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MORGAN STANLEY SINOPE CAYMAN LIMITED

Report and financial statements

31 December 2014



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 2014

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 2014, global market and economic conditions displayed a continued but choppy improvement from 2013, characterised by continued global central bank accommodations, low inflation, geopolitical tensions, and sharply lower oil prices during the final months of the year. The United States ("US") economy, which started 2014 with a weather-impacted first quarter decline in gross domestic product ("GDP"), ended the year with annualised GDP growth. The Eurozone economy, by contrast, stalled in the second quarter before showing some signs of improvement in the second half of the year, as the annexation of the Crimea region in Ukraine by Russia and conflict in Eastern Ukraine raised anxiety and tensions which weighed on regional economies. In the United Kingdom ("UK"), GDP growth continued to accelerate, while the Japanese economy saw substantial volatility surrounding a national sales tax hike, resulting in a GDP growth rate near zero for all of 2014. In China, the government continued reforms to change the structure of the Chinese economy, accepting a somewhat less rapid growth pace as deleveraging is pursued, but targeted easing measures by the Chinese central bank supported a gain in real GDP in 2014.

The profit and loss for the year is set out on page 6. The Company's profit for the year has increased by €54,000 to €4,817,000 and is attributable to an increase in net interest income on the Company's loans to other Morgan Stanley Group undertakings due to an increase in average interest rates in the year.

The balance sheet for the Company is set out on page 7. The Company's net assets for the year were €152,652,000 compared to €147,835,000 in the prior year. The €4,817,000 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 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 SINOPE CAYMAN LIMITED

STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

Risk management

Risk is an inherent part of the Company's business activity. 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 policy framework leverages the risk management policies and procedures 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 implied from option prices), correlations or other market factors, such as liquidity, will result in losses for a position or portfolio.

Market risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to the Company's Board of Directors and appropriate senior management personnel.

The Company manages the market risk associated with its trading activities at both a trading division and an individual product level.

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 the Company's Board of Directors and appropriate senior management personnel.

The Company manages credit risk exposure on a consolidated basis and also for each significant legal entity within the 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 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 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 and funding 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 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.

MORGAN STANLEY SINOPE CAYMAN LIMITED

STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

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. This definition includes legal, regulatory and compliance risks but excludes strategic risk. Operational risk relates to the following risk event categories as defined by Basel II: 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.

The Company is exposed to legal, regulatory and compliance risks, which include the risk of legal or regulatory sanctions, material financial loss, such as 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, self-regulatory organisation standards and codes of conduct applicable to business activities. Legal risk also includes contractual and commercial risks in the event that a counterparty's performance obligations will be unenforceable.

The Company has established procedures designed to foster compliance with applicable statutory and regulatory requirements. The Company, principally through the Morgan Stanley Group's 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 Company 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 Company has established procedures to mitigate the risk that a counterparty's performance obligations will be unenforceable, including consideration of counterparty legal authority and capacity, adequacy of legal documentation, the permissibility of a transaction under applicable law and whether applicable bankruptcy or insolvency laws limit or alter contractual remedies. The legal and regulatory focus on the financial services industry presents a continuing business challenge for the Company.

Culture, Values and Conduct of Employees

All of the Morgan Stanley Group's employees have accountability for risk management. The Morgan Stanley Group strives to establish a culture of effective risk management through its defined core values, governance framework, management oversight, training and development programs, policies, procedures, and defined roles and responsibilities within the Morgan Stanley Group. The actions and conduct of each employee are essential to risk management. The Morgan Stanley Group's Code of Conduct (the "Code") has been established to provide a framework and standards for employee conduct that further reinforces the Morgan Stanley Group's commitment to integrity and high ethical standards. Every new hire and every employee annually must certify to their understanding of and adherence to the Code. The employee annual review process includes evaluation of adherence to the Code. The Global Incentive Compensation Discretion Policy sets forth standards that specifically provide that managers must consider whether the employee effectively managed and supervised the risk control practices of his/her employee reports during the performance year. The Morgan Stanley Group has several mutually reinforcing processes to identify incidents of employee conduct that may have an impact on the employment status, current year compensation or prior year compensation. The Morgan Stanley Group's clawback and cancellation provisions permit recovery of deferred incentive compensation where, for example, an employee's act or omission (included with respect to direct supervisory responsibilities) causes a restatement of the Morgan Stanley Group's consolidated financial results, constitutes a violation of the Morgan Stanley Group's global risk management principles, policies and standards, or causes a loss of revenue associated with a position on which the employee was paid and the employee operated outside of internal control policies.

Approved by the Board and signed on its behalf by **SCOTT MEELEY**

Director



2 NOVEMBER 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 17) for the Company for the year ended 31 December 2014

RESULTS AND DIVIDENDS

The profit for the year, after tax, was €4,817,000 (2013 €4,763,000)

During the year, no dividends were paid or proposed (2013 €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

B M L Young

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

On 10 June 2015, the Company received dividends of €9,068,000 on the Class A Redeemable Preference Shares from Morgan Stanley Adrastea Netherlands B V

CHANGE IN ACCOUNTING FRAMEWORK

The Company meets the definition of a qualifying entity under Financial Reporting Standard ("FRS") 100 *Application of Financial Reporting Requirements* and from 1 January 2015, will change its accounting framework to FRS 101 *Reduced Disclosure Framework* ("FRS 101") Although there will be changes to the presentation of the financial statements and disclosure under the new framework, there is not expected to be a significant impact on net assets of the Company as a result of the transition to FRS 101

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

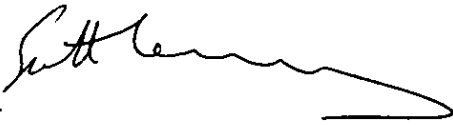
The Company was incorporated as an exempted company under the laws of the Cayman Islands. The Directors and the shareholders of the Company require the financial statements of the Company to be prepared in accordance with Part 15 of the Companies Act 2006 of the United Kingdom (that would have applied 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 *SCOTT MEEZY*


Director

2 NOVEMBER 2015

MORGAN STANLEY SINOPE CAYMAN LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2014

	Note	2014 €'000	2013 €'000
Interest income	2	14,808	14,756
Interest expense	3	(9,991)	(9,993)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		4,817	4,763
Tax on profit on ordinary activities	5	-	-
PROFIT FOR THE FINANCIAL YEAR		4,817	4,763

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 2014**

	Note	2014 €'000	2013 €'000
FIXED ASSETS			
Investments			
- Subsidiary undertakings	6	403,320	403,320
CURRENT ASSETS			
Loans and receivables			
- Debtors	7	184,586	196,979
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Financial liabilities at amortised cost	8	(435,254)	(452,464)
NET CURRENT LIABILITIES		<u>(250,668)</u>	<u>(255,485)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>152,652</u>	<u>147,835</u>
CAPITAL AND RESERVES			
Called up share capital	9	-	-
Share premium account	10	135,000	135,000
Profit and loss account	10	17,652	12,835
SHAREHOLDERS' FUNDS		<u>152,652</u>	<u>147,835</u>

These financial statements were approved by the Board and authorised for issue on 2 NOVEMBER 2015

Signed on behalf of the Board

SCOTT MEERY

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 2014

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 2014. 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 Euros

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. Foreign exchange differences on monetary fixed asset investments are taken through the profit and loss account and are presented in 'Net gains/ (losses) on fixed asset investments'. All other translation differences are taken through the profit and loss account and are presented in 'Other income' or 'Other expense'

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

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 recognised when the Company becomes a party to the contractual provisions of the instrument. They are initially measured at fair value (see note 1(f) below) and subsequently measured at amortised cost less allowance for impairment. Interest is recognised in the income statement 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 income statement in 'Other expense'.

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 1(f) below) and subsequently measured at amortised cost. Interest is recognised in the income statement 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.

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

1. ACCOUNTING POLICIES (CONTINUED)

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).

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 2014

2. INTEREST INCOME

	2014 €'000	2013 €'000
Interest income from loans to Morgan Stanley Group undertakings	<u>14,808</u>	<u>14,756</u>

'Interest income' represents total interest income for financial assets not carried at fair value and includes €10,887,000 (2013 €10,887,000) 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

	2014 €'000	2013 €'000
Interest expense on loans from Morgan Stanley Group undertakings	<u>9,991</u>	<u>9,993</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 (2013 €nil)

The Directors did not receive any remuneration for their qualifying services to the Company during the year (2013 €nil)

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of expense in the year

	2014 €'000	2013 €'000
UK corporation tax at 21.49% (2013 23.25%)		
- 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 (2013 lower) than that resulting from applying the average standard UK corporation tax rate for the year of 21.49% (2013 23.25%). The main differences are explained below

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

5. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

	2014 €'000	2013 €'000
Profit on ordinary activities before tax	<u>4,817</u>	<u>4,763</u>
Profit on ordinary activities multiplied by the average standard rate of corporation tax in the UK of 21.49% (2013: 23.25%)	1,035	1,107
Effects of:		
Group relief surrendered for no cash consideration	1,305	1,424
Non-taxable dividends on preference shares shown as interest income	(2,340)	(2,531)
Current tax expense for the year	<u>-</u>	<u>-</u>

Finance Act 2013 enacted a reduction to the UK corporation tax rate to 21% with effect from 1 April 2014. This reduction in the tax rate did not impact the current tax charge in 2014 as the Company surrendered group relief for no cash consideration.

Finance Act 2013 also enacted a reduction to the UK corporation tax rate to 20% with effect from 1 April 2015. The reduction in the rate may impact the current tax charge in future years.

6. FIXED ASSET INVESTMENTS

Fixed asset investments in subsidiary undertakings

Cost and Net book value	€'000
At 1 January 2014 and 31 December 2014	<u>403,320</u>

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 2014, are as follows:

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2014

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

	2014 €'000	2013 €'000
Debtors classified within loans and receivables at amortised cost		
Amounts due from Morgan Stanley Group undertakings	<u>184,586</u>	<u>196,979</u>

8. FINANCIAL LIABILITIES AT AMORTISED COST

	2014 €'000	2013 €'000
Financial liabilities at amortised cost falling due within one year		
Amounts owing to Morgan Stanley Group undertakings	<u>435,254</u>	<u>452,464</u>

9. CALLED UP SHARE CAPITAL

	2014 €'000	2013 €'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 2014

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 2013	-	135,000	8,072	143,072
Total recognised gains and losses	-	-	4,763	4,763
At 1 January 2014	-	135,000	12,835	147,835
Total recognised gains and losses	-	-	4,817	4,817
At 31 December 2014	-	135,000	17,652	152,652

Reserves

Share premium

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

On 30 July 2014, the Company received dividends of €27,203,000 on the Class A Redeemable Preference Shares from Morgan Stanley Adrastea Netherlands B V (2013 €nil)

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 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's own risk management policy framework is consistent with and leverages the risk management policies and procedures of the Morgan Stanley Group and which includes escalation to the Company's Board of Directors and to appropriate senior management personnel of the Company.

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 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.

The credit risk management policies and procedures of the Company establish the framework for ensuring transparency of material credit risks, ensuring compliance with established limits and escalating risk concentrations to appropriate senior management.

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.

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

12. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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⁾	
	2014	2013
	€'000	€'000
Loans and receivables		
Amounts due from Morgan Stanley Group undertakings	<u>184,586</u>	<u>196,979</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	
	2014	2013
	€'000	€'000
A	<u>184,586</u>	<u>196,979</u>

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

At 31 December 2014 there were no financial assets past due but not impaired or individually impaired (2013: €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.

The Company's liquidity and funding risk management policies and procedures are consistent with those of the Morgan Stanley Group.

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

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2014

12. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

The following principles guide the Company's liquidity and funding risk management framework

- Sufficient liquid assets should be maintained to cover maturing liabilities and other planned and contingent outflows,
- Maturity profile of assets and liabilities should be aligned, with limited reliance on short-term funding,
- Source, counterparty, currency, region, and term of funding should be diversified, and
- Contingency Funding Plan ("CFP") should anticipate, and account for, periods of limited access to funding

Liquidity management policies

The core components of the Company's liquidity and funding risk management framework, are the CFP, Liquidity Stress Tests and the Liquidity Reserve (as defined below), which support the Company'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 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 Company uses Liquidity Stress Tests to model liquidity outflows across multiple scenarios over a range of time horizons. These scenarios contain various combinations of idiosyncratic and systemic stress events

The assumptions underpinning the Liquidity Stress Tests include, but are not limited to, the following

- no government support,
- no access to equity and unsecured debt markets,
- repayment of all unsecured debt maturing within the stress horizon,
- higher haircuts and significantly lower availability of secured funding,
- additional collateral that would be required by trading counterparties, certain exchanges and clearing organisations related to credit rating downgrades,
- additional collateral that would be required due to collateral substitutions, collateral disputes and uncalled collateral,
- discretionary unsecured debt buybacks,
- drawdowns on unfunded commitments provided to third parties,
- client cash withdrawals and reduction in customer short positions that fund long positions,
- limited access to the foreign exchange swap markets, and
- maturity roll-off of outstanding letters of credit with no further issuance

The Liquidity Stress Tests are produced for Morgan Stanley and its major operating subsidiaries, as well as at major currency levels, to capture specific cash requirements and cash availability at various legal entities, including a limited number of asset sales in a stressed environment. 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. In addition to the assumptions underpinning the Liquidity Stress Tests, the settlement risk related to intra-day settlement and clearing of securities and financial activities is taken into consideration

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

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

12. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

event that it was unable to access adequate financing to service its financial liabilities when they become payable

The CFP and Liquidity Stress Tests are evaluated on an ongoing basis and reported to the Firm Risk Committee, Asset/ Liability Management Committee, and other appropriate risk committees including the Morgan Stanley International Limited Board Risk Committee

Global Liquidity Reserve

The Morgan Stanley Group maintains sufficient liquidity reserves ("the Global Liquidity Reserve") to cover daily funding needs and to 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. In addition, the Morgan Stanley Group's 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 Morgan Stanley Group's Global Liquidity Reserve, to which the Company has access, is held within Morgan Stanley and its major operating subsidiaries and is composed of diversified cash and cash equivalents and unencumbered highly liquid securities.

Eligible unencumbered highly liquid 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 its 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, repurchase agreements, 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 arising principally 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.

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

12. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

Maturity analysis

In the following maturity analysis of financial assets and financial liabilities, the 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 2014 and 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 these financial assets and financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial assets and financial liabilities is managed by the Company.

All financial assets and liabilities at 31 December 2014 and 31 December 2013 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 culture. The Company is responsible for ensuring that market risk exposures are well-managed and monitored. The Company also ensures transparency of material market risks, monitors compliance with established limits, and escalates risk concentrations to appropriate senior management.

To execute these responsibilities, the Company monitors its market risk against limits on aggregate risk exposures, performs a variety of risk analyses, routinely reports risk summaries and maintains the VaR and scenario analysis methodologies. The market risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to the Company's Board of Directors and appropriate management personnel.

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 €1,253,000 (2013: €1,277,000). The shift in market interest rates of 50 basis points is applied to debtors less financial liabilities at amortised cost at 31 December 2014.

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.

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.

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

14. CAPITAL MANAGEMENT (CONTINUED)

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 and leverage use of capital measure, which is compared with the Morgan Stanley Group's regulatory capital to ensure that 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 will continue to evaluate the framework with respect to the impact of future regulatory requirements, as appropriate.

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:

	2014 €'000	2013 €'000
Called up share capital	-	-
Share premium account	135,000	135,000
Profit and loss account	17,652	12,834
	<u>152,652</u>	<u>147,834</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. POST BALANCE SHEET EVENTS

On 10 June 2015, the Company received dividends of €9,068,000 on the Class A Redeemable Preference Shares from Morgan Stanley Adrastea Netherlands B V.

17. 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.