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UK registration number: FC 026606

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MORGAN STANLEY SINOPE CAYMAN LIMITED

Report and financial statements

31 December 2013

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MORGAN STANLEY SINOPE CAYMAN LIMITED

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MORGAN STANLEY SINOPE CAYMAN LIMITED

STRATEGIC REPORT

The Directors present their Strategic report for Morgan Stanley Sinope Cayman Limited (the "Company") for the year ended 31 December 2013

PRINCIPAL ACTIVITY

The Company is an exempted company incorporated under the laws of the Cayman Islands and its principal activity 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"

The management and control of the Company is in the United Kingdom ("UK"), and the entity is liable to UK Corporation Tax on its taxable profits

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 2013, global market and economic conditions showed improvement from 2012 although have remained challenging with continuing concerns about the United States ("US") longer term budget outlook and the scaling back of the monetary stimulus, the remaining European sovereign debt issues and slowing economic growth in emerging markets. Whilst the US economy continued its moderate growth pace, and as a whole the recession in the euro-area came to an end, significant pockets of slow or negative growth remained in Europe. These ongoing 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 for the year is set out on page 6. The Company's profit for the year has decreased by €170,000 to €4,763,000 and is attributable to a decrease in net interest income on the Company's loans to other Morgan Stanley Group undertakings.

The balance sheet for the Company is set out on page 7. The Company's net assets for the year were €147,835,000 compared to €143,072,000 in the prior year. The €4,763,000 increase is attributable to interest accrued on the Company's loans to other Morgan Stanley Group companies.

The Company is in a net current liability position. The net current liability position is 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. As discussed in the Risk Management section below and in note 1(b) to the Company financial statements, the Company operates within the global liquidity management framework of the Morgan Stanley Group and relies on this framework to provide sufficient liquidity to meet its obligations.

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.

MORGAN STANLEY SINOPE CAYMAN LIMITED

STRATEGIC REPORT

Risk management

Risk is an inherent part of both Morgan Stanley's and 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. The Company's own risk management policies and procedures are consistent with those of the Morgan Stanley Group.

Note 12 to the financial statements provides qualitative and quantitative disclosures about the Company's management of 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 on a global basis, at both a trading divisions and an individual product level, which includes consideration of market risk for each individual legal entity.

Credit risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its obligations to the Company.

The Morgan Stanley Group manages credit risk exposure on a global consolidated basis as well as giving consideration to individual legal entities. The credit risk management policies and procedures of the Morgan Stanley Group 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. Credit risks 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.

Liquidity and capital resources

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 also encompasses the Company's ability to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern.

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 Morgan Stanley Group, including the Company, to fulfil its financial obligations and support the execution of the Company's business strategies. The Company's capital management framework is further described in note 14.

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.

Operational risk

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

MORGAN STANLEY SINOPE CAYMAN LIMITED

STRATEGIC REPORT

Risk management (continued)

Operational risk (continued)

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 and regulatory 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 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 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.

Significant changes in the way that major financial services institutions are regulated are occurring in the UK, Europe, the US and worldwide. The reforms being discussed and, in some cases, already implemented, include several that contemplate comprehensive restructuring of the regulation of the financial services industry. Such measures will likely lead to stricter regulation of financial institutions generally, and heightened prudential requirements for systemically important firms in particular. Such measures could include reforms of the over-the-counter 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.

Approved by the Board and signed on its behalf by

Director

B. Young

21 January 2015



MORGAN STANLEY SINOPE CAYMAN LIMITED

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 the Company for the year ended 31 December 2013

RESULTS AND DIVIDENDS

The profit for the year, after tax, was €4,763,000 (2012 €4,933,000)

During the year, no dividends were paid or proposed (2012 €nil)

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)

A N Chrishan (resigned 5 March 2013)

S I Merry

B M L Young (appointed 27 March 2013)

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

DIRECTOR'S INDEMNITY

Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2006 of the UK (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

POST BALANCE SHEET EVENTS

There have been no significant events since the balance sheet date

MORGAN STANLEY SINOPE CAYMAN 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

The Company was incorporated as an exempted company under the laws of the Cayman Islands. The Directors and the shareholders of the Company require the financial statements of the Company to be prepared in accordance with Part 15 of the Companies Act 2006 of the United Kingdom (that would have applied had these been statutory accounts under the Companies Act 2006) and drawn up in Euros

The Directors are required to prepare such financial statements for each financial year which 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 those 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 UK accounting standards 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 Part 15 of 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

Director
B Yang
21 January 2015



MORGAN STANLEY SINOPE CAYMAN LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2013

	Note	2013 €'000	2012 €'000
Interest income	2	14,756	14,593
Interest expense	3	(9,993)	(9,660)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		4,763	4,933
Tax on profit on ordinary activities	5	-	-
PROFIT FOR THE FINANCIAL YEAR		4,763	4,933

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 10 to the financial statements

The notes on pages 8 to 19 form an integral part of the financial statements

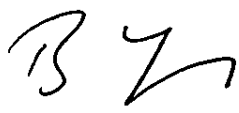
MORGAN STANLEY SINOPE CAYMAN LIMITED*Registered number MC 161501***BALANCE SHEET****As at 31 December 2013**

	Note	2013 €'000	2012 €'000
FIXED ASSETS			
Investments			
- Subsidiary undertakings	6	403,320	403,320
CURRENT ASSETS			
Loans and receivables			
- Debtors	7	196,979	182,224
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Financial liabilities at amortised cost	8	(452,464)	(442,472)
NET CURRENT LIABILITIES		<u>(255,485)</u>	<u>(260,248)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>147,835</u>	<u>143,072</u>
CAPITAL AND RESERVES			
Called up share capital	9	-	-
Share premium account	10	135,000	135,000
Profit and loss account	10	12,835	8,072
SHAREHOLDERS' FUNDS		<u>147,835</u>	<u>143,072</u>

These financial statements were approved by the Board and authorised for issue on *21 January 2015*

Signed on behalf of the Board

B. Young
Director



The notes on pages 8 to 19 form an integral part of the financial statements

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

1. ACCOUNTING POLICIES

The Company's principal accounting policies are summarised below and have been applied consistently throughout the current and prior 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 UK company law and accounting standards

The Company is incorporated under the laws of the Cayman Islands, which permits the use of United Kingdom company law and the use of United Kingdom accounting standards in the preparation of financial statements

The Company is not required to prepare consolidated financial statements by virtue of the exemption under section 400 of the Companies Act 2006. The results of the Company are included within the financial statements of Morgan Stanley, a Company registered in Delaware, the United States of America, which will prepare consolidated financial statements for the year to 31 December 2013. The financial statements therefore present information about the Company as an individual entity and not about its group

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 Strategic report on pages 1 to 3. 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 exposures to credit risk and liquidity risk

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. Although the Company is in a net current liability position, the Company is performing in line with expectations and the net current liability position is 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

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 reports and financial statements

c) Functional currency

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

All currency amounts in the financial statements, Directors' report and Strategic report are rounded to the nearest thousand Euro

d) Foreign currencies

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

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

1. ACCOUNTING POLICIES (CONTINUED)

e) Financial instruments

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

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

More information regarding these classifications is included below.

i) Investments in subsidiary undertakings

Investments in subsidiary undertakings outside the scope of Financial Reporting Standard ("FRS") 26 *Financial instruments: Recognition and measurement*, are recorded within 'Investments in subsidiary undertakings' and are stated at cost, less provision for any impairment. Interest (recognised on an accruals basis), dividend income on ordinary shares (recognised when the Company's right to receive payment is established), impairment losses, reversals of impairment losses and foreign exchange differences on monetary investments are all reported in the profit and loss account in 'Net gains/ (losses) on fixed asset investments in subsidiary undertakings'. Dividend income on preference shares are reported in the profit and loss account in interest income.

On disposal of an investment in subsidiary undertakings, the cumulative gain or loss is reclassified to the profit and loss account and reported in 'Gain/(loss) on disposal of subsidiary undertaking'.

ii) 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 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.

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.

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).

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

1. ACCOUNTING POLICIES (CONTINUED)

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

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 fixed asset investments in subsidiary or 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 fixed asset investments in subsidiary undertakings 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 profit and loss account in 'Net gains/ (losses) on fixed asset investments in subsidiary undertakings' and is reflected against the carrying amount of the impaired asset on the balance sheet

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 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

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 detailed by financial asset in note 1 (e) (i) and (ii). 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

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

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

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

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

2. INTEREST INCOME

	2013 €'000	2012 €'000
Interest income from loans to Morgan Stanley Group undertakings	<u>14,756</u>	<u>14,593</u>

'Interest income' represents total interest income for financial assets not carried at fair value and includes €10,887,000 (2012 €10,917,000) of preference share dividends

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

3. INTEREST EXPENSE

	2013 €'000	2012 €'000
Interest expense on loans from Morgan Stanley Group undertakings	<u>9,993</u>	<u>9,660</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

4. STAFF COSTS

The Company employed no staff during the year (2012 nil)

The Directors did not receive any remuneration for their qualifying services to the Company during the year (2012 €nil)

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of expense in the year

	2013 €'000	2012 €'000
UK corporation tax at 23.25% (2012 24.50%)		
- Current year	-	-
Tax on profit on ordinary activities	<u>-</u>	<u>-</u>

Factors affecting the current tax expense for the year

The current year UK taxation charge is lower (2012 lower) than that resulting from applying the average standard UK corporation tax rate for the year of 23.25% (2012 24.50%). The main differences are explained below

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

5. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

	2013 €'000	2012 €'000
Profit on ordinary activities before tax	4,763	4,933
Profit on ordinary activities multiplied by the average standard rate of corporation tax in the UK of 23.25% (2012: 24.50%)	1,107	1,209
Effects of:		
Group relief surrendered for no cash consideration	1,424	1,466
Non-taxable dividends on preference shares shown as interest income	(2,531)	(2,675)
Current tax expense for the year	-	-

Finance Act 2012 enacted a reduction to the UK corporation tax rate to 23% with effect from April 2013. This reduction in the tax rate did not impact the current tax charge in 2013 as the Company surrendered group relief for no cash consideration.

Finance Act 2013 received Royal Assent on 17 July 2013 and enacted a reduction to the UK corporation tax rate to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015. The reduction in the rate may impact the current tax charge in 2014 and 2015.

6. FIXED ASSET INVESTMENTS

Fixed asset investments in subsidiary undertakings

Cost and Net book value	€'000
At 1 January 2013 and 31 December 2013	403,320

Subsidiaries and significant holdings

Details of the investments in which the Company holds more than 20% of the nominal value of any class of share capital, and investments with a book value greater than 20% of the Company's own assets at 31 December 2013, are as follows:

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

6. FIXED ASSET INVESTMENTS (CONTINUED)

Name of company	Country of incorporation	Type of shares held	Proportion of shares held	Proportion of voting rights	Nature of business
Morgan Stanley Adrastea Netherlands B V	The Netherlands	Ordinary	100%	23.529%	Financial services
Morgan Stanley Adrastea Netherlands B V	The Netherlands	Class A Redeemable Preference Shares	100%	76.469%	Financial services
Morgan Stanley Adrastea Netherlands B V	The Netherlands	Class B Redeemable Preference Shares	100%	0.001%	Financial services
Morgan Stanley Adrastea Netherlands B V	The Netherlands	Class C Redeemable Preference Shares	100%	0.001%	Financial services

7. DEBTORS

	2013 €'000	2012 €'000
Debtors classified within loans and receivables at amortised cost		
Amounts due from Morgan Stanley Group undertakings	<u>196,979</u>	<u>182,224</u>

8. FINANCIAL LIABILITIES AT AMORTISED COST

	2013 €'000	2012 €'000
Financial liabilities at amortised cost falling due within one year		
Amounts owing to Morgan Stanley Group undertakings	<u>452,464</u>	<u>442,472</u>

9. CALLED UP SHARE CAPITAL

	2013 €'000	2012 €'000
Allotted and fully paid:		
101 ordinary shares of \$1 each	<u>-</u>	<u>-</u>

All ordinary shares are recorded at the rates of exchange ruling at the date the shares were paid up

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2013

10. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Called up share capital €'000	Share premium account €'000	Profit and loss account €'000	Total €'000
At 1 January 2012	-	135,000	3,139	138,139
Total recognised gains and losses	-	-	4,933	4,933
At 1 January 2013	-	135,000	8,072	143,072
Total recognised gains and losses	-	-	4,763	4,763
At 31 December 2013	-	135,000	12,835	147,835

Reserves

Share premium

The 'Share premium account' comprises the capital raised in an issue of shares that exceeds the nominal value of the shares

11. SEGMENTAL 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')

12. 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 investment activities are set out below.

Credit risk

Credit risk refers to the risk of loss arising when an obligor does not meet its financial obligations to the Company.

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 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. 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.

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

12. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

The Company enters into all of its financial asset transactions with other Morgan Stanley Group undertakings, and both the Company and the other Morgan Stanley Group undertakings are wholly-owned subsidiaries of the same ultimate parent entity, Morgan Stanley. As a result of the implicit support that would be provided by Morgan Stanley, the Company is considered exposed to the credit risk of Morgan Stanley, except where the Company transacts with other Morgan Stanley Group undertakings that have a higher credit rating to that of Morgan Stanley.

The maximum exposure to credit risk of the Company at the reporting date is the carrying amount of the financial assets held in the 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 ⁽¹⁾	
	2013	2012
	€'000	€'000
Loans and receivables		
Amounts due from Morgan Stanley Group undertakings	<u>196,979</u>	<u>182,224</u>

⁽¹⁾ The carrying amount recognised in the balance sheet best represents the Company's maximum exposure to credit risk.

Maximum exposure to credit risk by credit rating ⁽¹⁾

Credit rating	Gross credit exposure	
	2013	2012
	€'000	€'000
A	<u>196,979</u>	<u>182,224</u>

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

At 31 December 2013 there were no financial assets past due but not impaired or individually impaired (2012: €none).

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 also encompasses the Company's ability to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern. Liquidity risk is the risk that the Company's financial condition or overall safety and soundness is adversely affected by an inability (or perceived inability) to meet its obligations.

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2013

12. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

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 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.

Liquidity management policies

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

Contingency Funding Plan The CFP describes the data and information flows, limits, targets, operating environment indicators, escalation procedures, roles and responsibilities, and available mitigating actions in the event of a liquidity stress. The CFP also sets forth the principal elements of the Morgan Stanley Group's liquidity stress testing which identifies stress events of different severity and duration, assesses current funding sources and uses and establishes a plan for monitoring and managing a potential liquidity stress event.

Liquidity Stress Tests The Morgan Stanley Group uses Liquidity Stress Tests to 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 the stress horizon, (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 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 for Morgan Stanley and the major operating subsidiaries, as well as at 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 will support its subsidiaries and will 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 they were unable to access adequate financing to service their financial liabilities when they become payable.

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.

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Year ended 31 December 2013

12. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

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. The size of the Global Liquidity Reserve is actively managed by the Morgan Stanley Group. The following components are considered in sizing the Global Liquidity Reserve, unsecured debt maturity profile, balance sheet size and composition, funding needs in a stressed environment inclusive of contingent cash outflows and collateral requirements. Additionally, the Global Liquidity Reserve includes an additional reserve, which is primarily a discretionary surplus based on the Morgan Stanley Group's risk tolerance and is 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 is composed of diversified cash and cash equivalents and highly liquid unencumbered securities.

Eligible unencumbered securities include US government securities, US agency securities, US agency mortgage-backed securities, non-US government securities and other highly liquid investment grade securities.

The ability to monetise assets during a liquidity crisis is critical. The Morgan Stanley Group believes that the assets held in the Global Liquidity Reserve can be monetised within five business days in a stressed environment given the highly liquid and diversified nature of the reserves.

Funding management policies

The Morgan Stanley Group manages its funding 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, securities sold under agreements to repurchase, securities lending, deposits, commercial paper, letters of credit and lines of credit. The Morgan Stanley Group has active financing programmes for both standard and structured products, targeting global investors and currencies.

Balance sheet management

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 consists of liquid marketable securities and short-term receivables arising from its Institutional Securities business segment's sales and trading activities. The liquid nature of these assets provides the Morgan Stanley Group and the Company with flexibility in managing the size of its balance sheet.

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NOTES TO THE FINANCIAL STATEMENTS **Year ended 31 December 2013**

12. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

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 2013. 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 2013 and 31 December 2012 are classified as repayable on demand.

Market risk

Market risk is defined by 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 VaR and scenario systems. 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 by FRS 29 as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is primarily exposed to interest rate risk under this definition as a result of changes in the future cash flows of floating rate intercompany 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 €1,277,000 (2012: €1,392,000). The shift in market interest rates of 50 basis points is applied to debtors less financial liabilities at amortised cost at 31 December 2013.

13. FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

For all financial instruments 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 assets and liabilities.

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

	2013 €'000	2012 €'000
Called up share capital	-	-
Share premium account	135,000	135,000
Profit and loss account	12,834	8,072
	<u>147,834</u>	<u>143,072</u>

15. 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.

16. PARENT UNDERTAKINGS

The ultimate parent undertaking and controlling entity and the largest group of which the Company is a member and for which group financial statements are prepared is Morgan Stanley. Morgan Stanley is incorporated in 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 Himalia Cayman Limited, which is registered in Cayman Islands. Copies of its financial statements can be obtained from the Registrar of Companies for England and Wales, Companies House, Crown Way, Cardiff, CF14 3UZ.