

Registered number: 04091663

Registered office:
20 Bank Street
Canary Wharf
London E14 4AD
United Kingdom

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

Report and financial statements

31 December 2016

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MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

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MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

STRATEGIC REPORT

The Directors present their Strategic report for Morgan Stanley Montgomerie Investments Limited (the "Company") for the year ended 31 December 2016.

PRINCIPAL ACTIVITY

The principal activity of the Company is to act as an intermediate holding company.

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".

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

On 23 June 2016, the United Kingdom ("UK") electorate voted to leave the European Union (the "EU"). It is difficult to predict the future of the UK's relationship with the EU, which uncertainty may increase the volatility in the global financial markets in the short- and medium-term. On 29 March 2017, the UK formally invoked Article 50 of the Lisbon Treaty, which triggered a two-year period, subject to extension, during which the UK government is expected to negotiate its withdrawal agreement with the EU. Absent any extension, the UK is expected to leave the EU in early 2019. The terms and conditions of the anticipated withdrawal from the EU, and which of the several alternative models of relationship that the UK might ultimately negotiate with the EU, remain uncertain. However, the UK government has stated that the UK will leave the EU single market and will seek a phased period of implementation for the new relationship that may cover the legal and regulatory framework applicable to financial institutions with significant operations in Europe, such as Morgan Stanley. Potential effects of the UK exit from the EU and potential mitigation actions may vary considerably depending on the timing of withdrawal and the nature of any transition or successor arrangements. Any future limitations on providing financial services into the EU from our UK operations could require us to make potentially significant changes to our operations in the UK and Europe and our legal structure there, which could have an adverse effect on our business and financial results.

Overview of 2016

The statement of comprehensive income for the Company is set out on page 8. The Company made a loss, after tax, of \$14,809,000 compared to a loss, after tax, in the prior year of \$15,094,000. There has been a \$641,000 increase in interest expense due to other Morgan Stanley Group undertakings, offset by a \$902,000 decrease in the corporation tax charge.

The statement of financial position of the Company is set out on page 10. The Company's total assets at the end of the year were \$620,442,000 compared to total assets of \$620,887,000 in the prior year. The decrease in total assets is driven by \$445,000 decrease in amounts due from other Morgan Stanley Group undertakings. Total liabilities increased by \$14,364,000 from \$675,283,000 at the end of prior year to \$689,647,000 at the end of current year. This increase was primarily attributable to interest expense accrued on amounts due to other Morgan Stanley Group undertakings offset by decrease in current tax liabilities during the year.

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 US 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.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

Risk management

Risk is an inherent part of the Company's business activity. The Company 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 has developed its own risk management policy framework, which leverages the risk management policies and procedures of the Morgan Stanley Group, and which include escalation to appropriate senior management personnel of the Company.

Credit risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company. Credit risk includes the risk that economic, social and political conditions and events in a foreign country will adversely affect an obligor's ability and willingness to fulfil their obligations.

Credit risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to appropriate senior management personnel.

Credit risk exposure is managed on a global basis and in consideration of each significant legal entity within the Morgan Stanley Group. The credit risk management policies and procedures establish the framework for identifying, measuring, monitoring and controlling credit risk whilst ensuring transparency of material credit risks, ensuring compliance with established limits and escalating risk concentrations to appropriate senior management.

Liquidity and funding risk

Liquidity and funding risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity and funding risk encompasses the risk that the Company's financial condition or overall soundness is adversely affected by an inability or perceived inability to meet its financial obligations in a timely manner. It also includes the associated funding risks triggered by the market or idiosyncratic stress events that may cause unexpected changes in funding needs or an inability to raise new funding.

The Morgan Stanley Group's senior management establishes the 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 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 and time horizons. The framework is designed to enable the Morgan Stanley Group to fulfil its financial obligations and support the execution of the Company's business strategies.

The Company continues to actively manage its capital and liquidity position to ensure adequate resources are available to support its activities, to enable it to withstand market stresses.

Operational risk

Operational risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes, people and systems, or from external events (e.g. fraud, theft, legal and compliance risks, cyber attacks or damage to physical assets). Operational risk relates to the following risk event categories as defined by Basel Capital Standards: internal fraud; external fraud, employment practices and workplace safety; clients, products and business practices; business disruption and system failure; damage to physical assets; and execution, delivery and process management. Legal, regulatory and compliance risk is discussed below under "Legal, regulatory and compliance risk".

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Legal, regulatory and compliance risk

Legal, regulatory and compliance risk includes the risk of legal or regulatory sanctions, material financial loss; including fines, penalties, judgements, damages and/ or settlements or loss to reputation the Company may suffer as a result of a failure to comply with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to our business activities. It also includes compliance with Anti-Money Laundering, anti-corruption and terrorist financing rules and regulations.

The Company, principally through the Morgan Stanley Group's Legal and Compliance Division, has established procedures based on legal and regulatory requirements on a worldwide basis that are designed to facilitate compliance with applicable statutory and regulatory requirements and to require that the Company's policies relating to business conduct, ethics and practices are followed globally.

Going concern

Retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy. Additionally, the Company has access to further Morgan Stanley Group capital and liquidity as required.

As described in the expected maturity of assets and liabilities note (note 13) during 2017 there was a change to the payment terms of certain assets and liabilities. From 31 August 2017 the Company has net liabilities payable within 12 months. The Company is performing in line with expectations and the net liabilities payable within 12 months are due to amounts owing to fellow Morgan Stanley Group undertakings within the next 12 months, the demand for repayment of which is wholly within the control of the Morgan Stanley Group and corporation tax liability the demand for payment of which is wholly supported by the Morgan Stanley Group.

Taking the above 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.

Approved by the Board and signed on its behalf by **EMILY LAINO**



26 SEPTEMBER 2017

Director

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

DIRECTORS' REPORT

The Directors present their report and financial statements (which comprise the statement of comprehensive income, the statement of changes in equity, the statement of financial position and the related notes, 1 to 15) for the Company for the year ended 31 December 2016.

RESULTS AND DIVIDENDS

The loss for the year, after tax, was \$14,809,000 (2015: \$15,094,000 loss after tax).

During the year, no dividends were paid or proposed (2015: \$nil).

RISK MANAGEMENT AND FUTURE DEVELOPMENTS

Information regarding risk management and future developments has been included in the Strategic report.

DIRECTORS

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

S I Merry

J E Iragorri Rizo

(resigned 26 April 2016)

E T Laino

(appointed 26 April 2016)

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Directors' and Officers' Liability Insurance is taken out by Morgan Stanley, the Company's ultimate parent undertaking, for the benefit of the Directors and Officers of the Company and its subsidiary undertakings.

DIRECTORS' INDEMNITY

Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2006) were in force during the year and up to and including the date of the Directors' report for the benefit of the Directors of the Company and its subsidiary undertakings.

EVENTS AFTER THE REPORTING DATE

There have been no significant events since the reporting date.

AUDITOR

Deloitte LLP have expressed their willingness to continue in office as auditor of the Company and, under Sections 485 to 488 of the Companies Act 2006, will be deemed to be re-appointed.

Statement as to disclosure of information to the auditor

Each of the persons who are Directors of the Company at the date when this report is approved confirms that:

- so far as each of the Directors is aware, there is no relevant audit information (being information needed by the Company's auditor in connection with preparing their report) of which the Company's auditor is unaware; and
- each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

DIRECTORS' REPORT

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board and signed on its behalf by **EMILY LAINO**



Director

26 SEPTEMBER 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

We have audited the financial statements of Morgan Stanley Montgomerie Investments Limited for the year ended 31 December 2016 which comprise the statement of comprehensive income, the statement of changes in equity, the statement of financial position and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED (CONTINUED)

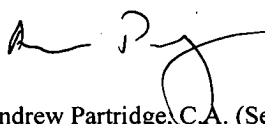
Opinion on other matters prescribed by the Companies Act 2006 (continued)

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report and the Directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Andrew Partridge, C.A. (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom

26/9/12

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	Note	2016 \$'000	2015 \$'000
Net gains on investments in subsidiaries	4	-	1
Interest income	5	9	8
Interest expense	5	(14,835)	(14,194)
Other income	6	25	-
Other expense	7	(8)	(7)
LOSS BEFORE TAXATION		(14,809)	(14,192)
Income tax expense	8	-	(902)
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(14,809)	(15,094)

All operations were continuing in the current and prior year.

The notes on pages 11 to 21 form an integral part of the financial statements.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

STATEMENT OF CHANGES IN EQUITY Year ended 31 December 2016

	Share capital \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 January 2015	100	(39,402)	(39,302)
Loss and total comprehensive loss for the year	-	(15,094)	(15,094)
Balance at 31 December 2015	100	(54,496)	(54,396)
Loss and total comprehensive loss for the year	-	(14,809)	(14,809)
Balance at 31 December 2016	100	(69,305)	(69,205)

The notes on pages 11 to 21 form an integral part of the financial statements.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

Registered number: 04091663

STATEMENT OF FINANCIAL POSITION**As at 31 December 2016**

	Note	2016 \$'000	2015 \$'000
ASSETS			
Loans and receivables:			
Other receivables	9	-	445
Investments in subsidiaries	10	620,442	620,442
TOTAL ASSETS		<u>620,442</u>	<u>620,887</u>
LIABILITIES AND EQUITY			
Financial liabilities at amortised cost:			
Other payables	11	688,891	674,381
Current tax liabilities		756	902
TOTAL LIABILITIES		<u>689,647</u>	<u>675,283</u>
EQUITY			
Share capital	12	100	100
Retained earnings		(69,305)	(54,496)
Equity attributable to owners of the Company		<u>(69,205)</u>	<u>(54,396)</u>
TOTAL EQUITY		<u>(69,205)</u>	<u>(54,396)</u>
TOTAL LIABILITIES AND EQUITY		<u>620,442</u>	<u>620,887</u>

These financial statements were approved by the Board and authorised for issue on 26 SEPTEMBER 2017

Signed on behalf of the Board



EMILY LAINO

Director

The notes on pages 11 to 21 form an integral part of the financial statements.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

1. CORPORATE INFORMATION

The Company is incorporated and domiciled in England and Wales, United Kingdom, at the following registered address 20 Bank Street, Canary Wharf, London E14 4AD. The Company is a private company and is limited by shares. The registered number of the Company is 04091663.

Details of the parent and ultimate controlling entity are disclosed in the related party disclosures note 15.

2. BASIS OF PREPARATION

The Company is not required to prepare consolidated financial statements by virtue of the exemption under section 401 of the Companies Act 2006. The results of the Company are included within the financial statements of Morgan Stanley & Co. International plc, which has prepared consolidated financial statements for the year ended 31 December 2016, has its registered office at 25 Cabot Square, Canary Wharf, London E14 4QA and is incorporated in England and Wales. The financial statements therefore present information about the Company as an individual entity and not about its group.

Statement of compliance

These financial statements are prepared in accordance with FRS 101.

The Company meets the definition of a qualifying entity as defined in Financial Reporting Standard 100 *Application of Financial Reporting Requirements*. The Company has taken advantage of the disclosure exemptions available under FRS 101 in relation to financial instruments, fair value measurement, capital management, presentation of comparative information in respect of certain assets and shares outstanding, presentation of a cash-flow statement, accounting standards not yet effective and related party transactions.

Where relevant, equivalent disclosures have been provided in the group accounts of Morgan Stanley & Co. International plc, in which the Company is consolidated. Copies of Morgan Stanley & Co. International plc's accounts can be obtained as detailed at note 15.

New standards and interpretations adopted during the year

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

An amendment to IAS 1 '*Presentation of financial statements*' was issued by the International Accounting Standards Board ("IASB") in December 2014, as part of the Disclosure Initiative project. The amendment is applicable in annual periods beginning on or after 1 January 2016. The amendment was endorsed by the EU in December 2015.

An amendment to IAS 27 '*Separate financial statements*' was issued by the IASB in August 2014, for retrospective application in annual periods beginning on or after 1 January 2016. The amendment was endorsed by the EU in December 2015.

Amendments to IFRS 10, IFRS 12 and IAS 28 '*Investment entities: Applying the consolidation exemption*' were issued by the IASB in December 2014 for retrospective application in annual periods beginning on or after 1 January 2016. The amendments were endorsed by the EU in September 2016.

As part of the 2012 - 2014 Annual Improvements Cycle published in September 2014, the IASB made amendments to the following standards that are relevant to the Company's operations: IFRS 7 '*Financial instruments: Disclosures*', for application in accounting periods beginning on or after 1 January 2016. The improvements were endorsed by the EU in December 2015.

An amendment to FRS 101 '*Notification of shareholders*' was issued by the Financial Reporting Council in December 2016, for application in accounting periods beginning on or after 1 January 2016.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

2. BASIS OF PREPARATION (CONTINUED)

New standards and interpretations adopted during the year (continued)

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

Basis of measurement

The financial statements of the Company are prepared under the historical cost basis, except for certain financial instruments that have been measured at fair value as explained in the accounting policies below, and in accordance with applicable United Kingdom Accounting Standards, including FRS 101, and UK company law.

Use of estimates and sources of uncertainty

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

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 Strategic report on pages 1 to 3.

As set out in the Strategic report, retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy.

As described in the expected maturity of assets and liabilities note (note 13) during 2017 there was a change to the payment terms of certain assets and liabilities. From 31 August 2017 the Company has net liabilities payable within 12 months. The Company is performing in line with expectations and the net liabilities payable within 12 months are due to amounts owing to fellow Morgan Stanley Group undertakings within the next 12 months, the demand for repayment of which is wholly within the control of the Morgan Stanley Group and corporation tax liability the demand for payment of which is wholly supported by the Morgan Stanley Group.

Taking the above 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.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Functional currency

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

All currency amounts in the financial statements and Strategic and Directors' reports are rounded to the nearest thousand US dollars.

b. Foreign currencies

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

c. Financial instruments

The Company classifies its financial assets into the following categories on initial recognition: investments in subsidiaries and loans and receivables.

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

More information regarding these classifications is included below:

i) Investments in subsidiaries

Subsidiaries are entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Investments in subsidiaries are stated at cost, less provision for any impairment (see note 3(f) below). Dividends, impairment losses and reversals of impairment losses are recognised in the statement of comprehensive income in 'Net gains/ (losses) on investments in subsidiaries'.

ii) Loans and receivables and financial liabilities at amortised cost

Financial assets classified as loans and receivables are recognised when the Company becomes a party to the contractual provisions of the instrument. They are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost less allowance for impairment. Interest is recognised in the statement of comprehensive income 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 statement of comprehensive income in 'Other expense'.

Financial assets classified as loans and receivables include other receivables.

Financial liabilities at amortised cost are recognised when the Company becomes a party to the contractual provisions of the instrument. They are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost. Interest is recognised in the statement of comprehensive income 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.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

ii) Loans and receivables and financial liabilities at amortised cost (continued)

The effective interest rate method is a method of calculating the amortised cost of a financial instrument (or a group of financial instruments) and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument (or, where appropriate a shorter period) to the carrying amount of the financial instrument. The effective interest rate is established on initial recognition of the financial instrument. 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 instrument.

d. Fair value

Fair value measurement

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

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

The hierarchy is broken down into three levels based on the observability of inputs as follows:

- Level 1 – Quoted prices (unadjusted) in an active market for identical assets or liabilities

Valuations based on quoted prices in active markets that the Morgan Stanley Group has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgement.

- Level 2 – Valuation techniques using observable inputs

Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

- Level 3 – Valuation techniques with significant unobservable inputs

Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Derecognition of financial assets and liabilities

The Company derecognises a financial asset 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.

If the asset has been transferred, and the entity neither transfers nor retains substantially all of the risks and rewards of the asset, then the entity determines whether it has retained control of the asset.

If the entity has retained control of the asset, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset. If the entity has not retained control of the asset, it derecognises the asset and separately recognises any rights or obligation created or retained in the transfer.

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

f. Impairment of financial assets

At each reporting date, an assessment is made as to whether there is any objective evidence of impairment in the value of a financial asset classified as loans and receivables or investments in subsidiaries. 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 investment in subsidiaries are measured as the difference between cost and the current estimated recoverable amount. When the recoverable amount is less than the cost, an impairment is recognised within the statement of comprehensive income in 'Net gains/ (losses) on investment in subsidiaries' and is reflected against the carrying amount of the impaired asset on the statement of financial position.

Impairment losses on loans and receivables are measured as the difference between the carrying amount of the loans and receivables and the present value of estimated cash flows discounted at the asset's original effective interest rate. Such impairment losses are recognised in the statement of comprehensive income within 'Other expense' and are recognised against the carrying amount of the impaired asset on the statement of financial position. Interest on the impaired asset continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset.

If in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed as described for the relevant categories of financial asset in note 3(c). Any reversal is limited to the extent that the value of the asset may not exceed the original amortised cost of the asset had no impairment occurred.

g. Income tax

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

The tax currently payable is calculated based on taxable profit for the year. Taxable profit may differ from profit/ (loss) before taxation as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date. Current tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the current tax is also recorded within other comprehensive income or equity respectively.

Current tax assets are offset against current tax liabilities when there is a legally enforceable right to set off current tax assets against current tax liabilities and the Company intends to settle its current tax assets and current tax liabilities on a net basis or to realise the asset and settle the liability simultaneously.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

4. NET GAINS ON INVESTMENTS IN SUBSIDIARIES

	2016 \$'000	2015 \$'000
Gain on disposal of investment	-	1

On 1 January 2015, Morgan Stanley Raleigh Investments Limited was dissolved. A gain of \$1,000 was recognised on disposal.

On 31 January 2015, Morgan Stanley Oostburg B.V. was dissolved. No gain or loss was recognised.

5. INTEREST INCOME AND INTEREST EXPENSE

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

No other gains or losses have been recognised in respect of loans and receivables other than as disclosed as 'Interest income', and foreign exchange differences disclosed in 'Other income' (note 6) within the statement of comprehensive income.

No other gains or losses have been recognised in respect of financial liabilities at amortised cost other than as disclosed as 'Interest expense' within the statement of comprehensive income, and foreign exchange differences disclosed in 'Other income' (note 6).

6. OTHER INCOME

	2016 \$'000	2015 \$'000
Net foreign exchange gains	25	-

7. OTHER EXPENSE

	2016 \$'000	2015 \$'000
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	6	7
Other	2	-
	8	7

The Company employed no staff during the year (2015: nil).

The amount of remuneration received by Directors in respect of their qualifying services to the Company is disclosed in the related party disclosures note (note 15).

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

8. INCOME TAX EXPENSE

Analysis of expense in the year

	2016 \$'000	2015 \$'000
Current tax expense		
UK corporation tax at 20.00% (2015: 20.25%)		
- Current year	-	-
- Adjustments in respect of prior years	-	(902)
Income tax expense	<u>-</u>	<u>(902)</u>

Reconciliation of effective tax rate

The current year income tax expense is higher (2015: higher) than that resulting from applying the average standard rate of corporation tax in the UK for the year of 20.00% (2015: 20.25%). The main differences are explained below:

	2016 \$'000	2015 \$'000
Loss before taxation	<u>(14,809)</u>	<u>(14,192)</u>
Income tax using the average standard rate of corporation tax in the UK of 20.00% (2015: 20.25%)	(2,962)	(2,874)
Impact on tax of:		
Group relief surrendered for no cash consideration	2,991	2,874
Tax exempt income	(29)	-
Tax under provided in the prior years	-	902
Total income tax expense in the statement of comprehensive income	<u>-</u>	<u>902</u>

9. OTHER RECEIVABLES

	2016 \$'000	2015 \$'000
Amounts due from other Morgan Stanley Group undertakings	<u>-</u>	<u>445</u>

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

10. INVESTMENTS IN SUBSIDIARIES

**Total
\$'000**

Cost and carrying amounts

At 1 January 2016 and 31 December 2016

620,442

Details of all investments in subsidiaries (including indirect subsidiaries) of the Company at 31 December 2016 and 31 December 2015 are as follows:

Name of Company	Address of undertaking's registered office	Type of shares held	Proportion of shares held		Proportion of voting rights held		Nature of business
			2016	2015	2016	2015	
Morgan Stanley Equity Derivative Services (Luxembourg) S.à r.l	20, rue de la Poste, Luxembourg, L-2346, Luxembourg	Ordinary	100%	100%	100%	100%	Financial services
Morgan Stanley Langtree Investments B.V.	20 Bank Street, Canary Wharf, London, E14 4AD, United Kingdom	Class A Ordinary	100%	100%	25%	25%	Financial services
Morgan Stanley Langtree Investments B.V.	20 Bank Street, Canary Wharf, London, E14 4AD, United Kingdom	Class B Ordinary	100%	100%	75%	75%	Financial services
Morgan Stanley Mallard Investments Limited	20 Bank Street, Canary Wharf, London, E14 4AD, United Kingdom	Ordinary	100%	100%	100%	100%	Holding company
Morgan Stanley Millbrae Investments B.V.	20 Bank Street, Canary Wharf, London, E14 4AD, United Kingdom	Preference*	100%	100%	33%	33%	Financial services
Morgan Stanley Millbrae Investments B.V.	20 Bank Street, Canary Wharf, London, E14 4AD, United Kingdom	Class A*	100%	100%	67%	67%	Financial services

An * denotes shareholding attributed to the Company which are not all held directly by the Company.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

11. OTHER PAYABLES

	2016 \$'000	2015 \$'000
Amounts due to other Morgan Stanley Group undertakings	688,891	674,381

12. EQUITY

	Ordinary shares of \$1 each Number	Ordinary shares of \$1 each \$'000	Ordinary shares of £1 each Number	Ordinary shares of £1 each \$'000	Total ordinary shares \$'000
Allotted and fully paid					
At 1 January 2016 and 31 December 2016	100,000	100	1	-	100

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

All ordinary shares are recorded at the rates of exchange ruling at the date the share was paid up.

13. EXPECTED MATURITY OF ASSETS AND LIABILITIES

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

At 31 December 2016

	Less than or equal to twelve months \$'000	More than twelve months \$'000	Total \$'000
ASSETS			
Investments in subsidiaries	-	620,442	620,442
	-	620,442	620,442
LIABILITIES			
Financial liabilities at amortised cost:			
Other payables	688,891	-	688,891
Current tax liabilities	756	-	756
	689,647	-	689,647

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

13. EXPECTED MATURITY OF ASSETS AND LIABILITIES (CONTINUED)

During 2017 there has been a change to the payment terms of liabilities of \$688,745,000 within other payables resulting in those amounts expected to be settled in more than twelve months.

At 31 December 2015

	Less than or equal to twelve months \$'000	More than twelve months \$'000	Total \$'000
ASSETS			
Loans and receivables:			
Other receivables	445	-	445
Investments in subsidiaries	-	620,442	620,442
	<u>445</u>	<u>620,442</u>	<u>620,887</u>
LIABILITIES			
Financial liabilities at amortised cost:			
Other payables	674,381	-	674,381
Current tax liabilities	902	-	902
	<u>675,283</u>	<u>-</u>	<u>675,283</u>

14. SEGMENT REPORTING

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

15. RELATED PARTY DISCLOSURES

Parent and subsidiary relationships

Parent and ultimate controlling entity

The Company's immediate parent undertaking is Morgan Stanley Turnberry Limited, which has its registered office at 20 Bank Street, Canary Wharf, London E14 4AD and 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, Cardiff CF14 3UZ.

The ultimate parent undertaking and controlling entity and the largest group of which the Company is a member and for which group financial statements are prepared is Morgan Stanley. Morgan Stanley has its registered office c/o The Corporation Trust Company, The Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, United States of America and is incorporated in the state of Delaware, in the United States of America. Copies of its financial statements can be obtained from www.morganstanley.com/investorrelations.

The parent undertaking of the smallest group of companies for which group financial statements are drawn up and of which the Company is a member is Morgan Stanley & Co. International plc, which has its registered office at 25 Cabot Square, Canary Wharf, London E14 4QA and its 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, Cardiff CF14 3UZ.

MORGAN STANLEY MONTGOMERIE INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

15. RELATED PARTY DISCLOSURES (CONTINUED)

Key management compensation

Directors' remuneration

The Directors did not receive any remuneration for their qualifying services to the Company during the year (2015: \$nil).