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Registered Number: 34212273

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LANCASHIRE TRADING B.V.

Report and financial statements

31 December 2011

THURSDAY



A11UQC75

A25	04/10/2012	#17
COMPANIES HOUSE		
A51	20/09/2012	#201
COMPANIES HOUSE		

LANCASHIRE TRADING B.V.

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LANCASHIRE TRADING B.V.

DIRECTORS' REPORT

The Directors present their report and financial statements (which comprise the profit and loss account, the balance sheet, and the related notes, 1 to 13) for Lancashire Trading B V (the "Company") for the year ended 31 December 2011

RESULTS AND DIVIDENDS

The profit for the year, after tax, was £1,764,000 (2010 £1,826,000 profit after tax)

During the year no dividends were paid or proposed (2010 £nil)

PRINCIPAL ACTIVITY

The principal activity of the Company is to enter into financing transactions and investments

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

The Company was incorporated under Dutch law on 31 August 2004 and has its statutory seat in Amsterdam, The Netherlands The business office of the Company is at 25 Cabot Square, Canary Wharf, London, E14 4QA, United Kingdom

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

The profit and loss account for the year is set out on page 5 The Company's profit for the year has decreased by £62,000, a decrease of 3% over the prior year This movement is primarily attributed to a decrease in interest income from Morgan Stanley Group undertakings, due to a decrease in the average interest rate during the year

The balance sheet on page 6 of the financial statements shows that the Company's net assets at the end of the year were £81,578,000, an increase of 2% from the prior year This movement is primarily attributed to an increase in amounts due from Morgan Stanley Group undertakings as a result of interest accrued on intercompany loans

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

Current market conditions

During 2011 and 2012, economic conditions have remained challenging with concerns about the sovereign debt crisis in Europe, lack of robust economic recovery in the US and other developed markets and slowing economic growth in emerging markets These on-going conditions present difficulties and uncertainty for the business outlook which may adversely impact the financial performance of the Company in the future

Morgan Stanley has taken transformative steps during this extremely difficult environment, including the de-risking of the balance sheet and those related to capital and liquidity outlined below

LANCASHIRE TRADING B.V.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Current market conditions (continued)

Morgan Stanley continues to actively manage its capital and liquidity position to ensure adequate resources are available to support the activities of the Morgan Stanley Group, to enable the Morgan Stanley Group to withstand market stresses, and to meet regulatory stress testing requirements proposed by regulators globally. Throughout 2011, the Morgan Stanley Group has been focused 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.

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

During the latest Comprehensive Capital Analysis and Review performed by the Federal Reserve, Morgan Stanley Group exceeded the minimum capital ratio even under the most negative "stressed" scenario which reaffirms the improvements made in recent years to reduce risk and overhauling the quality and quantity of the capital base.

The rating agencies are continuing to monitor certain issuer specific factors that are important to the determination of credit ratings including governance, the level and quality of earnings, capital adequacy, funding and liquidity, risk appetite and management, asset quality, strategic direction, and business mix. Additionally, the agencies will look at other industry-wide factors such as regulatory or legislative changes, macro-economic environment, and perceived levels of government support. In June 2012, Moody's Investor's Service announced the conclusion of an industry-wide reassessment and revised ratings for 17 global capital markets banks, Morgan Stanley's revised long-term credit rating is Baa1.

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

Risk management

Risk is an inherent part of 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.

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.

LANCASHIRE TRADING B.V.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Liquidity and funding risk

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

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

Operational risk

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

The 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.

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.

LANCASHIRE TRADING B.V.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Legal and regulatory risk (continued)

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

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

Future outlook

Management do not expect the business activities of the Company to change in the foreseeable future and the Company will continue to enter into financing transactions and investments.

DIRECTORS

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

G Adams

A N Chrishan

S I Merry

R M Taylor (resigned 4 September 2012)

B J J Walker (resigned 4 September 2012)

POST BALANCE SHEET EVENTS

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

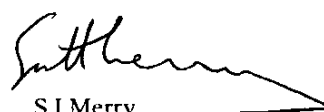
Approved by the Board and signed on its behalf by



G Adams
Director



A N Chrishan
Director



S I Merry
Director

13 SEPTEMBER 2012

LANCASHIRE TRADING B.V.

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Interest income	2	1,764	1,826
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>1,764</u>	<u>1,826</u>
Tax on profit on ordinary activities	4	-	-
PROFIT FOR THE FINANCIAL YEAR		<u><u>1,764</u></u>	<u><u>1,826</u></u>

All operations were continuing in the current and prior year

There were no recognised gains or losses during the current or prior year other than those disclosed above
Accordingly no statement of total recognised gains and losses has been prepared

A reconciliation of the movement in shareholders' funds is disclosed in note 7 to the financial statements

The notes on pages 7 to 16 form an integral part of the financial statements

LANCASHIRE TRADING B.V.

UK Registered number FC025521

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BALANCE SHEET**As at 31 December 2011**

(including proposed appropriation of the net results)

	Note	2011 £'000	2010 £'000
CURRENT ASSETS			
Loans and receivables			
- Debtors	5	81,578	79,814
NET ASSETS		<u>81,578</u>	<u>79,814</u>
CAPITAL AND RESERVES			
Called up share capital	6	37	38
Share premium account	7	200,004	200,004
Foreign currency revaluation reserve	7	(7)	(8)
Profit and loss account	7	(118,456)	(120,220)
SHAREHOLDERS' FUNDS		<u>81,578</u>	<u>79,814</u>

The notes on pages 7 to 16 form an integral part of the financial statements

LANCASHIRE TRADING B.V.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

1. ACCOUNTING POLICIES

The Company's principal accounting policies are summarised below and have been applied consistently throughout the year and preceding year

a) Basis of preparation

The financial statements are prepared under the historical cost convention, modified by the inclusion of financial instruments at fair value as described in note 1(f) below, and in accordance with applicable Netherlands Civil Code. The Company is incorporated under the Netherlands Civil Code, and the Netherlands Civil Code permits the use of United Kingdom generally accepted accounting practice in the preparation of accounts on the basis of the Company's international connections as stated in Article 362 1 of Book 2 of the Netherlands Civil Code.

The Company, having its statutory seat in Amsterdam, The Netherlands, currently operating from 25 Cabot Square, Canary Wharf, London, E14 4QA, England, enters into financing transactions and investments.

b) The going concern assumption

The Company's business activities, together with the factors likely to affect its future development, performance and position, are reflected in the Business Review section of the Directors' report on pages 1 to 3.

As set out in the Directors' report, the Company operates within the global liquidity management framework of the Morgan Stanley Group. Throughout the difficult market conditions, this framework has continued to provide sufficient liquidity to the Morgan Stanley Group and to the Company, and the Company's capital and liquidity position is satisfactory.

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

c) Functional currency

Items included in the financial statements are measured and presented in Pounds Sterling, 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 Pounds Sterling.

d) Foreign currencies

All monetary assets and liabilities denominated in currencies other than Pounds Sterling are translated into Pounds Sterling at the rates ruling at the balance sheet date. Transactions in currencies other than Pounds Sterling are recorded at the rates prevailing at the dates of the transactions. All translation differences are taken through the profit and loss account. Exchange differences recognised in the profit and loss account are presented in 'Other expense', except where noted in 1(e) below.

e) Financial instruments

The Company classifies its financial assets on initial recognition as loans and receivables.

Loans and receivables at amortised cost

Financial assets classified as loans and receivables are initially recognised on settlement date at fair value (see note 1(f) below) and subsequently measured at amortised cost less allowance for impairment. Interest is recognised in the profit and loss account in 'Interest income', using the effective interest rate method as described below. Transaction costs that are directly attributable to the acquisition of the financial asset are added to or deducted from the fair value on initial recognition. Impairment losses and reversals of impairment losses on financial assets classified as loans and receivables are recognised in the profit and loss account in 'Other expense'.

LANCASHIRE TRADING B.V.

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2011

1. ACCOUNTING POLICIES (CONTINUED)

e) Financial instruments (continued)

Loans and receivables at amortised cost (continued)

The effective interest rate method is a method of calculating the amortised cost of a financial asset or 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 financial liability (or, where appropriate a shorter period) to the carrying amount of the financial asset or financial 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.

f) Fair value of financial instruments

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 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).

g) Impairment of financial assets

At each balance sheet date, an assessment is made as to whether there is any objective evidence of impairment in the value of financial assets 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.

h) Taxation

UK corporation tax is provided at amounts expected to be paid / recovered using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Full provision has been made for deferred tax assets and liabilities arising from timing differences. Deferred tax is measured using the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Current tax assets are offset against current tax liabilities when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to 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. Deferred tax assets are offset against deferred tax liabilities to the extent that they relate to taxes levied by the same tax authority and arise in the same taxable entity.

i) Cash flow statement

The Company's ultimate parent undertaking produces consolidated financial statements in which the Company is included and which are publicly available. Accordingly, the Company, which is a wholly-owned subsidiary, has elected to avail itself of the exemption provided in Financial Reporting Standard ("FRS") 1 (Revised 1996) *Cash flow statements* and not present a cash flow statement.

LANCASHIRE TRADING B.V.

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2011

2. INTEREST INCOME

	2011 £'000	2010 £'000
Interest income from loans to Morgan Stanley Group undertakings	<u>1,764</u>	<u>1,826</u>

3. STAFF COSTS

The Company employed no staff during the year (2010 Nil)

The Directors did not receive any remuneration for their qualifying services to the Company during the year (2010 £Nil)

4. TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of charge in the year

	2011 £'000	2010 £'000
UK corporation tax at 26.49% (2010 28%)		
- Current year	-	-
Tax on profit on ordinary activities	<u>-</u>	<u>-</u>

Factors affecting the tax charge for the year

The current year UK taxation charge is lower than that resulting from applying the average standard UK corporation tax rate of 26.49% (2010 28%). The main differences are explained below

	2011 £'000	2010 £'000
Profit on ordinary activities before tax	<u>1,764</u>	<u>1,826</u>
Profit on ordinary activities multiplied by the average standard rate of corporation tax in the UK of 26.49% (2010 28%)	467	511
Effects of:		
Group relief received for nil consideration	(467)	(511)
Current tax charge for the year	<u>-</u>	<u>-</u>

Finance (No 2) Act 2010 enacted a 1% reduction in the UK corporation tax rate to 27% with effect from April 2011. Finance Act 2011 enacted a further 1% reduction in the rate of UK corporation tax to 26% from April 2011. The combined 2% reduction in the tax rate impacted the current tax charge in 2011.

Finance Act 2011 enacted an additional 1% reduction to the UK corporation tax rate to 25% with effect from April 2012. Finance Act 2012 increased the reduction by a further 1%. The combined 2% reduction in the tax rate to 24% from 1 April 2012 will impact the current tax charge in 2012.

LANCASHIRE TRADING B.V.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

5. DEBTORS

	2011 £'000	2010 £'000
Debtors classified within loans and receivables at amortised cost		
Amounts due from Morgan Stanley Group undertakings	81,578	79,814

6. CALLED UP SHARE CAPITAL

	2011 £'000	2010 £'000
Allotted and fully paid:		
Shares classified as equity		
20,000 Class A shares of €1 20 each	20	21
2,000,000 Class B shares of €0 01 each	17	17
	37	38

All ordinary shares are recorded at the rate of exchange ruling at the Balance Sheet date, being EUR 0 835600526 £1 on 31 December 2011 (2010 EUR 0 8567348 £1)

The Class A shares carry 120 votes each The Class B shares carry 1 vote each Neither class of shares are redeemable

7. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Called up share capital £'000	Share premium account £'000	Foreign currency revaluation reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2010	39	200,004	(9)	(122,046)	77,988
Profit for the year	-	-	-	1,826	1,826
Exchange movements on translation of shares	(1)	-	1	-	-
At 1 January 2011	38	200,004	(8)	(120,220)	79,814
Profit for the year	-	-	-	1,764	1,764
Exchange movement on translation of shares	(1)	-	1	-	-
At 31 December 2011	37	200,004	(7)	(118,456)	81,578

8. SEGMENTAL REPORTING

The Company has only one class of business as described in the Directors' report and operates in one geographic market, Europe, Middle East and Africa ("EMEA").

LANCASHIRE TRADING B.V.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

9. RELATED PARTY TRANSACTIONS

The Company is exempt from the requirement to disclose transactions with fellow wholly owned Morgan Stanley Group undertakings under paragraph 3(c) of FRS 8 *Related party disclosures*. There were no other related party transactions requiring disclosure.

10. PARENT UNDERTAKINGS

The ultimate parent undertaking and controlling entity and the largest and smallest 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.

The Company's immediate controlling party is Morgan Stanley Swallow Limited, which is registered in England and Wales. Copies of its financial statements can be obtained from the Registrar of Companies for England and Wales, Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ.

11. 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.

Significant risks faced by the Company resulting from its financing, investment and operating activities are set out below.

Credit risk

Credit risk refers to the risk of loss arising from a borrower or counterparty default.

The Morgan Stanley Group manages credit risk exposure on a global basis, but in consideration of each individual legal entity. The credit risk management policies and procedures of the Morgan Stanley Group include ensuring transparency of material credit risks, ensuring compliance with established limits, approving material extensions of credit and escalating risk concentrations to appropriate senior management. Credit risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to appropriate key management personnel of the Company.

The Company enters into all of its financial asset transactions with other Morgan Stanley Group companies, and both the Company and the other Morgan Stanley Group companies are wholly-owned subsidiaries of the same ultimate parent entity, Morgan Stanley. Accordingly, the Company is considered to be exposed to the credit risk 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 balance sheet.

The Company does not have any significant exposure arising from off-balance sheet items.

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 companies that have a higher credit rating to that of Morgan Stanley.

LANCASHIRE TRADING B.V.

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2011

11. FINANCIAL RISK MANAGEMENT (CONTINUED)

Exposure to credit risk by class

Class	Gross credit exposure	
	2011	2010
	£'000	£'000
Loans and receivables		
- Amounts due from Morgan Stanley Group undertakings	81,578	79,814

Maximum exposure to credit risk by credit rating (1)

Credit rating	Gross credit exposure	
	2011	2009
	£'000	£'000
A	81,578	79,814

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

At 31 December 2011 there were no financial assets past due but not impaired or individually impaired (2010 None)

Liquidity risk

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

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

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.

LANCASHIRE TRADING B.V.

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2011

11. FINANCIAL RISK MANAGEMENT (CONTINUED)

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. The Company is not considered a major subsidiary for the purposes of liquidity risk. However, the Company would have access to the cash or liquidity reserves held by Morgan Stanley in the unlikely event they were unable to access adequate financing to service their financial liabilities when they become payable.

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

LANCASHIRE TRADING B.V.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

11. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Morgan Stanley Group funds its balance sheet on a global basis through diverse sources which includes consideration of the funding risk of each legal entity. These sources may include the Morgan Stanley Group's equity capital, long-term debt, repurchase agreements, securities lending, deposits, commercial paper, letters of credit and lines of credit. The Morgan Stanley Group has active financing programs for both standard and structured products in the U S , European and Asian markets, targeting global investors and currencies such as U S dollar, Euro, British pound, Australian dollar and Japanese Yen.

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

Maturity analysis

In the following maturity analysis of financial assets, all amounts represent undiscounted cash flows receivable and payable by the Company arising from its financial assets to earliest contractual maturities as at 31 December 2011. Receipts of financial assets 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 those financial assets, presented in a way that is consistent with how the liquidity risk on these financial assets is managed by the Company.

	On demand	Total
31 December 2011	£'000	£'000
Financial assets		
Loans and receivables:		
Amount due from Morgan Stanley Group undertakings	81,578	81,578
Total financial assets	81,578	81,578

	On demand	Total
31 December 2010	£'000	£'000
Financial assets		
Loans and receivables:		
Amount due from Morgan Stanley Group undertakings	79,814	79,814
Total financial assets	79,814	79,814

LANCASHIRE TRADING B.V.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2011

11. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk

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 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 material risks identified to appropriate key management personnel of the Company.

Market risk is defined under FRS 29 as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company is exposed to interest rate risk under this definition.

Interest rate risk

Interest rate risk is defined under FRS 29 as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is primarily exposed to interest rate risk under this definition as a result of changes in the future cash flows of floating rate intercompany borrowing.

The application of a parallel shift in market interest rates of 50 basis points to these positions, with all other variables remaining constant, would result in an increase in pre-tax profit reported in the profit and loss account of the Company of approximately £408,000 (2010: £399,000).

12. FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

For all financial assets and financial liabilities not recognised 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.

13. 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 business 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 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.

LANCASHIRE TRADING B.V.

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2011

13. CAPITAL MANAGEMENT (CONTINUED)

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

	2011	2010
	£'000	£'000
Ordinary share capital	37	38
Share premium account	200,004	200,004
Foreign currency revaluation reserve	(7)	(8)
Profit and loss account	(118,456)	(120,220)
	<u>81,578</u>	<u>79,814</u>

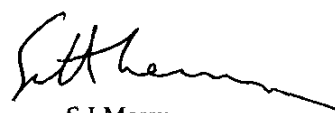
Signing of the financial statements

London, 13 September 2012

Management


G Adams


A N Chrishan


S I Merry

LANCASHIRE TRADING B.V.

ADDITIONAL INFORMATION

Year ended 31 December 2011

Statutory rules concerning appropriation of the net results

The Articles of Incorporation of the Company provide that the net result for the period 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 2011. Management propose to add the net result for the year to the profit and loss reserve. This proposal has been included in the financial statements

Subsequent events

No events have occurred since the balance sheet date, which would change the financial position of the Company and which would require adjustment of disclosure in the annual report now presented

Exempt from audit

Lancashire Trading B V qualifies as a small sized company according to Netherlands Civil Code which means it is exempted from auditing the financial statements. For this reason the financial statements do not include an audit report

OS AA01

Statement of details of parent law and other information for an overseas company



Companies House

☒ **What this form is for**
You may use this form to
accompany your accounts
disclosed under parent law

☐ **What this form is NOT**
You cannot use this form
an alteration of manner of
with accounting requirements

THURSDAY

31/10/2012 #15
COMPANIES HOUSE

Part 1 Corporate company name

Corporate name of overseas company ① LANCASHIRE TRADING B V

UK establishment number B R 0 0 7 8 1 9

→ **Filing in this form**
Please complete in typescript or in
bold black capitals

All fields are mandatory unless
specified or indicated by *

① This is the name of the company in
its home state

Part 2 Statement of details of parent law and other information for an overseas company

A1 Legislation

Please give the legislation under which the accounts have been prepared and,
if applicable, the legislation under which the accounts have been audited

Legislation ② Article 362 1 Netherlands Civil Code

② This means the relevant rules or
legislation which regulates the
preparation and, if applicable, the
audit of accounts.

A2 Accounting principles

Accounts Have the accounts been prepared in accordance with a set of generally accepted
accounting principles?

Please tick the appropriate box

☐ **No** Go to **Section A3**

☒ **Yes** Please enter the name of the organisation or other
body which issued those principles below, and then go to **Section A3**

Name of organisation or body ③ UK Financial Reporting Council

③ Please insert the name of the
appropriate accounting organisation
or body

A3 Accounts

Accounts Have the accounts been audited? Please tick the appropriate box

☒ **No** Go to **Section A5**

☐ **Yes** Go to **Section A4**

OS AA01

Statement of details of parent law and other information for an overseas company

A4

Audited accounts

Audited accounts	Have the accounts been audited in accordance with a set of generally accepted auditing standards? Please tick the appropriate box ☐ No Go to Part 3 'Signature' ☐ Yes Please enter the name of the organisation or other body which issued those standards below, and then go to Part 3 'Signature'	① Please insert the name of the appropriate accounting organisation or body
Name of organisation or body ①		

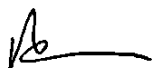
A5

Unaudited accounts

Unaudited accounts	Is the company required to have its accounts audited? Please tick the appropriate box ☒ No ☐ Yes	
--------------------	--	--

Part 3

Signature

	I am signing this form on behalf of the overseas company	
Signature	Signature X  X A. CURISHAW	
	This form may be signed by Director, Secretary, Permanent representative	

OS AA01

Statement of details of parent law and other information for an overseas company



Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

Contact name John Haile

Company name Morgan Stanley

Address 20 Bank Street

Canary Wharf

Post town London

County/Region

Postcode

E

1

4

4

A

D

Country United Kingdom

DX

Telephone 0207 677 2498



Checklist

We may return forms completed incorrectly or with information missing

Please make sure you have remembered the following

- ☐ The company name and, if appropriate, the registered number, match the information held on the public Register
- ☐ You have completed all sections of the form, if appropriate
- ☐ You have signed the form



Important information

Please note that all this information will appear on the public record



Where to send

You may return this form to any Companies House address.

England and Wales

The Registrar of Companies, Companies House,
Crown Way, Cardiff, Wales, CF14 3UZ
DX 33050 Cardiff

Scotland

The Registrar of Companies, Companies House,
Fourth floor, Edinburgh Quay 2,
139 Fountainbridge, Edinburgh, Scotland, EH3 9FF
DX ED235 Edinburgh 1
or LP - 4 Edinburgh 2 (Legal Post)

Northern Ireland

The Registrar of Companies, Companies House,
Second Floor, The Linenhall, 32-38 Linenhall Street,
Belfast, Northern Ireland, BT2 8BG
DX 481 N R Belfast 1



Further information

For further information, please see the guidance notes on the website at www.companieshouse.gov.uk or email enquiries@companieshouse.gov.uk

This form is available in an alternative format. Please visit the forms page on the website at www.companieshouse.gov.uk