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In accordance with
Regulation 32 of the
Overseas Companies
Regulations 2009

OS AA01

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


Companies House
for the record

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

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

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22/01/2014

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COMPANIES HOUSE

Part 1 Corporate company name

Corporate name of
overseas company ①

LANCASHIRE TRADING BV



If the company has already been registered in the UK, please enter the
establishment number below

UK establishment
number ②

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

② This should only be completed if
the company has already been
registered in the UK

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 ③

NETHERLANDS CIVIL CODE

③ 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 ④

UK ACCOUNTING STANDARDS BOARD

④ 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	NETHERLANDS AUDITING STANDARDS BOARD	

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	
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	PAUL BARTLETT
Company name	MORGAN STANLEY
Address	10TH FLOOR
	20 BANK STREET
	CANARY WHARF
Post town	LONDON
County/Region	
Postcode	E 1 4 4 A D
Country	UNITED KINGDOM
DX	
Telephone	+44 (0) 207 677 1802



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

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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

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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 NR Belfast 1



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UK Registered Number: FC025521

Registered Number: 34212273

Business Office
25 Cabot Square
Canary Wharf
London
E14 4QA

Registered office
Luna Arena
Herikerbergweg 238
1101 CM
Amsterdam Zuidoost
Netherlands

LANCASHIRE TRADING B.V.

Report and financial statements

31 December 2012



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 16) for Lancashire Trading B V (the "Company") for the year ended 31 December 2012

RESULTS AND DIVIDENDS

The profit for the year, after tax, was £2,180,000 (2011 £1,764,000 profit after tax)

During the year, a dividend of £1,900,000 was paid to the holders of the ordinary shares (2011 £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

During 2012 global market and economic conditions have remained challenging with continuing concerns about the European sovereign debt crisis, lack of robust economic recovery in the United States ("US") and other developed markets and slowing economic growth in emerging markets. These on-going conditions present difficulties and uncertainty for the business outlook that may adversely impact the financial performance of the Company in the future

The profit and loss account for the year is set out on page 5. The Company's profit for the year has increased by £416,000. This increase is primarily attributed to an increase in average interest rates 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 £81,858,000, which is in line with the prior year. This is principally due to the interest accruing on amounts due from other Morgan Stanley Group undertakings, partially offset by a dividend of £1,900,000 paid to the holders of ordinary shares.

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 further performance indicators for the Company itself would not enhance an understanding of the development, performance or position of the business of the Company.

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

LANCASHIRE TRADING B.V.

DIRECTORS' REPORT

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.

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.

Note 12 to the financial statements provides quantitative and qualitative disclosures about the Company's management and exposure to financial risks, including liquidity risk.

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.

Liquidity and capital resources

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

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

Morgan Stanley continues to actively manage its capital and liquidity position to ensure adequate resources are available to support the activities of the Morgan Stanley Group, including the Company, to enable the Morgan Stanley Group to withstand market stresses, and to meet regulatory stress testing requirements proposed by regulators globally. The Morgan Stanley Group uses Liquidity Stress Tests to model liquidity outflows across multiple scenarios over a range of time horizons. These scenarios contain various combinations of idiosyncratic and systemic stress events.

On 21 June 2012, Moody's Investor Services announced the conclusion of an industry-wide reassessment and revised ratings for 15 global capital markets banks. The Morgan Stanley Group's long- and short-term debt ratings were lowered two notches to Baa1/P-2 from A2/P-1, and a negative outlook was assigned.

LANCASHIRE TRADING B.V.

DIRECTORS' REPORT

Risk management (continued)

Liquidity and capital resources (continued)

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

Operational risk

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

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

Legal, regulatory and compliance risk

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

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

LANCASHIRE TRADING B.V.

DIRECTORS' REPORT

Risk management (continued)

Legal, regulatory and compliance risk (continued)

Significant changes in the way that major financial services institutions are regulated are occurring in the United Kingdom ("UK"), Europe, the US and worldwide. The reforms being discussed and, in some cases, already implemented, include several that contemplate comprehensive restructuring of the regulation of the financial services industry. Such measures will likely lead to stricter regulation of financial institutions generally, and heightened prudential requirements for systemically important firms in particular. Such measures could include 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. Changes in tax legislation in the UK and worldwide, such as taxation of financial transactions, liabilities and employees compensation, are also possible.

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)

G Adams	(resigned 27 March 2013)
A N Chrishan	(resigned 5 March 2013)
Y W Goddard	(appointed 28 March 2013)
S I Merry	

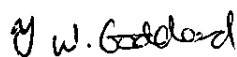
POST BALANCE SHEET EVENTS

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

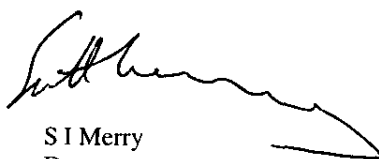
Approved by the Board and signed on its behalf by

London, 23 May 2013

Management



Y W Goddard
Director



S I Merry
Director

LANCASHIRE TRADING B.V.

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Interest income	2	2,182	1,764
Interest expense	3	(2)	-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		2,180	1,764
Tax on profit on ordinary activities	5	-	-
PROFIT FOR THE FINANCIAL YEAR		2,180	1,764

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 9 to the financial statements

The notes on pages 7 to 18 form an integral part of the financial statements

LANCASHIRE TRADING B.V.

UK Registered number FC025521

Registered number 34212273

BALANCE SHEET**As at 31 December 2012**

(including proposed appropriation of the net results)

	Note	2012 £'000	2011 £'000
CURRENT ASSETS			
Loans and receivables			
- Debtors	6	81,860	81,578
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Financial liabilities at amortised cost	7	(2)	-
NET CURRENT ASSETS		<u>81,858</u>	<u>81,578</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>81,858</u>	<u>81,578</u>
NET ASSETS		<u>81,858</u>	<u>81,578</u>
CAPITAL AND RESERVES			
Called up share capital	8	36	37
Share premium account	9	198,104	200,004
Currency revaluation reserve	9	(6)	(7)
Profit and loss account	9	(116,276)	(118,456)
SHAREHOLDERS' FUNDS		<u>81,858</u>	<u>81,578</u>

The notes on pages 7 to 18 form an integral part of the financial statements

LANCASHIRE TRADING B.V.

NOTES TO THE FINANCIAL STATEMENTS **Year ended 31 December 2012**

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(e) below, and in accordance with applicable Netherlands Civil Code and United Kingdom accounting standards. The Company is incorporated under the Netherlands Civil Code, and the Netherlands Civil Code permits the use of United Kingdom accounting standards 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 4. In addition, the notes to the financial statements include the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments, and its exposure to credit risk and liquidity risk.

As set out in the Directors' report, retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy and steps have been taken to strengthen the Morgan Stanley Group capital position and ensure that the Company's capital 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.

LANCASHIRE TRADING B.V.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2012

1. ACCOUNTING POLICIES (CONTINUED)

e) Financial instruments

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

The Company classifies its financial liabilities as financial liabilities at amortised cost on initial recognition

Loans and receivables and financial liabilities at amortised cost

Financial assets classified as loans and receivables are initially recognised on settlement date at fair value (see note 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'.

Financial liabilities held at amortised cost are initially recognised on settlement date at fair value (see note 1(f) below) and subsequently measured at amortised cost. Interest is recognised in the profit and loss account in 'Interest expense' using the effective interest rate method as described below. Transaction costs that are directly attributable to the issue of the financial liability are added to or deducted from the fair value on initial recognition.

The 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 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 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) Derecognition of financial assets and liabilities

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

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

LANCASHIRE TRADING B.V.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2012

1. ACCOUNTING POLICIES (CONTINUED)

h) 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.

Impairment losses on loans and receivables carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated cash flows discounted at the asset's original effective interest rate. Such impairment losses are recognised in the profit and loss account within 'Other expense' and are recognised against the carrying amount of the impaired asset on the balance sheet. Interest on the impaired asset continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset.

i) 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.

j) 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 FRS 1 (Revised 1996) *Cash flow statements* and not present a cash flow statement.

2. INTEREST INCOME

	2012 £'000	2011 £'000
Interest income from loans to Morgan Stanley Group undertakings	<u>2,182</u>	<u>1,764</u>

'Interest income' represents total interest income for financial assets that are not carried at fair value.

No other gains or losses have been recognised in respect of loans and receivables other than interest income as disclosed as 'Interest income' within the profit and loss account.

3. INTEREST EXPENSE

	2012 £'000	2011 £'000
Interest expense from loans to Morgan Stanley Group undertakings	<u>2</u>	<u>-</u>

'Interest expense' represents total interest expense for financial liabilities that are not carried at fair value.

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 profit and loss account.

LANCASHIRE TRADING B.V.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2012

4. STAFF COSTS

The Company employed no staff during the year (2011 Nil)

The Directors did not receive any remuneration for their qualifying services to the Company during the year (2011 £Nil)

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of charge in the year

	2012 £'000	2011 £'000
UK corporation tax at 24.50% (2011 26.49%)		
- Current year	-	-
Tax on profit on ordinary activities	-	-

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 24.50% (2011 26.49%). The main differences are explained below

	2012 £'000	2011 £'000
Profit on ordinary activities before tax	2,180	1,764
Profit on ordinary activities multiplied by the average standard rate of corporation tax in the UK of 24.50% (2011 26.49%)	534	467
Effects of:		
Group relief received for nil consideration	(534)	(467)
Current tax charge for the year	-	-

Finance Act 2011 enacted a 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 did not impact the current tax charge for 2012 as the Company received group relief for no cash consideration.

Finance Act 2012 also enacted an additional reduction of 1% in the UK corporation tax rate to 23% with effect from April 2013. This further reduction in the tax rate may impact the current tax charge in 2013.

LANCASHIRE TRADING B.V.

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2012

6. DEBTORS

	2012 £'000	2011 £'000
Debtors classified within loans and receivables at amortised cost		
Amounts due from Morgan Stanley Group undertakings	<u>81,860</u>	<u>81,578</u>

7. FINANCIAL LIABILITIES AT AMORTISED COST

	2012 £'000	2011 £'000
Financial liabilities at amortised cost falling due within one year		
Amounts owing to Morgan Stanley Group undertakings	<u>138</u>	<u>-</u>

8. CALLED UP SHARE CAPITAL

	2012 £'000	2011 £'000
Allotted and fully paid:		
Shares classified as equity		
20,000 Class A shares of €1 20 each	20	20
2,000,000 Class B shares of €0 01 each	<u>16</u>	<u>17</u>
	<u>36</u>	<u>37</u>

On 26 September 2012, a dividend of £1,036,000 was paid to the holders of the Class A shares and £864,000 to the holders of the Class B shares. Both dividends were paid from the share premium reserve.

All ordinary shares are recorded at the rate of exchange ruling at the Balance Sheet date, being EUR 0 8124577 £1 on 31 December 2012 (2011: EUR 0 835600526 £1).

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

LANCASHIRE TRADING B.V.

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2012

9. 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 2011	38	200,004	(8)	(120,220)	79,814
Profit for the year	-	-	-	1,764	1,764
Exchange movements on translation of shares	(1)	-	1	-	-
At 1 January 2012	37	200,004	(7)	(118,456)	81,578
Profit for the year	-	-	-	2,180	2,180
Dividends (note 9)	-	(1,900)	-	-	(1,900)
Exchange movement on translation of shares	(1)	-	1	-	-
At 31 December 2012	36	198,104	(6)	(116,276)	81,858

10. 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")

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 and investment activities are set out below.

Credit risk

Credit risk refers to the risk of loss arising from a borrower or counterparty does not meet its financial obligations.

The Morgan Stanley Group manages credit risk exposure on a global consolidated basis and in consideration of individual legal entities. The credit risk management policies and procedures of the Morgan Stanley Group 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.

LANCASHIRE TRADING B.V.

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2012

11. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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. 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.

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 has not entered into any credit enhancements to manage its exposure to credit risk.

The Company does not have any significant exposure arising from items not recognised on its balance sheet.

Exposure to credit risk by class

Class	Gross credit exposure	
	2012 £'000	2011 £'000
Loans and receivables		
Amounts due from Morgan Stanley Group undertakings	<u>81,860</u>	<u>81,578</u>

*Maximum exposure to credit risk by credit rating**

Credit rating	Gross credit exposure	
	2012 £'000	2011 £'000
A	<u>81,860</u>	<u>81,578</u>

*Internal credit rating derived using methodologies generally consistent with those used by external rating agencies

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

LANCASHIRE TRADING B.V.

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2012

11. 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.

Liquidity management policies

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

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

Liquidity Stress Tests Liquidity Stress Tests model liquidity outflows across multiple scenarios over a range of time horizons.

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

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

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

LANCASHIRE TRADING B.V.

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2012

11. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Liquidity Stress Tests (continued)

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

Global Liquidity Reserve The Morgan Stanley Group maintains sufficient liquidity reserves ("the Global Liquidity Reserve") to cover daily funding needs and meet strategic liquidity targets sized by the CFP and Liquidity Stress Tests. These liquidity targets are based on the Morgan Stanley Group's risk tolerance, balance sheet level and composition, subsidiary funding needs, and upcoming debt maturities, which are subject to change dependent on market and firm-specific events

The Global Liquidity Reserve, to which the Company has access, is held within Morgan Stanley and the Morgan Stanley Group's major operating subsidiaries and consists of highly liquid and diversified cash and cash equivalents and unencumbered securities (including US government securities, US agency securities, US agency mortgage-backed securities, Federal Deposit Insurance Corporation -guaranteed corporate debt and non-US government securities)

Funding management policies

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

The Morgan Stanley Group funds its 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, targeting global investors and currencies

In managing both the Morgan Stanley Group's and the Company's funding risk the composition and size of the entire balance sheet, 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 their business

Maturity analysis

In the following maturity analysis of financial assets and financial liabilities, all amounts represent 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 2012. Receipts 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 those 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

All financial assets and liabilities at 31 December 2012 and 31 December 2011 are classified as on demand

LANCASHIRE TRADING B.V.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2012

11. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk

Market risk is defined under FRS 29 *Financial instruments disclosures* as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices

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

To execute these responsibilities, the Morgan Stanley Group monitors the market risk of the firm against limits on aggregate risk exposures, performs a variety of risk analyses, routinely reports risk summaries and maintains the Value at Risk ("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

The Company is exposed to interest rate risk under this definition

Interest rate risk

Interest rate risk is defined under FRS 29 *Financial instruments disclosures* as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market 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 loans held at amortised cost

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 or decrease in pre-tax profit reported in the profit and loss account of the Company of approximately £409,000 (2011: £408,000). The shift in market interest rates of 50 basis points is applied to debtors less financial liabilities at amortised cost at 31 December 2012

12. 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

LANCASHIRE TRADING B.V.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2012

13. CAPITAL MANAGEMENT

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

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

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

The Morgan Stanley Group actively manages its consolidated capital position based upon, among other things, business opportunities, risks, capital availability and rates of return together with internal capital policies, regulatory requirements and rating agency guidelines and, therefore, in the future may expand or contract its capital base to address the changing needs of its businesses.

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

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

The Company manages the following items as capital:

	2012	2011
	£'000	£'000
Called up share capital	36	37
Share premium account	198,104	200,004
Currency revaluation reserve	(6)	(7)
Profit and loss account	116,276	118,456
	<u>81,858</u>	<u>81,578</u>

14. 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.

LANCASHIRE TRADING B.V.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012

15. 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 the state of Delaware, the United States of America and copies of its financial statements can be obtained from www.morganstanley.com/investorrelations

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, Mandy, Cardiff CF14 3UZ

Signing of the financial statements

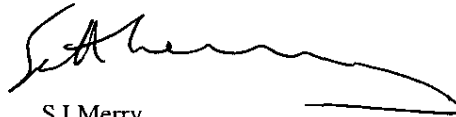
London

Management

23 May 2013



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LANCASHIRE TRADING B.V.

ADDITIONAL INFORMATION

Year ended 31 December 2012

Statutory rules concerning appropriation of the net results

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

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 2012. Management propose to add the net result for the year to other reserves. 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.