUED)

In addition, the management and execution of business strategies on a global basis results in many Morgan Stanley transactions impacting a number of Morgan Stanley Group undertakings. The Morgan Stanley Group operates a number of intra-group policies to ensure that, where possible, revenues and related costs are matched. For the year ended 31 December 2010, a net gain of €1,736,000 was recognised in the statement of comprehensive income arising from such policies (2009: net gain of €1,294,000).

Infrastructure services

In the current year and prior period, the Company uses infrastructure services operated by other Morgan Stanley Group undertakings at no charge.

MORGAN STANLEY B.V.

ADDITIONAL INFORMATION
Year ended 31 December 2010

Independent auditors' report

The independent auditors' report is recorded on the next page.

Statutory rules concerning appropriation of the net result

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

Appropriation of the net result for the year

The balance sheet is presented after the proposed appropriation of net result for the year ended 31 December 2010. The directors propose to add profit to the statement of comprehensive income as part of the equity shareholders' funds.

Subsequent events

There have been no significant events since the balance sheet date.

Independent auditor's report

To the shareholders of Morgan Stanley B.V.

Report on the financial statements

We have audited the accompanying financial statements 2010 of Morgan Stanley B.V., Amsterdam, which comprise the statement of financial position as at December 31, 2010, the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes, comprising a summary of the significant accounting policies and other explanatory information.

Management's responsibility

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

Auditor's responsibility

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

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

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



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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Morgan Stanley B.V. as at December 31, 2010 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

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

Amsterdam, April 28, 2011

Deloitte Accountants B.V.

W.H.E. van Ommeren