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**UK registration number: FC 026607**

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Canary Wharf  
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Registered office:  
PO Box 309  
Ugland House  
Grand Cayman  
KY1-1104  
Cayman Islands

**MORGAN STANLEY HIMALYA CAYMAN LIMITED**

**Report and financial statements**

**31 December 2017**



# **MORGAN STANLEY HIMALIA CAYMAN LIMITED**

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# **MORGAN STANLEY HIMALIA CAYMAN LIMITED**

## **STRATEGIC REPORT**

The Directors present their Strategic report for Morgan Stanley Himalia Cayman Limited (the “Company”) for the year ended 31 December 2017.

### **PRINCIPAL ACTIVITY**

The Company is an exempted company incorporated under the laws of the Cayman Islands.

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

The Company’s ultimate parent undertaking and controlling entity is Morgan Stanley, which, together with the Company and Morgan Stanley’s other subsidiary undertakings, form the “Morgan Stanley Group”.

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**

On 23 June 2016, UK electorate voted to leave the European Union (the “EU”). On 29 March 2017, the UK invoked Article 50 of the Lisbon Treaty which triggered a two-year period, subject to extension (which would need the unanimous approval of the EU Member States), during which the UK government is expected to negotiate its withdrawal agreement with the EU. Absent any extension, the UK is expected to leave the EU in March 2019. The terms and conditions of the anticipated withdrawal from the EU, and which of the several alternative models of relationship that the UK might ultimately negotiate with the EU, remain uncertain. However, the UK government has stated that the UK will leave the EU single market and will seek a phased period of implementation for the new relationship that may cover the legal and regulatory framework applicable to financial institutions with significant operations in Europe, such as Morgan Stanley. Since any transition or implementation periods and the eventual successor arrangements require agreement of both the UK and the EU, there is a risk that these arrangements may not be agreed by March 2019.

It is difficult to predict the future of the UK’s relationship with the EU, which may result in increased volatility in the global financial markets in the short- and medium-term. Potential effects of the UK exit from the EU and potential mitigation actions may vary considerably depending on the timing of withdrawal and the nature of any transition, implementation or successor arrangements. Morgan Stanley is taking steps to make changes to its European operations in an effort to ensure that it can continue to provide cross-border banking and investment services in EU Member States without the need for separate regulatory authorisations in each member state. These changes must be approved by the relevant regulatory authorities and therefore it is currently unclear what the final post-Brexit structure of European operations will be. Depending on the extent to which Morgan Stanley may be required to make material changes to European operations beyond those currently planned, results of Morgan Stanley’s operations and business prospects could be negatively affected.

### **Overview of 2017**

The statement of comprehensive income is set out on page 6. The Company’s loss for the year has decreased by €622,000 to €1,346,000 and is primarily attributable to a decrease in the net interest expense on the Company’s loans to other Morgan Stanley Group undertakings.

The statement of financial position of the Company is set out on page 8. The Company’s net assets at the end of the year were €144,767,000 compared to €144,693,000 in the prior year. The €74,000 increase is attributable to interest accrued on the Company’s loans to other Morgan Stanley Group undertakings. The Company’s net liabilities at the end of the year were €185,747,000 compared to €184,327,000 in the prior year. The €1,420,000 increase is attributable to interest accrued on the Company’s loans from other Morgan Stanley Group undertakings.

# **MORGAN STANLEY HIMALIA CAYMAN LIMITED**

## **STRATEGIC REPORT**

### **BUSINESS REVIEW (CONTINUED)**

#### **Overview of 2017 (continued)**

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.

#### **Risk management**

Risk is an inherent part of the Company's business activity. The Company seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities, in accordance with defined policies and procedures. The Company has developed its own risk management policy framework, which leverages the risk management policies and procedures of the Morgan Stanley Group, and which include escalation to appropriate senior management personnel of the Company.

##### *Credit risk*

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

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

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

##### *Liquidity risk*

Liquidity 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 risk encompasses the Company's ability (or perceived ability) to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten the Company's viability as a going concern. Liquidity risk also encompasses the associated funding risks triggered by the market or idiosyncratic stress events that may cause unexpected changes in funding needs or an inability to raise new funding.

The Morgan Stanley Group's senior management establishes the liquidity and funding policies of the Morgan Stanley Group and the liquidity risk management policies and procedures conducted within the Company are consistent with those of the Morgan Stanley Group. The primary goal of the Morgan Stanley Group's liquidity risk management framework is to ensure that the Morgan Stanley Group, including the Company, has access to adequate funding across a wide range of market conditions and time horizons. The framework is designed to enable the Morgan Stanley Group to fulfil its financial obligations and support the execution of the Company's business strategies.

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

# MORGAN STANLEY HIMALIA 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 (e.g. fraud, theft, legal and compliance risks, cyber attacks or damage to physical assets). Operational risk relates to the following risk event categories as defined by Basel Capital Standards: internal fraud; external fraud, employment practices and workplace safety; clients, products and business practices; business disruption and system failure; damage to physical assets; and execution, delivery and process management. Legal, regulatory and compliance risk is discussed below under "Legal, regulatory and compliance risk".

##### *Legal, regulatory and compliance risk*

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

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

#### Going concern

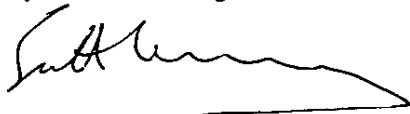
Retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy. Additionally, the Company has access to further Morgan Stanley Group capital and liquidity as required.

Although the Company is in a net liability position, the Company is performing in line with expectations and the net liability position is due to amounts owing to fellow Morgan Stanley Group undertakings, the demand for repayment of which is wholly within the control of the Morgan Stanley Group.

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

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

Director



*23 OCTOBER 2018*

## **MORGAN STANLEY HIMALIA CAYMAN LIMITED**

### **DIRECTORS' REPORT**

The Directors present their report and financial statements (which comprise the statement of comprehensive income, the statement of changes in equity, the statement of financial position and the related notes, 1 to 13) for the Company for the year ended 31 December 2017.

### **RESULTS AND DIVIDENDS**

The loss for the year, after tax, was €1,346,000 (2016: €1,968,000).

During the year, no dividends were paid or proposed (2016: €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:

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 and its subsidiary undertakings.

### **DIRECTORS' 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 and its subsidiary undertakings.

### **EVENTS AFTER THE REPORTING DATE**

There have been no significant events since the reporting date.

### **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 exempt 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 UK (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 these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including Financial Reporting Standard ("FRS") 101 *Reduced Disclosure Framework* ("FRS 101"), have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

## **MORGAN STANLEY HIMALIA CAYMAN LIMITED**

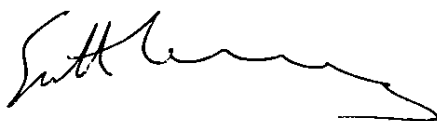
### **DIRECTORS' REPORT**

#### **DIRECTORS' RESPONSIBILITIES STATEMENT (CONTINUED)**

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the 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 MERRIN**

Director



**23 OCTOBER 2018**

**MORGAN STANLEY HIMALIA CAYMAN LIMITED****STATEMENT OF COMPREHENSIVE INCOME**  
**Year ended 31 December 2017**

|                                                         | <b>Note</b> | <b>2017</b><br><b>€'000</b> | <b>2016</b><br><b>€'000</b> |
|---------------------------------------------------------|-------------|-----------------------------|-----------------------------|
| Interest income                                         | 4           | 75                          | 109                         |
| Interest expense                                        | 4           | (1,421)                     | (2,077)                     |
| <b>LOSS BEFORE TAXATION</b>                             |             | <u>(1,346)</u>              | <u>(1,968)</u>              |
| Income tax result                                       | 6           | -                           | -                           |
| <b>LOSS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b> |             | <u><u>(1,346)</u></u>       | <u><u>(1,968)</u></u>       |

All operations were continuing in the current and prior year.

The notes on pages 9 to 17 form an integral part of the financial statements.

**MORGAN STANLEY HIMALIA CAYMAN LIMITED****STATEMENT OF CHANGES IN EQUITY**  
**Year ended 31 December 2017**

|                                     | <b>Share<br/>capital<br/>€'000</b> | <b>Retained<br/>earnings<br/>€'000</b> | <b>Total<br/>equity<br/>€'000</b> |
|-------------------------------------|------------------------------------|----------------------------------------|-----------------------------------|
| <b>Balance at 1 January 2016</b>    | 4,782                              | (42,448)                               | (37,666)                          |
| Loss and total comprehensive income | -                                  | (1,968)                                | (1,968)                           |
| <b>Balance at 31 December 2016</b>  | 4,782                              | (44,416)                               | (39,634)                          |
| Loss and total comprehensive income | -                                  | (1,346)                                | (1,346)                           |
| <b>Balance at 31 December 2017</b>  | <u>4,782</u>                       | <u>(45,762)</u>                        | <u>(40,980)</u>                   |

The notes on pages 9 to 17 form an integral part of the financial statements.

**MORGAN STANLEY HIMALIA CAYMAN LIMITED**

Registered number: MC 161513

**STATEMENT OF FINANCIAL POSITION****As at 31 December 2017**

|                                                     | Note | 2017<br>€'000   | 2016<br>€'000   |
|-----------------------------------------------------|------|-----------------|-----------------|
| <b>ASSETS</b>                                       |      |                 |                 |
| Loans and receivables:                              |      |                 |                 |
| Other receivables                                   | 7    | 9,767           | 9,693           |
| Investments in subsidiaries                         | 8    | 135,000         | 135,000         |
| <b>TOTAL ASSETS</b>                                 |      | <u>144,767</u>  | <u>144,693</u>  |
| <b>LIABILITIES AND EQUITY</b>                       |      |                 |                 |
| Financial liabilities at amortised cost:            |      |                 |                 |
| Other payables                                      | 9    | 185,747         | 184,327         |
| <b>TOTAL LIABILITIES</b>                            |      | <u>185,747</u>  | <u>184,327</u>  |
| <b>EQUITY</b>                                       |      |                 |                 |
| Share capital                                       | 10   | 4,782           | 4,782           |
| Retained earnings                                   |      | (45,762)        | (44,416)        |
| <b>Equity attributable to owners of the Company</b> |      | <u>(40,980)</u> | <u>(39,634)</u> |
| <b>TOTAL EQUITY</b>                                 |      | <u>(40,980)</u> | <u>(39,634)</u> |
| <b>TOTAL LIABILITIES AND EQUITY</b>                 |      | <u>144,767</u>  | <u>144,693</u>  |

These financial statements were approved by the Board and authorised for issue on 23 October 2018

Signed on behalf of the Board

Director



SCOTT MERRY

The notes on pages 9 to 17 form an integral part of the financial statements.

## **MORGAN STANLEY HIMALIA CAYMAN LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS** **Year ended 31 December 2017**

#### **1. CORPORATE INFORMATION**

The Company is incorporated and domiciled in Cayman Islands, at the following registered address Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company is an exempted company and is limited by shares. The registered number of the Company is MC 161513.

Details of the parent and ultimate controlling entity are disclosed in the related party disclosures note 13.

#### **2. BASIS OF PREPARATION**

The Company is not required to prepare consolidated financial statements by virtue of the exemption under section 401 of the Companies Act 2006. The results of the Company are included within the financial statements of Morgan Stanley which has prepared consolidated financial statements for the year ended 31 December 2017, has its registered office at c/o The Corporation Trust Company, The Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, United States of America and is incorporated in the state of Delaware, in the United States of America. The financial statements therefore present information about the Company as an individual entity and not about its group.

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

#### **Statement of compliance**

These financial statements are prepared in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), including FRS 101.

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

Where relevant, equivalent disclosures have been provided in the group accounts of Morgan Stanley, in which the Company is consolidated. Copies of Morgan Stanley's accounts can be obtained as detailed at note 13.

#### **New standards and interpretations adopted during the year**

The following amendment to standards and interpretations relevant to the Company's operations were adopted during the year. This amendment to standards and interpretations did not have a material impact on the Company's financial statements.

An amendment to International Accounting Standards ("IAS") 12 *Income Taxes* was issued by the International Accounting Standards Board ("IASB") in January 2016, for application in annual periods beginning on or after 1 January 2017. The amendment was endorsed by the EU in November 2017.

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

#### **Basis of measurement**

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

## **MORGAN STANLEY HIMALIA CAYMAN LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS** **Year ended 31 December 2017**

#### **2. BASIS OF PREPARATION (CONTINUED)**

##### **Critical judgements in applying the Company's accounting policies**

No judgements have been made in the process of applying the Company's accounting policies that have had a significant effect on the amounts recognised in the financial statements.

##### **The going concern assumption**

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

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

Although the Company is in a net liability position, the Company is performing in line with expectations and the net liability position is due to amounts owing to fellow Morgan Stanley Group undertakings, the demand for repayment of which is wholly within the control of the Morgan Stanley Group.

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

#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **a. 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 and Strategic and Directors' reports are rounded to the nearest thousand Euros.

##### **b. Foreign currencies**

All monetary assets and liabilities denominated in currencies other than Euros are translated into Euros at the rates ruling at the reporting date. Transactions and non-monetary assets and liabilities denominated in currencies other than Euros are recorded at the rates prevailing at the dates of the transactions. All translation differences are taken through the statement of comprehensive income. Exchange differences recognised in the statement of comprehensive income statement are presented in 'Other income' or 'Other expense'.

##### **c. Financial instruments**

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

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

More information regarding these classifications is included below:

##### **i) Investments in subsidiaries**

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

## MORGAN STANLEY HIMALIA CAYMAN LIMITED

### NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2017

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### c. Financial instruments (continued)

##### i) Investments in subsidiaries (continued)

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

##### ii) Loans and receivables and financial liabilities at amortised cost

Financial assets classified as loans and receivables are recognised when the Company becomes a party to the contractual provisions of the instrument. They are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost less allowance for impairment. Interest is recognised in the statement of comprehensive income in 'Interest income', using the effective interest rate method as described below. Transaction costs that are directly attributable to the acquisition of the financial asset are added to or deducted from the fair value on initial recognition. Impairment losses and reversals of impairment losses on financial assets classified as loans and receivables are recognised in the statement of comprehensive income in 'Other expense'.

Financial assets classified as loans and receivables include other receivables.

Financial liabilities at amortised cost are recognised when the Company becomes a party to the contractual provisions of the instrument. They are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost. Interest is recognised in the statement of comprehensive income in 'Interest expense' using the effective interest rate method as described below. Transaction costs that are directly attributable to the issue of the financial liability are added to or deducted from the fair value on initial recognition.

The effective interest rate method is a method of calculating the amortised cost of a financial instrument (or a group of financial instruments) and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument (or, where appropriate a shorter period) to the carrying amount of the financial instrument. The effective interest rate is established on initial recognition of the financial instrument. The calculation of the effective interest rate includes all fees and commissions paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument.

##### d. Fair value

###### *Fair value measurement*

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

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, assumptions are set to reflect those that the Company believes market participants would use in pricing the asset or liability at the measurement date.

Where the Company manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the Company measures the fair value of that group of financial instruments consistently with how market participants would price the net risk exposure at the measurement date.

## **MORGAN STANLEY HIMALIA CAYMAN LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS** **Year ended 31 December 2017**

#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **d. Fair value (continued)**

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

The hierarchy is broken down into three levels based on the observability of inputs as follows, with Level 1 being the highest and Level 3 being the lowest level:

- **Level 1 – Quoted prices (unadjusted) in an active market for identical assets or liabilities**  
Valuations based on quoted prices in active markets that the Morgan Stanley Group has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgement.
- **Level 2 – Valuation techniques using observable inputs**  
Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- **Level 3 – Valuation techniques with significant unobservable inputs**  
Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

##### **e. Derecognition of financial assets and liabilities**

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

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

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

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

##### **f. Impairment of financial assets**

At each reporting date, an assessment is made as to whether there is any objective evidence of impairment in the value of a financial asset classified as either, loans and receivables or investments in subsidiaries. Impairment losses are recognised if an event has occurred which will have an adverse impact on the expected future cash flows of an asset and the expected impact can be reliably estimated.

Impairment losses on investment in subsidiaries are measured as the difference between cost and the current estimated recoverable amount. When the recoverable amount is less than the cost, an impairment is recognised within the statement of comprehensive income in 'Net gains/(losses) on investments in subsidiaries' and is reflected against the carrying amount of the impaired asset on the statement of financial position.

## **MORGAN STANLEY HIMALIA CAYMAN LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS** **Year ended 31 December 2017**

#### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **f. Impairment of financial assets (continued)**

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

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

##### **g. Income tax**

The tax expense represents the tax currently payable

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

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

#### **4. INTEREST INCOME AND INTEREST EXPENSE**

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

No other gains or losses have been recognised in respect of loans and receivables other than as disclosed as 'Interest income' within the statement of comprehensive income.

No other gains or losses have been recognised in respect of financial liabilities at amortised cost other than as disclosed as 'Interest expense' within the statement of comprehensive income.

#### **5. OTHER EXPENSE**

The Company employed no staff during the year (2016: nil).

The amount of remuneration received by Directors in respect of their qualifying services to the Company is disclosed in the Related party disclosures note (note 13).

# MORGAN STANLEY HIMALIA CAYMAN LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2017

### 6. INCOME TAX RESULT

#### Analysis of result in the year

|                                          | 2017<br>€'000 | 2016<br>€'000 |
|------------------------------------------|---------------|---------------|
| <b>Current tax</b>                       |               |               |
| UK corporation tax at 19.25% (2016: 20%) |               |               |
| - Current year                           | -             | -             |
| <b>Income tax result</b>                 | -             | -             |

Finance (No.2) Act 2015 enacted a reduction in the UK corporation tax rate to 19% with effect from 1 April 2017. Finance Act 2016 enacted a further reduction in the UK corporation tax rate to 17% with effect from 1 April 2020 which will impact the current tax charge in future periods.

#### Reconciliation of effective tax rate

The current year income tax expense is higher (2016: higher) than that resulting from applying the average standard rate of corporation tax in UK for the year of 19.25% (2016: 20%). The main differences are explained below:

|                                                                                               | 2017<br>€'000 | 2016<br>€'000 |
|-----------------------------------------------------------------------------------------------|---------------|---------------|
| Loss before taxation                                                                          | (1,346)       | (1,968)       |
| Income tax using the average standard rate of corporation tax in the UK of 19.25% (2016: 20%) | (259)         | (394)         |
| Impact on tax of:                                                                             |               |               |
| Group relief surrendered for no cash consideration                                            | 259           | 394           |
| <b>Total income tax result in the statement of comprehensive income</b>                       | -             | -             |

### 7. OTHER RECEIVABLES

|                                                          | 2017<br>€'000 | 2016<br>€'000 |
|----------------------------------------------------------|---------------|---------------|
| Amounts due from other Morgan Stanley Group undertakings | 9,767         | 9,693         |

### 8. INVESTMENT IN SUBSIDIARIES

|                                        | Subsidiaries<br>undertakings<br>€'000 |
|----------------------------------------|---------------------------------------|
| <b>Cost and carrying amounts</b>       |                                       |
| At 1 January 2017 and 31 December 2017 | 135,000                               |

## MORGAN STANLEY HIMALIA CAYMAN LIMITED

### NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2017

#### 8. INVESTMENT IN SUBSIDIARIES (CONTINUED)

Details of all investments in subsidiary of the Company at 31 December 2017 and 31 December 2016 are as follows:

| Name of Company                          | Address of undertaking's registered office                                                         | Type of shares held                    | Proportion of shares held |      | Proportion of voting rights held |        | Nature of business |
|------------------------------------------|----------------------------------------------------------------------------------------------------|----------------------------------------|---------------------------|------|----------------------------------|--------|--------------------|
|                                          |                                                                                                    |                                        | 2017                      | 2016 | 2017                             | 2016   |                    |
| Morgan Stanley Sinope Cayman Limited     | Maples Corporate Services Limited, PO Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands | Ordinary                               | 100%                      | 100% | 100%                             | 100%   | Holding company    |
| Morgan Stanley Adrastea Netherlands B.V. | 20 Bank Street, Canary Wharf, London E14 4AD, United Kingdom                                       | Ordinary *                             | 100%                      | 100% | 23.53%                           | 23.53% | Financial services |
| Morgan Stanley Adrastea Netherlands B.V. | 20 Bank Street, Canary Wharf, London E14 4AD, United Kingdom                                       | Class A Redeemable Preference Shares * | 100%                      | 100% | 76.47%                           | 76.47% | Financial services |
| Morgan Stanley Adrastea Netherlands B.V. | 20 Bank Street, Canary Wharf, London E14 4AD, United Kingdom                                       | Class B Redeemable Preference Shares * | 100%                      | 100% | 0.001%                           | 0.001% | Financial services |
| Morgan Stanley Adrastea Netherlands B.V. | 20 Bank Street, Canary Wharf, London E14 4AD, United Kingdom                                       | Class C Redeemable Preference Shares * | 100%                      | 100% | 0.001%                           | 0.001% | Financial services |

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

#### 9. OTHER PAYABLES

|                                                        | 2017<br>€'000  | 2016<br>€'000  |
|--------------------------------------------------------|----------------|----------------|
| Amounts due to other Morgan Stanley Group undertakings | <u>185,747</u> | <u>184,327</u> |

# MORGAN STANLEY HIMALIA CAYMAN LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2017

### 10. EQUITY

|                                        | Ordinary<br>shares of €1<br>each<br>Number | Ordinary<br>shares of \$1<br>each<br>Number | Total<br>ordinary<br>shares<br>Number |
|----------------------------------------|--------------------------------------------|---------------------------------------------|---------------------------------------|
| <b>Authorised</b>                      |                                            |                                             |                                       |
| At 1 January 2017 and 31 December 2017 | 10,000,000                                 | 50,000                                      | 10,050,000                            |

|                                | Ordinary<br>shares of €1<br>each<br>Number | Ordinary<br>shares of €1<br>each<br>€'000 | Ordinary<br>share of \$1<br>each<br>Number | Ordinary<br>shares of \$1<br>each<br>€'000 | Total<br>ordinary<br>shares<br>€'000 |
|--------------------------------|--------------------------------------------|-------------------------------------------|--------------------------------------------|--------------------------------------------|--------------------------------------|
| <b>Allotted and fully paid</b> |                                            |                                           |                                            |                                            |                                      |

|                                           |           |       |   |   |       |
|-------------------------------------------|-----------|-------|---|---|-------|
| At 1 January 2017 and 31<br>December 2017 | 4,781,582 | 4,782 | 1 | - | 4,782 |
|-------------------------------------------|-----------|-------|---|---|-------|

The ordinary share are recorded at the rates of exchange ruling at the date the shares were paid up.

### 11. EXPECTED MATURITY OF ASSETS AND LIABILITIES

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

| At 31 December 2017                      | Less than<br>or equal to<br>twelve<br>months<br>€'000 | More than<br>twelve<br>months<br>€'000 | Total<br>€'000 |
|------------------------------------------|-------------------------------------------------------|----------------------------------------|----------------|
| <b>ASSETS</b>                            |                                                       |                                        |                |
| Loans and receivables:                   |                                                       |                                        |                |
| Other receivables                        | 9,767                                                 | -                                      | 9,767          |
| Investment in subsidiaries               | -                                                     | 135,000                                | 135,000        |
|                                          | 9,767                                                 | 135,000                                | 144,767        |
| <b>LIABILITIES</b>                       |                                                       |                                        |                |
| Financial liabilities at amortised cost: |                                                       |                                        |                |
| Other payables                           | 82                                                    | 185,665                                | 185,747        |

# MORGAN STANLEY HIMALIA CAYMAN LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2017

### 11. EXPECTED MATURITY OF ASSETS AND LIABILITIES (CONTINUED)

At 31 December 2016

|                                          | Less than<br>or equal to<br>twelve<br>months<br>€'000 | More than<br>twelve<br>months<br>€'000 | Total<br>€'000 |
|------------------------------------------|-------------------------------------------------------|----------------------------------------|----------------|
| <b>ASSETS</b>                            |                                                       |                                        |                |
| Loans and receivables:                   |                                                       |                                        |                |
| Other receivables                        | 9,693                                                 | -                                      | 9,693          |
| Investment in subsidiaries               | -                                                     | 135,000                                | 135,000        |
|                                          | <u>9,693</u>                                          | <u>135,000</u>                         | <u>144,693</u> |
| <b>LIABILITIES</b>                       |                                                       |                                        |                |
| Financial liabilities at amortised cost: |                                                       |                                        |                |
| Other payables                           | <u>184,327</u>                                        | <u>-</u>                               | <u>184,327</u> |

### 12. SEGMENT REPORTING

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

### 13. RELATED PARTY DISCLOSURES

#### Parent and subsidiary relationships

##### *Parent and ultimate controlling entity*

The Company's immediate parent undertaking is Morgan Stanley Europa LLC, which has its registered office at c/o The Corporation Trust Company, The Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, The United States of America.

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

#### Directors' remuneration

The Directors did not receive any remuneration for their qualifying services to the Company during the year (2016: €nil).