Registered number: 34161590

Registered office:
Luna Arena
Herikerbergweg 238
1101 CM
Amsterdam
The Netherlands

MORGAN STANLEY B.V.

Report and financial statements

31 December 2015

MORGAN STANLEY B.V.

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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, the statement of cash flows, and the related notes, 1 to 20) for the Morgan Stanley B.V. (the "Company") for the year ended 31 December 2015.

RESULTS AND DIVIDENDS

The profit for the year, after tax, was €7,620,000 (2014: €4,993,000).

During the year, no dividends were paid or proposed (2014: €nil).

PRINCIPAL ACTIVITY

The principal activity of the Company is the issuance of financial instruments including notes, certificates and warrants ("Structured Notes") and the hedging of the obligations arising pursuant to such issuances.

The Company was incorporated under Dutch law on 6 September 2001 and has its statutory seat in Amsterdam, the Netherlands. The business office of the Company is at Luna Arena, Herikerbergweg 238, 1101 CM, Amsterdam, The Netherlands.

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".

FUTURE OUTLOOK

There have not been any significant changes in the Company's principal activity, financing or investment activity in the year under review and no significant change is expected.

BUSINESS REVIEW

During the first half of 2015, global growth was supported by a rebound in the United States ("US") and firmer growth in the euro zone and the United Kingdom economies, partially offset by sluggishness in major emerging market economies. During the second half of 2015, global growth slowed as a result of the continued sluggishness of emerging market economies, declines in energy prices, and the slowdown of China's economic growth. Global real gross domestic product growth decelerated in 2015 from 2014. Growth in emerging market economies slowed for a fourth straight year, while growth in developed market economies was steady but sluggish. Notable trends during the year included falling oil and other commodity prices, an appreciating US dollar weighing on global trade flows and increasing policy challenges in a number of major emerging market economies, most notably China. The US Federal Reserve announced a rate increase in December 2015 based on cumulative labour market progress and rising confidence in achieving its inflation target. However, with Europe and Japan still struggling and China decelerating, the European Central Bank ("ECB"), the Bank of Japan and the People's Bank of China acted to continue their targeted monetary policy easing measures. Subsequent to 31 December 2015, the Bank of Japan announced a programme of Quantitative and Qualitative Monetary Easing ("QE") with a Negative Interest Rate that introduced a three tier policy rate system for bank reserves with a low rate of negative 0.1%. Additionally, in March 2016 the ECB announced a further QE programme and reduced interest rates with the deposit facility rate falling from negative 0.3% to negative 0.4% and the benchmark interest rate falling from 0.05% to zero%.

The issued Structured Notes expose the Company to the risk of changes in market prices of the underlying securities, interest rate risk and, where denominated in currencies other than Euros, the risk of changes in rates of exchange between the Euro and the other relevant currencies. The Company uses the contracts that it purchases from other Morgan Stanley Group undertakings to hedge the market price, interest rate and foreign currency risks associated with the issuance of the Structured Notes.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

The statement of comprehensive income for the year is set out on page 9. The Company made a profit before income tax of €10,151,000 in the current year, an increase of €3,493,000 from the prior year. The profit before income tax is primarily driven by the average level of Structured Notes in issuance on which management charges of €5,711,000 (2014: €6,658,000) reflected in 'Other income' are received.

In addition, in the current year a change in fair value of certain Structured Notes attributable to own credit risk of €4,440,000 (2014: €nil) is reflected in 'Net gains / (losses) on financial instruments designated at fair value through profit or loss.'

In certain limited circumstances, Structured Notes have been issued to other Morgan Stanley Group undertakings and hedged by prepaid equity securities contracts, both of which are designated at fair value through profit and loss. The Company has entered into collateral arrangements on these prepaid equity securities contracts with other Morgan Stanley Group undertakings.

As a result of the collateral arrangements associated with these prepaid equity securities contracts, whilst the Company recognises changes in fair value attributable to own credit risk of the issued Structured Notes in the statement of comprehensive income, no offsetting change in fair value attributable to counterparty credit risk of the prepaid equity securities contracts is recognised in the statement of comprehensive income.

In addition to management charges, 'Other income' also includes a net foreign exchange gain of €14,152,000 as a result of hedging assets and liabilities recognised for Morgan Stanley Group reporting purposes. Consistent with the calculation of the yield payable on Convertible Preferred Equity Certificates ("CPECs") explained in note 8, this has resulted in an increase in 'Interest expense' which primarily relates to the yield of €36,821,000 (2014: €24,775,000).

The statement of financial position for the Company is set out on page 11. The Company's total assets at 31 December 2015 are €8,770,208,000, an increase of €688,406,000 or 9% when compared to 31 December 2014. Total liabilities of €8,732,518,000 represent an increase of €680,786,000 or 8%, when compared to total liabilities at 31 December 2014. Structured Notes have increased since 31 December 2014 as a result of new issuances and fair value movements in the year partially offset by maturities. The increase in the value of issued Structured Notes has resulted in a net increase in the value of the related hedging instruments.

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.

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 includes escalation to the Company's Board of Directors and to appropriate senior management personnel of the Company as well as oversight through the Company's Board of Directors.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Set out below is an overview of the Company's policies for the management of financial risk and other significant business risks. More detailed qualitative and quantitative disclosures about the Company's management of and exposure to financial risks are included in note 15 to the financial statements.

Market risk
Market risk refers to the risk of losses for a position or portfolio due to changes in rates, foreign exchange, equities, implied volatilities, correlations or other market factors.

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.

It is the policy and objective of the Company not to be exposed to net market risk.

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.

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

Liquidity and funding risk
Liquidity and funding risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity and funding risk also encompasses the Company's ability to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern.

The primary goal of the Morgan Stanley Group's liquidity 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 framework is further described in note 19.

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

Operational risk
Operational risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes, people and systems or from external events (e.g. fraud, theft, legal and compliance risks 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".

The Company may incur operational risk across the full scope of its business activities.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Operational risk (continued)

The Company has established an operational risk framework to identify measure, monitor and control risk across the Company. This framework is consistent with the framework established by the Morgan Stanley Group and includes escalation to the Company's Board of directors and appropriate senior management personnel. Effective operational risk management is essential to reducing the impact of operational risk incidents and mitigating legal and reputational risks. The framework is continually evolving to account for changes in the Company and to respond to the changing regulatory and business environment. The Company has implemented operational risk data and assessment systems to monitor and analyse internal and external operational risk events, to assess business environment and internal control factors and to perform scenario analysis. The collected data elements are incorporated in the operational risk capital model. The model encompasses both quantitative and qualitative elements. Internal loss data and scenario analysis results are direct inputs to the capital model, while external operational incidents, business environment and internal control factors are evaluated as part of the scenario analysis process.

In addition, the Company employs a variety of risk processes and mitigants to manage its operational risk exposures. These include a strong governance framework, a comprehensive risk management programme and insurance. Operational risks and associated risk exposures are assessed relative to the risk tolerance established by the Board and are prioritised accordingly. The breadth and range of operational risk are such that the types of mitigating activities are wide-ranging. Examples of activities include enhancing defences against cyberattacks; use of legal agreements and contracts to transfer and/ or limit operational risk exposures; due diligence; implementation of enhanced policies and procedures; exception management processing controls; and segregation of duties.

Primary responsibility for the management of operational risk is with the business segments, the control groups and the business managers therein. The business managers maintain processes and controls designed to identify, assess, manage, mitigate and report operational risk. Each of the business segments has a designated operational risk coordinator. The operational risk coordinator regularly reviews operational risk issues and reports to the Company's senior management within each business. Each control group also has a designated operational risk coordinator and a forum for discussing operational risk matters with the Company's senior management. Oversight of operational risk is provided by the Operational Risk Oversight Committee, regional risk committees and senior management. In the event of a merger; joint venture; divestiture; reorganisation; or creation of a new legal entity, a new product or a business activity, operational risks are considered, and any necessary changes in processes or controls are implemented.

The Operational Risk Department is independent of the divisions and reports to the Chief Risk Officer of the Morgan Stanley Group ("CRO"). The Operational Risk Department provides oversight of operational risk management and independently assesses measures and monitors operational risk. The Operational Risk Department works with the divisions and control groups to help ensure a transparent, consistent and comprehensive framework for managing operational risk within each area and across the Company. The Operational Risk Department scope includes oversight of technology and data risks (e.g. cybersecurity) and a supplier management (vendor risk oversight and assessment) programme. Furthermore, the Operational Risk Department supports the collection and reporting of operational risk incidents and the execution of operational risk assessments; provides the infrastructure needed for risk measurement and risk management; and ensures ongoing validation and verification of the Company's advanced measurement approach for operational risk capital.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Operational risk (continued)
Business Continuity Management is responsible for identifying key risks and threats to the Company's resiliency and planning to ensure that a recovery strategy and required resources are in place for the resumption of critical business functions following a disaster or other business interruption. Disaster recovery plans are in place for critical facilities and resources, and redundancies are built into the systems as deemed appropriate. The key components of the Company's Business Continuity Management Programme include: crisis management; business recovery plans; applications/ data recovery; work area recovery; and other elements addressing management, analysis, training and testing.

The Company maintains an information security programme that coordinates the management of information security risks and is designed to address regulatory requirements. Information security policies are designed to protect the Company's information assets against unauthorised disclosure, modification or misuse. These policies cover a broad range of areas, including: application entitlements, data protection, incident response, Internet and electronic communications, remote access and portable devices. The Company has also established policies, procedures and technologies to protect its computers and other assets from unauthorised access.

In connection with its ongoing operations, the Company utilises the services of external vendors, which it anticipates will continue and may increase in the future. These services include, for example, outsourced processing and support functions and consulting and other professional services. The Company manages its exposures to these services through a variety of means such as the performance of due diligence, consideration of operational risk, implementation of service level and other contractual agreements, and ongoing monitoring of the vendors' performance. The Company maintains a supplier risk management programme with policies, procedures, organisation, governance and supporting technology that satisfies regulatory requirements. The programme is designed to ensure that adequate risk management controls over the services exist, including, but not limited to information security, operational failure, financial stability, disaster recoverability, reputational risk, safeguards against corruption and termination.

Legal, regulatory and compliance risk
Legal, regulatory and compliance risk includes the risk of legal or regulatory sanctions, material financial loss; including fines, penalties, judgements, damages and/ or settlements or loss to reputation the Company may suffer as a result of a failure to comply with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to our business activities. This risk also includes contractual and commercial risk, such as the risk that a counterparty's performance obligations will be unenforceable. It also includes compliance with Anti-Money Laundering and terrorist financing rules and regulations. The Company is generally subject to extensive regulation in the different jurisdictions in which it conducts its business.

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.

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 heightened legal and regulatory focus on the financial services industry presents a continuing business challenge for the Company.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Culture, values and conduct of employees
All employees of the Morgan Stanley Group are accountable for conducting themselves in accordance with the Morgan Stanley Group's core values *Putting Clients First, Doing the Right Thing, Leading with Exceptional Ideas, and Giving Back.* The Morgan Stanley Group is committed to establishing a strong culture anchored in these core values, and in its governance framework, which includes management oversight, effective risk management and controls, training and development programmes, policies, procedures, and defined roles and responsibilities. The Morgan Stanley Group's Code of Conduct (the "Code") establishes standards for employee conduct that further reinforce the Morgan Stanley Group's commitment to integrity and ethical conduct. Every new hire and every employee annually must attest to their understanding of and adherence to the Code. The annual employee performance appraisal process includes an evaluation of adherence to the Code and the Morgan Stanley Group's core values. The Global Incentive Compensation Discretion Policy sets forth standards that specifically provide that managers must consider whether their employees effectively managed and/or supervised risk control practices during the performance year. The Morgan Stanley Group also has several mutually reinforcing processes to identify employee conduct that may have an impact on employment status, current year compensation and/or prior year compensation. The Morgan Stanley Group's clawback and cancellation provisions permit recovery of deferred incentive compensation where an employee's act or omission (including 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 revenues associated with a position on which the employee was paid and the employee operated outside of internal control policies.

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.

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

DIRECTORS

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

R.H.L. de Groot	(resigned 17 August 2015)
H. Herrmann	
S. Ibanez	(appointed 17 August 2015)
P.J.G. de Reus	
L.P.A. Rolfes	(appointed 21 July 2015)
Z. Wu	(resigned 30 June 2015)
TMF Management B.V.	

The Company has taken notice of Dutch legislation effective as of 1 January 2013, as a consequence of which the Company should take into account as much as possible a balanced composition of the Board of Directors in terms of gender, when nominating or appointing Directors, to the effect that at least 30 percent of the positions should be held by women and at least 30 percent by men. Currently the composition of the Board of Directors deviates from the gender diversity objectives. When appointing a Director, the Board of Directors considers the gender diversity objectives, as appropriate.

DIRECTORS' REPORT

EVENTS AFTER THE REPORTING DATE

There have been no significant events since the reporting date.

AUDIT COMMITTEE

The Company qualifies as an organisation of public interest pursuant to Dutch and European Union ("EU") law. Morgan Stanley International Limited, a shareholder in the Company during the current year, has an audit committee that functioned as the audit committee of the Company. On 26 March 2015, Morgan Stanley International Limited disposed of its shareholding in the Company; accordingly, the Company can no longer take the exemption available for groups and has established its own audit committee which complies with the applicable corporate governance rules as detailed in the Articles of Association of the Company.

AUDITOR

Deloitte Accountants B.V. have expressed their willingness to continue in office as auditor of the Company and a resolution to re-appoint them will be proposed at the forthcoming annual general meeting.

Approved by the Board and signed on its behalf by:

H. Herrmann S. Ibanez P.J.G. de Reus

L.P.A. Rolfes TMF Management B.V.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors, the names of whom are set out below, confirm to the best of their knowledge:

- the financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB") and as endorsed by the EU and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the management report represented by the Directors' report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that the Company faces.

Approved by the Board and signed on its behalf by

H. Herrmann	S. Ibanez	P.J.G. de Reus
L.P.A. Rolfes	TMF Management B.V.	

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2015

	Note	2015 €000	2014 €000
Net (losses)/ gains on financial instruments classified as held for trading		(478,444)	185,570
Net gains/ (losses) on financial instruments designated at fair value through profit or loss		482,884	(185,570)
Interest income	4	23,190	24,932
Interest expense	4	(37,178)	(24,832)
Other income	5	19,863	6,658
Other expense	6	(164)	(100)
PROFIT BEFORE INCOME TAX		10,151	6,658
Income tax expense	7	(2,531)	(1,665)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		7,620	4,993

The notes on pages 13 to 56 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2015

	Share capital €000	Retained earnings €000	Total equity €000
Balance at 1 January 2014	15,018	10,059	25,077
Profit and total comprehensive income for the year	-	4,993	4,993
Balance at 31 December 2014	15,018	15,052	30,070
Profit and total comprehensive income for the year	-	7,620	7,620
Balance at 31 December 2015	15,018	22,672	37,690

The notes on pages 13 to 56 form an integral part of the financial statements.

MORGAN STANLEY B.V.
Registered number: 34161590

STATEMENT OF FINANCIAL POSITION
As at 31 December 2015

	Note	2015 €000	2014 €000
ASSETS			
Loans and receivables:			
Cash and short-term deposits		499	510
Trade receivables		293,998	24,586
Other receivables	20	1,166,478	1,486,292
		1,460,975	1,511,388
Financial assets classified as held for trading	9	495,297	527,856
Financial assets designated at fair value through profit or loss	10	6,813,936	6,042,485
Current tax assets		-	73
TOTAL ASSETS		8,770,208	8,081,802
LIABILITIES AND EQUITY			
Financial liabilities at amortised cost:			
Convertible preferred equity certificates	8	1,125,281	1,195,354
Trade payables		38,374	296,607
Other payables		264,324	10,024
		1,427,979	1,501,985
Financial liabilities classified as held for trading	9	939,843	503,487
Financial liabilities designated at fair value through profit or loss	10	6,364,543	6,046,260
Current tax liabilities		153	-
TOTAL LIABILITIES		8,732,518	8,051,732
EQUITY			
Share capital	11	15,018	15,018
Retained earnings		22,672	15,052
Equity attributable to owners of the Company		37,690	30,070
TOTAL EQUITY		37,690	30,070
TOTAL LIABILITIES AND EQUITY		8,770,208	8,081,802

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

Signed on behalf of the Board

H. Herrmann S. Ibanez P.J.G. de Reus

L.P.A. Rolfes TMF Management B.V.

The notes on pages 13 to 56 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS
Year ended 31 December 2015

	Note	2015 €000	2014 €000
NET CASH FLOWS FROM/ (USED IN) OPERATING ACTIVITIES	12b	1,978	(1,075)
NET CASH FLOWS FROM INVESTING ACTIVITIES		72,704	-
NET CASH FLOWS USED IN FINANCING ACTIVITIES			
Yield paid on convertible preferred equity certificates		(74,693)	-
NET DECREASE IN CASH AND CASH EQUIVALENTS		(11)	(1,075)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		510	1,585
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		499	510

The notes on pages 13 to 56 form an integral part of the financial statements.

1. CORPORATE INFORMATION

The Company is incorporated and domiciled in The Netherlands, at the following address:

Luna Arena, Herikerbergweg 238, 1101 CM, Amsterdam, The Netherlands.

The Company is engaged in the issuance of Structured Notes and the hedging of the obligations arising pursuant to such issuances with prepaid equity securities contracts, loans designated at fair value through profit or loss and derivatives entered into with Morgan Stanley Group undertakings.

The issued Structured Notes expose the Company to the risk of changes in market prices of the underlying securities, interest rate risk and, where denominated in currencies other than Euros, the risk of changes in rates of exchange between the Euro and the other relevant currencies. The Company uses the contracts that it purchases from other Morgan Stanley Group undertakings to hedge the market price, interest rate and foreign currency risks associated with the issuance of the Structured Notes.

2. BASIS OF PREPARATION

Statement of compliance

The Company has prepared its annual financial statements in accordance with IFRSs issued by the IASB as adopted by the EU, Interpretations issued by the IFRS Interpretations Committee and Dutch law.

New standards and interpretations adopted during the year

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

As part of the 2010 – 2012 Annual Improvements Cycle published in December 2013, the IASB made amendments to the following standards that are relevant to the Company's operations: IFRS 13 *'Fair value measurement'* ("IFRS 13") and IAS 24 *'Related party disclosures'* (for application in accounting periods beginning on or after 1 July 2014). The improvements were endorsed by the EU in December 2014 requiring application on or after 1 February 2015, with earlier application permitted. The Company adopted the 2010 – 2012 Annual Improvements with effect from 1 January 2015.

As part of the 2011 – 2013 Annual Improvements Cycle published in December 2013, the IASB made amendments to the following standard that is relevant to the Company's operations: IFRS 13 (for application in accounting periods beginning on or after 1 July 2014). The improvements were endorsed by the EU in December 2014 requiring application on or after 1 January 2015, with earlier application permitted. The Company adopted the 2011 – 2013 Annual Improvements with effect from 1 January 2015.

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

New standards and interpretations not yet adopted

At the date of authorisation of these financial statements, the following standards, amendments to standards and interpretations relevant to the Company's operations were issued by the IASB but not yet mandatory. Except where otherwise stated, the Company does not expect that the adoption of the following standards, amendments to standards and interpretations will have a material impact on the Company's financial statements.

An amendment to IAS 1 '*Presentation of financial statements'* in relation to the 'Disclosure initiative' was issued by the IASB in December 2014, for application in annual periods beginning on or after 1 January 2016. The amendment was endorsed by the EU in December 2015.

2. BASIS OF PREPARATION (CONTINUED)

New standards and interpretations not yet adopted (continued)

An amendment to IAS 7 *'Statement of cash flows'* was issued by the IASB in February 2016, as part of the Disclosure Initiative project. The amendment is applicable for annual periods beginning on or after 1 January 2017. Early application is permitted.

An amendment to IAS 12 *'Income taxes'* was issued by the IASB in January 2016, for application in annual periods beginning on or after 1 January 2017. Early application is permitted.

IFRS 9 *'Financial instruments'* ("IFRS 9") was issued by the IASB in November 2009, amended in November 2013, and revised and reissued by the IASB in July 2014. IFRS 9 is applicable retrospectively, except where otherwise prescribed by transitional provisions of the standard, and is effective for annual periods beginning on or after 1 January 2018. Early adoption, either in full or relating to own credit in isolation, is permitted. The Company is currently assessing the impact of IFRS 9 on its financial statements.

As part of the 2012 – 2014 Annual Improvements Cycle published in September 2014, the IASB made amendments to the following standards that are relevant to the Company's operations: IFRS 7 *'Financial instruments: Disclosures'* ("IFRS 7") and IAS 34 *'Interim financial reporting'* (for application in accounting periods beginning on or after 1 January 2016). The improvements were endorsed by the EU in December 2015.

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.

Use of estimates and sources of uncertainty

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

For further details on the judgements used in determining fair value of certain assets and liabilities, see note 17.

The going concern assumption

The Company's business activities, together with the factors likely to affect its future development, performance and position, are reflected in the Business Review section of the Directors' report on pages 1 to 6. 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 Directors' report, retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy.

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

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 Directors' report 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 are presented in 'Other income' or 'Other expense', except where noted in 3(c) below.

c. Financial instruments

The Company classifies its financial assets into the following categories on initial recognition: financial assets classified as held for trading, financial assets designated at fair value through profit or loss and loans and receivables.

The Company classifies its financial liabilities into the following categories on initial recognition: financial liabilities classified as held for trading; financial liabilities designated at fair value through profit or loss and financial liabilities at amortised cost.

More information regarding these classifications is included below:

i) Financial instruments classified as held for trading

Financial instruments classified as held for trading, including all derivatives, are initially recorded on trade date at fair value (see note 3(d) below). All subsequent changes in fair value, foreign exchange differences, interest and dividends are reflected in the statement of comprehensive income in 'Net (losses)/ gains on financial instruments classified as held for trading'.

Transaction costs are excluded from the initial fair value measurement of the financial instrument. These costs are recognised in the statement of comprehensive income in 'Other expense'.

ii) Financial instruments designated at fair value through profit or loss

The Company has designated certain financial instruments at fair value through profit or loss when the financial instruments are managed, evaluated and reported internally on a fair value basis.

From the date the transaction in a financial instrument designated at fair value through profit or loss is entered into (trade date) until settlement date, the Company recognises any unrealised fair value changes in the contract as financial instruments designated at fair value through profit or loss. On settlement date, the fair value of consideration given or received is recognised as a financial instrument designated at fair value through profit or loss (see note 3(d) below). All subsequent changes in fair value, foreign exchange differences, interest and dividends are reflected in the statement of comprehensive income in 'Net gains/ (losses) on financial instruments designated at fair value through profit or loss'.

Transaction costs are excluded from the initial fair value measurement of the financial instrument. Any such costs are recognised in the statement of comprehensive income in 'Other expense'.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

iii) 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 trade 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 CPECs issued by the Company are classified as financial liabilities at amortised cost in accordance with the substance of the contractual arrangement and IAS 32 *'Financial instruments: Presentation – offsetting financial instruments'*. The yield on the CPECs is recognised in the statement of comprehensive income in 'Interest expense' using the effective interest rate method as described below.

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

d. Fair value

Fair value measurement

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

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

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

  Valuations based on quoted prices in active markets for identical assets or liabilities that the Morgan Stanley Group has the ability to access. 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.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the product. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgement. Accordingly, the degree of judgement exercised by the Company in determining fair value is greatest for instruments categorised in Level 3 of the fair value hierarchy.

The Company considers prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or Level 2 to Level 3 of the fair value hierarchy.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

For assets and liabilities that are transferred between Levels in the fair value hierarchy during the period, fair values are ascribed as if the assets or liabilities had been transferred as of the beginning of the period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

Valuation techniques
Many cash instruments and over-the-counter ("OTC") derivative contracts have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that a party is willing to pay for an asset. Ask prices represent the lowest price that a party is willing to accept for an asset. The Company carries positions at the point within the bid-ask range that meets its best estimate of fair value. For offsetting positions in the same financial instrument, the same price within the bid-ask spread is used to measure both the long and short positions.

Fair value for many cash instruments and OTC derivative contracts is derived using pricing models. Pricing models take into account the contract terms, as well as multiple inputs including, where applicable, commodity prices, equity prices, interest rate yield curves, credit curves, correlation, creditworthiness of the counterparty, creditworthiness of the Company, option volatility and currency rates. Where appropriate, valuation adjustments are made to account for various factors such as liquidity risk (bid-ask adjustments), credit quality, model uncertainty and concentration risk.

Adjustments for liquidity risk adjust model-derived mid-market levels of Level 2 and Level 3 financial instruments for the bid-mid or mid-ask spread required to properly reflect the exit price of a risk position. Bid-mid and mid-ask spreads are marked to levels observed in trade activity, broker quotes or other external third-party data. Where these spreads are unobservable for the particular position in question, spreads are derived from observable levels of similar positions.

The Company applies credit related valuation adjustments to its short-term and long-term borrowings (primarily Structured Notes) for which the fair value option was elected and to OTC derivatives. The Company considers the impact of changes in its own credit spreads based upon observations of the secondary bond market spreads when measuring the fair value for short-term and long-term borrowings. For OTC derivatives, the impact of changes in both the Company's and the counterparty's credit rating is considered when measuring fair value. In determining the expected exposure the Company simulates the distribution of the future exposure to a counterparty, then applies market-based default probabilities to the future exposure, leveraging external third-party credit default swap ("CDS") spread data. Where CDS spread data are unavailable for a specific counterparty, bond market spreads, CDS spread data based on the counterparty's credit rating or CDS spread data that reference a comparable counterparty may be utilised. The Company also considers collateral held and legally enforceable master netting agreements that mitigate its exposure to each counterparty.

Adjustments for model uncertainty are taken for positions whose underlying models are reliant on significant inputs that are neither directly nor indirectly observable, hence requiring reliance on established theoretical concepts in their derivation. These adjustments are derived by making assessments of the possible degree of variability using statistical approaches and market-based information where possible. The Company generally subjects all valuations and models to a review process initially and on a periodic basis thereafter.

The Company may apply a concentration adjustment to certain of its OTC derivatives portfolios to reflect the additional cost of closing out a particularly large risk exposure. Where possible, these adjustments are based on observable market information but in many instances significant judgement is required to estimate the costs of closing out concentrated risk exposures due to the lack of liquidity in the marketplace.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

During 2014, the Company incorporated funding valuation adjustments ("FVA") into the fair value measurements of OTC uncollateralised or partially collateralised derivatives and in collateralised derivatives where the terms of the agreement do not permit the reuse of the collateral received. The Company's implementation of FVA reflects the inclusion of FVA in the pricing and valuations by the majority of market participants involved in its principal exit market for these instruments. In general, FVA reflects a market funding risk premium inherent in the noted derivative instruments. The methodology for measuring FVA leverages the Company's existing credit-related valuation adjustment calculation methodologies, which apply to both assets and liabilities.

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.

Valuation process
The Valuation Review Group ("VRG") within the Financial Control Group ("FCG") is responsible for the Company's fair value valuation policies, processes and procedures. VRG is independent of the business units and reports to the Chief Financial Officer of the Morgan Stanley Group ("CFO"), who has final authority over the valuation of the Company's financial instruments. VRG implements valuation control processes to validate the fair value of the Company's financial instruments measured at fair value including those derived from pricing models. These control processes are designed to assure that the values used for financial reporting are based on observable inputs wherever possible. In the event that observable inputs are not available, the control processes are designed to ensure that the valuation approach utilised is appropriate and consistently applied and that the assumptions are reasonable.

The Company's control processes apply to financial instruments categorised in Level 1, Level 2 or Level 3 of the valuation hierarchy, unless otherwise noted. These control processes include:

Model Review. VRG, in conjunction with the Market Risk Department ("MRD") and, where appropriate, the Credit Risk Management Department, both of which report to the CRO, independently review valuation models' theoretical soundness, the appropriateness of the valuation methodology and calibration techniques developed by the business units using observable inputs. Where inputs are not observable, VRG reviews the appropriateness of the proposed valuation methodology to ensure it is consistent with how a market participant would arrive at the unobservable input. The valuation methodologies utilised in the absence of observable inputs may include extrapolation techniques and the use of comparable observable inputs. As part of the review, VRG develops a methodology to independently verify the fair value generated by the business unit's valuation models. All of the Company's valuation models are subject to an independent annual review.

Independent Price Verification. The business units are responsible for determining the fair value of financial instruments using approved valuation models and valuation methodologies. Generally on a monthly basis, VRG independently validates the fair values of financial instruments determined using valuation models by determining the appropriateness of the inputs used by the business units and by testing compliance with the documented valuation methodologies approved in the model review process described above.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

VRG uses recently executed transactions, other observable market data such as exchange data, broker/ dealer quotes, third-party pricing vendors and aggregation services for validating the fair values of financial instruments generated using valuation models. VRG assesses the external sources and their valuation methodologies to determine if the external providers meet the minimum standards expected of a third-party pricing source. Pricing data provided by approved external sources are evaluated using a number of approaches; for example, by corroborating the external sources' prices to executed trades, by analysing the methodology and assumptions used by the external source to generate a price and/ or by evaluating how active the third-party pricing source (or originating sources used by the third-party pricing source) is in the market. Based on this analysis, VRG generates a ranking of the observable market data to ensure that the highest-ranked market data source is used to validate the business unit's fair value of financial instruments.

For financial instruments categorised within Level 3 of the fair value hierarchy, VRG reviews the business unit's valuation techniques to ensure these are consistent with market participant assumptions.

The results of this independent price verification and any adjustments made by VRG to the fair value generated by the business units are presented to management of the Morgan Stanley Group's three business segments (i.e. Institutional Securities, Wealth Management and Investment Management), the CFO and the CRO on a regular basis.

Review of new Level 3 transactions. VRG reviews the models and valuation methodology used to price all new material Level 3 transactions and both FCG and MRD management must approve the fair value of the trade that is initially recognised.

Gains and losses on inception
In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (i.e. the fair value of the consideration given or received). In certain circumstances, however, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Company recognises a gain or loss on inception of the transaction.

When the use of unobservable market data has a significant impact on determining fair value at the inception of the transaction, the entire initial gain or loss indicated by the valuation technique as at the transaction date is not recognised immediately in the statement of comprehensive income and is recognised instead when the market data becomes observable.

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.

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

f. Impairment of financial assets

At each reporting date, an assessment is made as to whether there is any objective evidence of impairment in the value of a financial asset classified as loans and receivables. 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.

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 detailed by financial asset in note 3(c)(iii). 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. Cash and cash equivalents

Cash and cash equivalents comprise cash and demand deposits with banks, net of outstanding bank overdrafts, along with highly liquid investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

h. Income tax

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

The tax currently payable is calculated based on taxable profit for the year. Taxable profit may differ from profit before income tax 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.

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.

i. Offsetting of financial assets and financial liabilities

Where there is a currently legally enforceable right to set off the recognised amounts and an intention to either settle on a net basis or to realise the asset and the liability simultaneously, financial assets and financial liabilities are offset and the net amount is presented on the statement of financial position. In the absence of such conditions, financial assets and financial liabilities are presented on a gross basis.

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.

'Interest expense' includes the yield payable on CPECs (see note 8).

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 INCOME

	2015 €000	2014 €000
Management charges to other Morgan Stanley Group undertakings	5,711	6,658
Net foreign exchange gains	14,152	-
	19,863	6,658

The Company actively manages its foreign currency exposure risk arising on its assets and liabilities in currencies other than Euro. Net foreign exchange gains includes translation differences that have arisen due to foreign exchange exposure created as a result of hedging assets and liabilities recognised for Morgan Stanley Group reporting purposes.

6. OTHER EXPENSE

	2015 €000	2014 €000
Auditors remuneration:		
Fees payable to the Company's auditor and its associates for the audit of the Company's financial statements	108	100
Other	56	-
	164	100

Of the auditors' remuneration, €108,000 (2014: €100,000) was paid to Deloitte Accountants B.V. and related Deloitte member firms for audit services.

The Company employed no staff during the year (2014: none).

7. INCOME TAX EXPENSE

	2015 €000	2014 €000
Current tax expense		
Current year	2,538	1,665
Adjustments in respect of prior years	(7)	-
Income tax expense	2,531	1,665

Reconciliation of effective tax rate

The current year income tax expense is lower than (2014: the same as) that resulting from applying the average standard rate of corporation tax in The Netherlands for the year of 25.0% (2014: 25.0%).

7. INCOME TAX EXPENSE (CONTINUED)

	2015 €000	2014 €000
Profit before income tax	10,151	6,658
Income tax using the average standard rate of corporation tax in The Netherlands of 25.0% (2014: 25.0%)	2,538	1,665
Impact on tax of:		
Tax over provided in prior years	(7)	-
Total income tax expense in the statement of comprehensive income	2,531	1,665

8. CONVERTIBLE PREFERRED EQUITY CERTIFICATES

	€000
At 1 January 2014	1,170,579
Yield payable	24,775
At 31 December 2014	1,195,354
Yield payable from 1 January 2015 to 27 March 2015	4,620
Yield paid	(74,693)
At 31 December 2015	1,125,281
Yield payable from 28 March 2015 to 31 December 2015 classified as ‘Other payables’	32,201

On 30 March 2012, the Company issued 11,252,813 of CPECs of €100 each, classified as financial liabilities at amortised cost. The CPECs were issued to one of the Company's shareholders, Archimedes Investments Coöperatieve U.A. (a Morgan Stanley Group undertaking), in exchange for cash consideration of €1,125,281,000.

On 27 March 2015, the Company made a CPEC yield payment of €74,693,000 to Archimedes Investments Coöperatieve U.A., which included an amount of €4,620,000 for the period from 1 January 2015 to 27 March 2015.

An amount of €32,201,000 for the period from 28 March 2015 to 31 December 2015 remains payable to the holder of the CPECs at year end and has been recognised in ‘Other payables’, which is a change of classification from the prior year. (2014: yield payable of €70,073,000 had been recognised in ‘Convertible preferred equity certificates’.)

The CPEC yield for the year of €36,821,000 is recognised in the statement of comprehensive income in ‘Interest expense’ (2014: €24,775,000).

8. CONVERTIBLE PREFERRED EQUITY CERTIFICATES (CONTINUED)

The holder of the CPECs is entitled to receive an annual yield on a date agreed by the Company and the holder. The yield for each CPEC is calculated as income deriving from the Company's activities less the necessary amounts to cover the costs of the Company divided by the number of CPECs then in issue. Other income relating to management charges received from other Morgan Stanley Group undertakings and gains or losses from financial instruments classified as held for trading or designated at fair value through profit or loss are excluded from the calculation.

The CPECs carry no voting rights. The Company and the holder have the right to convert each issued CPEC into one ordinary share with a nominal value of €100.

The maturity date of the CPECs is 150 years from the date of issue, however, the CPECs may be redeemed earlier at the option of the Company or on liquidation of the Company.

The CPECs rank ahead of the ordinary shares in the event of liquidation.

9. FINANCIAL ASSETS AND FINANCIAL LIABILITIES CLASSIFIED AS HELD FOR TRADING

Financial assets and financial liabilities classified as held for trading are summarised as follows:

	2015		2014	
	Assets	Liabilities	Assets	Liabilities
	€000	€000	€000	€000
Derivatives	495,297	939,843	527,856	503,487

10. FINANCIAL ASSETS AND FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments designated at fair value through profit or loss consists primarily of the following financial liabilities and financial assets:

Issued Structured Notes: These relate to financial liabilities which arise from selling structured products generally in the form of notes, certificates and warrants. These instruments contain an embedded derivative which significantly modifies the cash flows of the issuance. The return on the instrument is linked to an underlying that is not clearly and closely related to the debt host including, but not limited to equity-linked notes. The Structured Notes are designated at fair value through profit or loss as the risks to which the Company is a contractual party are risk managed on a fair value basis as part of the Company’s trading portfolio and the risk is reported to key management personnel on this basis.

Prepaid equity securities contracts: These contracts involve derivatives for which an initial payment is paid at inception. The contracts, along with the loans designated at fair value through profit or loss and the derivative contracts classified as held for trading, are part of the hedging strategy for the obligations arising pursuant to the issuance of the Structured Notes. The prepaid equity securities contracts are designated at fair value through profit or loss as the risks to which the Company is a contractual party are managed on a fair value basis as part of the Company’s trading portfolio and the risk is reported to key management personnel on this basis.

10. FINANCIAL ASSETS AND FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Loans: These are loans to other Morgan Stanley Group undertakings that, along with the prepaid equity securities contracts and the derivatives contracts classified as held for trading, are part of the hedging strategy for the obligations arising pursuant to the issuance of the Structured Notes. These loans are designated at fair value through profit or loss as the risks to which the Company is a contractual party are managed on a fair value basis as part of the Company's trading portfolio and the risk is reported to key management personnel on this basis.

	2015		2014	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	€000	**€000**	**€000**	**€000**
Issued Structured Notes	-	6,364,543	-	6,046,260
Prepaid equity securities contracts	154,095	-	253,314	-
Loans	6,659,841	-	5,789,171	-
	6,813,936	6,364,543	6,042,485	6,046,260

The change in fair value of issued Structured Notes recognised through the statement of comprehensive income attributable to own credit risk is a gain of €57,220,000 (2014: gain of €46,717,000) and cumulatively is a loss of €29,987,000 (2014: cumulative loss of €87,207,000). This change is determined as the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risk.

The change in fair value of prepaid equity securities contracts and loans recognised through the statement of comprehensive income attributable to counterparty credit risk is a loss of €52,780,000 (2014: loss of €46,717,000) and cumulatively is a gain of €34,427,000 (2014: cumulative gain of €87,207,000).

The Company has entered into collateral arrangements to manage the credit exposure on certain financial instruments used to hedge issued Structured Notes, and accordingly there are no cumulative gains or losses for own credit risk as at 31 December 2015 on the related hedging instruments.

The change in fair value recognised through the statement of comprehensive income attributable to own credit risk is a gain of €4,440,000 (2014: €nil) This relates to the change in fair value attributable to own credit risk of issued Structured Notes for which there is no offsetting change on the related hedging instrument due to collateral arrangements made. The Structured Notes in which own credit risk is recognised have been issued to another Morgan Stanley Group undertaking and have a short term maturity date therefore the credit risk exposure is similarly short term and within the control of the Morgan Stanley Group.

The carrying amount of financial liabilities designated at fair value was €110,908,000 lower than the contractual amount due at maturity (2014: €300,763,000 lower).

31 December 2015	**Single name equities**	**Equity indices**	**Equity portfolio**	**Other**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**
Certificates and warrants	1,550,856	201,768	637,510	-	2,390,134
Notes	278,798	2,578,742	603,741	513,128	3,974,409
Total financial liabilities designated at fair value through profit or loss	1,829,654	2,780,510	1,241,251	513,128	6,364,543

10. FINANCIAL ASSETS AND FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

31 December 2014	Single name equities	Equity indices	Equity portfolio	Other	Total
	€000	€000	€000	€000	€000
Certificates and warrants	1,612,100	34,796	506,710	-	2,153,606
Notes	263,814	2,407,886	751,519	469,435	3,892,654
Total financial liabilities designated at fair value through profit or loss	1,875,914	2,442,682	1,258,229	469,435	6,046,260

The majority of the Company's financial liabilities designated at fair value through the profit or loss provide exposure to an underlying single name equity, an equity index or portfolio of equities. The prepaid equity securities contracts, derivative contracts classified as held for trading and loans that the Company enters into in order to hedge the Structured Notes are valued as detailed in note 3(d) and note 17(a), and have similar valuation inputs to the liabilities they hedge.

11. EQUITY

Ordinary share capital

	Ordinary shares of €100 each €000
Issued and fully paid	
At 1 January 2014, 31 December 2014 and 31 December 2015	15,018

On 9 December 2013 the Articles of Association of the Company were amended whereby the concept of authorised share capital was abolished. Each share confers the right to cast one vote, provided that subject to mandatory law, all resolutions of the General Meeting shall be adopted by unanimous vote in a meeting in which the entire share capital is present or represented.

The holders of ordinary shares are entitled to receive dividends as declared from time to time.

Reserves

The Company uses the contracts that it purchases from other Morgan Stanley Group undertakings to hedge the market price, interest rate, foreign currency and other market risks associated with the issuance of the Structured Notes, consistent with the Company's risk management strategy. Both the contracts and the Structured Note issuances are valued at fair value through profit or loss and no net cumulative gain or loss is expected to be realised over the life of the financial instrument contracts. Therefore, a legal revaluation reserve under Part 9, Book 2 of the Dutch Civil Code (BW2, article 390(1)) is not necessary.

12. ADDITIONAL CASH FLOW INFORMATION

a. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances, which have less than three months maturity from the date of acquisition:

	2015	**2014**
	€000	**€000**
Cash and short-term deposits	499	510

b. Reconciliation of cash flows from operating activities

	2015	**2014**
	€000	**€000**
Profit for the year	7,620	4,993
Adjustments for:		
Interest income	(23,190)	(24,932)
Interest expense	37,178	24,832
Income tax expense	2,531	1,665
Operating cash flows before changes in operating assets and liabilities	24,139	6,558
Changes in operating assets		
Decrease / (increase) in loans and receivables, excluding cash and short-term deposits	854	(287,972)
Decrease in financial assets classified as held for trading	32,559	451,595
Increase in financial assets designated at fair value through profit or loss	(771,451)	(51,535)
	(738,038)	112,088
Changes in operating liabilities		
(Decrease)/ increase in financial liabilities at amortised cost, excluding bank loans and overdrafts	(36,452)	251,994
Increase in financial liabilities classified as held for trading	436,356	220,163
Increase / (decrease) in financial liabilities designated at fair value through profit or loss	318,283	(590,742)
	718,187	(118,585)
Interest received	34	-
Interest paid	(39)	(48)
Income taxes paid	(2,305)	(1,088)
	(2,310)	(1,136)
Net cash flows from / (used in) operating activities	1,978	(1,075)

13. EXPECTED MATURITY OF ASSETS AND LIABILITIES

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

At 31 December 2015	Less than or equal to twelve months €000	More than twelve months €000	Total €000
ASSETS			
Loans and receivables:			
Cash and short-term deposits	499	-	499
Trade receivables	293,998	-	293,998
Other receivables	41,197	1,125,281	1,166,478
	335,694	1,125,281	1,460,975
Financial assets classified as held for trading	220,198	275,099	495,297
Financial assets designated at fair value through profit or loss	2,192,681	4,621,255	6,813,936
	2,748,573	6,021,635	8,770,208
LIABILITIES			
Financial liabilities at amortised cost:			
Convertible preferred equity certificates	-	1,125,281	1,125,281
Trade payables	38,374	-	38,374
Other payables	264,324	-	264,324
	302,698	1,125,281	1,427,979
Financial liabilities classified as held for trading	468,106	471,737	939,843
Financial liabilities designated at fair value through profit or loss	1,939,926	4,424,617	6,364,543
Current tax liabilities	153	-	153
	2,710,883	6,021,635	8,732,518

13. EXPECTED MATURITY OF ASSETS AND LIABILITIES (CONTINUED)

At 31 December 2014	Less than or equal to twelve months €000	More than twelve months €000	Total €000
ASSETS			
Loans and receivables:			
Cash and short-term deposits	510	-	510
Trade receivables	24,586	-	24,586
Other receivables	363,001	1,123,291	1,486,292
	388,097	1,123,291	1,511,388
Financial assets classified as held for trading	171,550	356,306	527,856
Financial assets designated at fair value through profit or loss	1,733,307	4,309,178	6,042,485
Current tax assets	73	-	73
	2,293,027	5,788,775	8,081,802
LIABILITIES			
Financial liabilities at amortised cost:			
Convertible preferred equity certificates	70,073	1,125,281	1,195,354
Trade payables	296,607	-	296,607
Other payables	10,024	-	10,024
	376,704	1,125,281	1,501,985
Financial liabilities classified as held for trading	165,480	338,007	503,487
Financial liabilities designated at fair value through profit or loss	1,720,773	4,325,487	6,046,260
	2,262,957	5,788,775	8,051,732

14. SEGMENT REPORTING

Segment information is presented in respect of the Company's business and geographical segments. The business segments and geographical segments are based on the Company's management and internal reporting structure.

Business segments

Morgan Stanley structures its business segments primarily based upon the nature of the financial products and services provided to customers and Morgan Stanley's internal management structure. The Company's own business segments are consistent with those of Morgan Stanley.

The Company has one reportable business segment, Institutional Securities, which provides financial services to financial institutions. Its business includes the issuance of financial instruments and the hedging of the obligations arising pursuant to such issuances.

14. SEGMENT REPORTING (CONTINUED)

Geographical segments

The Company operates in three geographic regions as listed below:

- Europe, Middle East and Africa ("EMEA")
- Americas
- Asia

The following table presents selected statement of comprehensive income and statement of financial position information of the Company's operations by geographic area. The external revenues (net of interest expense) and total assets disclosed in the following table reflect the regional view of the Company's operations, on a managed basis. The basis for attributing external revenues (net of interest expense) and total assets is determined by trading desk location.

	EMEA		Americas		Asia		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
	€000	€000	€000	€000	€000	€000	€000	€000
External revenues net of interest	9,639	5,778	400	564	276	416	10,315	6,758
Profit before income tax	9,475	5,692	400	556	276	410	10,151	6,658
Total assets	6,703,218	5,855,672	1,742,891	1,841,928	324,099	384,202	8,770,208	8,081,802

Of the Company's external revenue, 100% (2014: 100%) arises from transactions with other Morgan Stanley Group undertakings. Further details of such transactions are disclosed in the related party disclosures note 20.

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

Significant risks faced by the Company resulting from its trading 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. The Company primarily incurs credit risk exposure to institutions through its Institutional Securities business segment.

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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

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

Collateral and other credit enhancements

The Company has entered into collateral arrangements with other Morgan Stanley Group undertakings. Collateral held is managed in accordance with the Morgan Stanley Group's guidelines and the relevant underlying agreements.

Exposure to credit risk

The maximum exposure to credit risk of the Company at the reporting date is the carrying amount of the financial assets held in the statement of financial position. Where the Company enters into credit enhancements to manage the credit exposure on these financial instruments, including receiving cash as collateral and master netting agreements, the financial effect of the credit enhancements is also disclosed below. The net credit exposure represents the credit exposure remaining after the effect of the credit enhancements.

The Company does not have any significant exposure arising from items not recognised on the statement of financial position.

Exposure to credit risk by class

Class	2015			2014		
	Gross credit exposure (1)	Credit enhancements	Net credit exposure (2)	Gross credit exposure (1)	Credit enhancements	Net credit exposure (2)
	€000	€000	€000	€000	€000	€000
Loans and receivables:						
Cash and short-term deposits	499	-	499	510	-	510
Trade receivables (3)	293,998	-	293,998	24,586	-	24,586
Other receivables	1,166,478	-	1,166,478	1,486,292	-	1,486,292
Financial assets classified as held for trading:						
Derivatives	495,297	(489,354)	5,943	527,856	(527,695)	161
Financial assets designated at fair value through profit or loss						
Prepaid equity securities contracts	154,095	(95,655)	58,440	253,314	(84,475)	168,839
Loans	6,659,841	-	6,659,841	5,789,171	-	5,789,171
	8,770,208	(585,009)	8,185,199	8,081,729	(612,170)	7,469,559

(1) The carrying amount recognised in the statement of financial position best represents the Company's maximum exposure to credit risk.
(2) Of the residual net credit exposure, intercompany cross product netting arrangements are in place which would allow for an additional €28,204,000 (2014: €nil) to be offset in the event of default by certain Morgan Stanley counterparties.
(3) Trade receivables include cash collateral pledged of €256,024,000 against derivative assets classified as held for trading of €429,618,000, prepaid equity securities contracts of €95,655,000 and derivative liabilities classified as held for trading of €779,710,000. In 2014, cash collateral received of €250,917,000 was recognised in trade payables in the statement of financial position.

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

The impact of master netting arrangements and similar agreements on the Company's ability to offset financial assets and financial liabilities is disclosed in note 16.

Maximum exposure to credit risk by credit rating[(1)]

Credit rating	Gross credit exposure 2015 €000	2014 €000
AA	-	216
A	8,770,208	8,081,513
Total	8,770,208	8,081,729

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

At 31 December 2015 there were no financial assets past due but not impaired or individually impaired (2014: €nil).

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 the Company's viability as a going concern. Market or idiosyncratic stress events may negatively affect the Company's liquidity and may impact its ability to raise new funding.

The Morgan Stanley Group's Liquidity Risk Management Framework is critical to helping ensure that the Company maintains sufficient liquidity reserves and durable funding sources to meet its daily obligations and to withstand unanticipated stress events. In 2015, the Morgan Stanley Group established the Liquidity Risk Department as a distinct area in Risk Management to oversee and monitor liquidity and funding risk. The Liquidity Risk Department is independent of the business units and reports to the CRO. The Liquidity Risk Department ensures transparency of material liquidity and funding risks, compliance with established risk limits and escalation of risk concentrations to appropriate senior management. To execute these responsibilities, the Liquidity Risk Department establishes limits in line with the Morgan Stanley Group's risk appetite, identifies and analyses emerging liquidity and funding risks to ensure such risks are appropriately mitigated, monitors and reports risk exposures against metrics and limits, and reviews the methodologies and assumptions underpinning the Morgan Stanley Group's Liquidity Stress Tests to ensure sufficient liquidity and funding under a range of adverse scenarios. The liquidity and funding risks identified by these processes are summarised in reports produced by the Liquidity Risk Department that are circulated to and discussed with senior management, as appropriate.

The Treasury Department and applicable business units have primary responsibility for evaluating, monitoring and controlling the liquidity and funding risks arising from the Morgan Stanley Group's business activities, and maintain processes and controls to manage the key risks inherent in their respective areas. The Liquidity Risk Department coordinates with the Treasury Department and these business units to help ensure a consistent and comprehensive framework for managing liquidity and funding risk across the Morgan Stanley Group.

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

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 its business strategies.

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
- Liquidity Stress Tests should anticipate, and account for, periods of limited access to funding.

The Company hedges all of its financial liabilities with financial assets entered into with other Morgan Stanley Group undertakings, where both the Company and other Morgan Stanley Group undertakings are wholly-owned subsidiaries of the same parent, Morgan Stanley. Further, the maturity profile of the financial assets matches the maturity profile of the financial liabilities.

Liquidity management policies

The core components of the Morgan Stanley Group's liquidity management framework, which includes consideration of the liquidity risk for each individual legal entity, are the Required Liquidity Framework, Liquidity Stress Tests and the Global Liquidity Reserve, which support the Morgan Stanley Group's target liquidity profile.

Required Liquidity Framework

The Required Liquidity Framework reflects the amount of liquidity the Morgan Stanley Group must hold in both normal and stressed environments to ensure that its financial condition and overall soundness is not adversely affected by an inability (or perceived inability) to meet its financial obligations in a timely manner. The Required Liquidity Framework considers the most constraining liquidity requirement to satisfy all regulatory and internal limits at a consolidated and legal entity level.

Liquidity Stress Tests

The Morgan Stanley Group uses Liquidity Stress Tests to model liquidity inflows and outflows across multiple scenarios over a range of time horizons. These scenarios contain various combinations of idiosyncratic and systemic stress events of different severity and duration.

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

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 lending 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. 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.

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

The Required Liquidity Framework 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.

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 Required Liquidity Framework 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 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.

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

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, securities sold under agreements to repurchase ("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 and short-term receivables arising principally from the 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.

Maturity analysis

In the following maturity analysis of financial assets and financial liabilities, derivative contracts, financial assets designated at fair value through profit or loss and financial liabilities designated at fair value through profit or loss are disclosed according to their earliest contractual maturity; all such amounts are presented at their fair value, consistent with how these financial instruments are managed. All other 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 2015 and 31 December 2014. 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.

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

31 December 2015	On demand €000	Less than one year €000	Equal to or more than one year but less than two years €000	Equal to or more than two years but less than five years €000	Equal to or more than five years €000	Total €000
Financial assets						
Loans and receivables:						
Cash and short-term deposits	499	-	-	-	-	499
Trade receivables	293,998	-	-	-	-	293,998
Other receivables	1,166,478	-	-	-	-	1,166,478
Financial assets classified as held for trading:						
Derivatives	274,563	25,384	34,096	94,991	66,263	495,297
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	39,059	65,741	35,511	409	13,375	154,095
Loans	2,137,040	932,411	785,954	2,196,663	607,773	6,659,841
Total financial assets	3,911,637	1,023,536	855,561	2,292,063	687,411	8,770,208
Financial liabilities						
Financial liabilities at amortised cost:						
Convertible preferred equity certificates	1,125,281	-	-	-	-	1,125,281
Trade payables	38,374	-	-	-	-	38,374
Other payables	264,324	-	-	-	-	264,324
Financial liabilities classified as held for trading:						
Derivatives	395,769	168,724	102,727	245,015	27,608	939,843
Financial liabilities designated at fair value through profit or loss:						
Issued Structured Notes	2,054,486	850,372	752,834	2,047,048	659,803	6,364,543
Total financial liabilities	3,878,234	1,019,096	855,561	2,292,063	687,411	8,732,365

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

31 December 2014	On demand €000	Less than one year €000	Equal to or more than one year but less than two years €000	Equal to or more than two years but less than five years €000	Equal to or more than five years €000	Total €000
Financial assets						
Loans and receivables:						
Cash and short-term deposits	510	-	-	-	-	510
Trade receivables	24,586	-	-	-	-	24,586
Other receivables	1,486,292	-	-	-	-	1,486,292
Financial assets classified as held for trading:						
Derivatives	256,640	42,506	33,669	141,012	54,029	527,856
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	46,758	52,823	94,488	56,284	2,961	253,314
Loans	1,762,868	540,084	581,343	2,155,389	749,487	5,789,171
Total financial assets	3,577,654	635,413	709,500	2,352,685	806,477	8,081,729
Financial liabilities						
Financial liabilities at amortised cost:						
Convertible preferred equity certificates	1,195,354	-	-	-	-	1,195,354
Trade payables	296,607	-	-	-	-	296,607
Other payables	10,024	-	-	-	-	10,024
Financial liabilities classified as held for trading:						
Derivatives	190,310	77,122	91,944	110,315	33,796	503,487
Financial liabilities designated at fair value through profit or loss:						
Issued Structured Notes	1,855,362	558,291	617,556	2,242,370	772,681	6,046,260
Total financial liabilities	3,547,657	635,413	709,500	2,352,685	806,477	8,051,732

Market risk

Market risk is defined by IFRS 7 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.

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (continued)

To execute these responsibilities, the Morgan Stanley Group monitors the market risk of the firm against limits on aggregate risk exposures, performs a variety of risk analyses, routinely reports risk summaries and maintains the Value at Risk ("VaR") and scenario analysis methodologies. These limits are designed to control market risk. The Company is managed within the Morgan Stanley Group's global framework. The market risk management policies and procedures of the Company include performing risk analyses and reporting any material risks identified to appropriate senior management of the Company.

The Company enters into the majority of its financial asset transactions with other Morgan Stanley Group undertakings, where both the Company and the other Morgan Stanley Group undertakings are wholly-owned subsidiaries of the same group parent entity, Morgan Stanley.

The issued Structured Notes expose the Company to the risk of changes in market prices of the underlying securities, interest rate risk and, where denominated in currencies other than Euros, the risk of changes in rates of exchange between the Euro and the other relevant currencies. The company uses the contracts that it purchases from other Morgan Stanley Group undertakings to hedge the market price, interest rate and foreign currency risks associated with the issuance of the Structured Notes, consistent with the Company's risk management strategy. As such, the Company is not exposed to any net market risk on these financial instruments.

The net foreign exchange gains recognised in 'Other income' have arisen as a result of exposure to hedging on assets and liabilities recognised for Morgan Stanley Group purposes, under the Morgan Stanley Group's local reporting requirements.

16. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING

In order to manage credit exposure arising from its business activities, the Company applies various credit risk management policies and procedures, see note 15 for further details. Primarily in connection with derivatives contracts, prepaid equity securities contracts and issued Structured Notes, the Company enters into master netting arrangements and collateral arrangements with its counterparties. These agreements provide the Company with the right, in the ordinary course of business and/ or in the event of a counterparty default (such as bankruptcy or a counterparty's failure to pay or perform), to net a counterparty's rights and obligations under such agreement and, in the event of counterparty default, set off collateral held by the Company against the net amount owed by the counterparty. However, in certain circumstances, the Company may not have such an agreement in place; the relevant insolvency regime (which is based on type of counterparty entity and the jurisdiction of organisation of the counterparty) may not support the enforceability of the agreement; or the Company may not have sought legal advice to support the enforceability of the agreement. In cases where the Company has not determined an agreement to be enforceable, the related amounts are not offset in the tabular disclosures.

In the statement of financial position, financial assets and financial liabilities are only offset and presented on a net basis where there is a current legally enforceable right to set off the recognised amounts and an intention to either settle on a net basis or to realise the asset and the liability simultaneously. In the absence of such conditions, financial assets and financial liabilities are presented on a gross basis.

The following tables present information about the offsetting of financial instruments and related collateral amounts. The effect of master netting arrangements, collateral agreements and other credit enhancements, on the Company's exposure to credit risk is disclosed in note 15.

16. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING (CONTINUED)

	Gross amounts (1) €000	Amounts offset in the statement of financial position (2) €000	Net amounts presented in the statement of financial position €000	Amounts not offset in the statement of financial position (3)(5)(6) Financial instruments €000	Cash collateral (4) €000	Net exposure (7) €000
31 December 2015						
Assets						
Financial assets classified as held for trading:						
Derivatives	495,297	-	495,297	(59,736)	(429,618)	5,943
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	231,854	(77,759)	154,095	-	(95,655)	58,440
TOTAL	727,151	(77,759)	649,392	(59,736)	(525,273)	64,383
Liabilities						
Financial liabilities classified as held for trading:						
Derivatives	939,843	-	939,843	(59,736)	(779,710)	100,397
Financial liabilities designated at fair value through profit or loss:						
Issued Structured Notes	6,442,302	(77,759)	6,364,543	-	-	6,364,543
TOTAL	7,382,145	(77,759)	7,304,386	(59,736)	(779,710)	6,464,940

(1) Amounts include €5,943,000 of financial assets classified as held for trading - derivatives, €58,440,000 of financial assets designated at fair value through profit or loss - prepaid equity securities contracts, €19,961,000 of financial liabilities classified as held for trading - derivatives and €5,200,875,000 of financial liabilities classified as designated at fair value through profit or loss - Issued Structured Notes which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.

(2) Amounts are reported on a net basis in the statement of financial position when there is a legally enforceable master netting arrangement that provides for the current right of offset and there is an intention to either settle on a net basis or to realise the asset and liability simultaneously.

(3) Amounts relate to master netting arrangements and collateral arrangements which have been determined by the Company to be legally enforceable, but do not meet all criteria required for net presentation within the statement of financial position.

(4) Cash collateral used to mitigate credit risk on exposures arising under derivatives contracts and prepaid equity securities contracts is determined and settled on a net basis and has been recognised in the statement of financial position within trade receivables.

(5) In addition to the balances disclosed in the table related to cash collateral, certain trade receivables and payables of €36,606,000 not presented net within the statement of financial position have legally enforceable master netting agreements in place and can be offset in the ordinary course of business and/or in the event of default.

(6) Amounts relate to intercompany cross-product master netting arrangements, which include those amounts where Morgan Stanley Group undertaking from which the Company purchased the prepaid equity securities contracts is also the holder of the Issued Structured Notes. These arrangements have been determined by the Company to be legally enforceable but do not meet all the criteria required for net presentation within the statement of financial position.

(7) Of the residual net exposure, intercompany cross-product legally enforceable netting arrangements are in place which would allow for an additional €28,204,000 to be offset in the ordinary course of business and/ or in the event of default.

16. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING (CONTINUED)

	Gross amounts [1] €000	Amounts offset in the statement of financial position [2] €000	Net amounts presented in the statement of financial position €000	Amounts not offset in the statement of financial position [3][5][6] Financial instruments €000	Cash collateral [4] €000	Net exposure [7] €000
31 December 2014						
Assets						
Financial assets classified as held for trading:						
Derivatives	527,856	-	527,856	(483,856)	(43,839)	161
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	343,974	(90,660)	253,314	(84,475)	-	168,839
TOTAL	871,830	(90,660)	781,170	(568,331)	(43,839)	169,000
Liabilities						
Financial liabilities classified as held for trading:						
Derivatives	503,487	-	503,487	(483,856)	-	19,631
Financial liabilities designated at fair value through profit or loss:						
Issued Structured Notes	6,136,920	(90,660)	6,046,260	(84,475)	-	5,961,785
TOTAL	6,640,407	(90,660)	6,549,747	(568,331)	-	5,981,416

(1) Amounts include €161,000 of financial assets classified as held for trading – derivatives, €168,839,000 of financial assets designated at fair value through profit or loss - prepaid equity securities contracts and €4,875,264,000 of financial liabilities designated at fair value through profit or loss - issued Structured Notes which are either not subject to master netting agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.

(2) Amounts are reported on a net basis in the statement of financial position when there is a legally enforceable master netting arrangement that provides for the current right of offset and there is an intention to either settle on a net basis or to realise the asset and liability simultaneously.

(3) Amounts relate to master netting arrangements and collateral arrangements which have been determined by the Company to be legally enforceable but do not meet all criteria required for net presentation within the statement of financial position.

(4) Cash collateral is determined and settled on a net basis and has been recognised in the statement of financial position within trade payables.

(5) In addition to the balances disclosed in the table related to cash collateral, certain trade receivables and payables that are not presented net within the statement of financial position have legally enforceable master netting agreements or similar arrangements in place which would allow for an additional €22,237,000 to be offset in the event of default.

(6) Amounts relate to intercompany cross-product master netting arrangements, which include those amounts where the Morgan Stanley Group undertaking from which the Company purchased the prepaid equity securities contracts is also the holder of the issued Structured Notes. These arrangements have been determined by the Company to be legally enforceable but do not meet all the criteria required for net presentation within the statement of financial position.

(7) Of the residual net exposure, intercompany cross-product legally enforceable netting arrangements are in place which would allow for an additional €nil to be offset in the ordinary course of business and/ or in the event of default.

17. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

a. Financial assets and liabilities recognised at fair value on a recurring basis

The following tables present the carrying value of the Company's financial assets and financial liabilities recognised at fair value on a recurring basis, classified according to the fair value hierarchy.

2015	Quoted prices in active market (Level 1) €000	Valuation techniques using observable inputs (Level 2) €000	Valuation techniques with significant unobservable inputs (Level 3) €000	Total €000
Financial assets classified as held for trading:				
Derivatives	-	434,008	61,289	495,297
Financial assets designated at fair value through profit or loss:				
Prepaid equity security contracts	-	133,825	20,270	154,095
Loans	-	6,659,841	-	6,659,841
Total financial assets measured at fair value	-	7,227,674	81,559	7,309,233
Financial liabilities classified as held for trading:				
Derivatives	-	850,099	89,744	939,843
Financial liabilities designated at fair value through profit or loss:				
Certificates and warrants	-	2,390,134	-	2,390,134
Notes	-	3,654,352	320,057	3,974,409
Total financial liabilities measured at fair value	-	6,894,585	409,801	7,304,386

17. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

a. Financial assets and liabilities recognised at fair value on a recurring basis (continued)

2014

	Quoted prices in active market (Level 1) €000	Valuation techniques using observable inputs (Level 2) €000	Valuation techniques with significant unobservable inputs (Level 3) €000	Total €000
Financial assets classified as held for trading:				
Derivatives	-	456,134	71,722	527,856
Financial assets designated at fair value through profit or loss:				
Prepaid equity security contracts	-	251,342	1,972	253,314
Loans	-	5,789,171	-	5,789,171
Total financial assets measured at fair value	-	6,496,647	73,694	6,570,341
Financial liabilities classified as held for trading:				
Derivatives	-	462,770	40,717	503,487
Financial liabilities designated at fair value through profit or loss:				
Certificates and warrants	-	2,153,606	-	2,153,606
Notes	-	3,481,620	411,034	3,892,654
Total financial liabilities measured at fair value	-	6,097,996	451,751	6,549,747

17. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

a. Financial assets and liabilities recognised at fair value on a recurring basis (continued)

Valuation Techniques for Assets and Liabilities Measured at Fair Value on a Recurring Basis.

Asset/Liability	Valuation Technique	Valuation Hierarchy Classification
Financial assets and financial liabilities classified as held for trading		
Derivatives		
OTC Derivative Contracts	OTC derivative contracts include forward, swap and option contracts related to interest rates, foreign currencies, credit standing of reference entities, equity prices or commodity prices. Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be either observed or modelled using a series of techniques, and model inputs from comparable benchmarks, including closed-form analytic formulas, such as the Black-Scholes option-pricing model, and simulation models or a combination thereof. Many pricing models do not entail material subjectivity because the methodologies employed do not necessitate significant judgement, and the pricing inputs are observed from actively quoted markets, as is the case for generic interest rate swaps, certain option contracts and certain credit default swaps. In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry. Other derivative products, including complex products that have become illiquid, require more judgement in the implementation of the valuation technique applied due to the complexity of the valuation assumptions and the reduced observability of inputs.	Generally Level 2 - OTC derivative products valued using pricing models Level 3 - OTC derivative products with significant unobservable inputs
Financial assets and financial liabilities designated at fair value through profit or loss		
Prepaid equity securities contracts and issued Structured Notes	The Company issues Structured Notes and trades prepaid equity securities contracts that have coupons or repayment terms linked to the performance of debt or equity securities, indices, currencies or commodities. Fair value of Structured Notes and prepaid equity securities contracts is determined using valuation models for the derivative and debt portions of the Structured Notes. These models incorporate observable inputs referencing identical or comparable securities, including: - prices to which the notes are linked - interest rate yield curves - option volatility and currency - commodity or equity prices Independent, external and traded prices for the Structured Notes are considered as well. The impact of own credit spreads is also included based on observed secondary bond market spreads.	Generally Level 2 Level 3 – Prepaid equity securities contracts with significant unobservable inputs

17. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

a. Financial assets and liabilities recognised at fair value on a recurring basis (continued)

Asset/Liability	Valuation Technique	Valuation Hierarchy Classification
Issued Structured Notes		
Notes	Notes give a risk exposure tailored to market views and risk appetite and mainly provide exposure to the underlying single name equity, equity index or portfolio of equities. Typically, the redemption payment of the note is significantly dependent on the value of embedded equity derivatives. In general, call and put options, digital options, straddles and callability features are combined to create a bespoke coupon rate or redemption payoff for each note issuance, with risk exposure to one or more equity underlyings or indices. The Company values the embedded derivatives using market standard models, which are assessed for appropriateness at least annually. Model inputs, such as equity forward rates, equity implied volatility and equity correlations, are marked such that the fair value of the derivatives match prices observable in the inter-dealer markets. In arriving at fair value, the Company uses discount rates appropriate to the funding rates specific to the instrument. In general, this results in overnight rates being used to discount the Company assets and liabilities. In addition, since the notes bear Morgan Stanley's credit risk, the Company considers this when assessing the fair value of the notes, by adjusting the discount rates to reflect the prevailing credit spread at the reporting date. The Company has a small number of notes where the cash flows due on the notes is dependent on embedded derivatives linked to the interest rate, foreign exchange or commodity markets. The Company values these notes in the same way as for equity-linked notes, by using market standard models and marking the inputs to match prices observed in the inter-dealer OTC markets. Similarly to equity-linked notes, these issuances bear Morgan Stanley's credit risk, and the valuation is assessed accordingly.	Generally Level 2 Level 3 – Notes with significant unobservable inputs
Certificates and warrants	Certificates and warrants provide exposure to the underlying single name equity, equity index or portfolio of equities. They therefore provide risk exposure to the value of the underlying position and to the dividends paid or received. The Company values the underlying position using observable data where available (for instance, exchange closing prices), or alternatively using information from third parties (for example net asset values obtained from fund administrators) or using Morgan Stanley's own valuation assumptions if required. The Company estimates future dividend payments using a variety of available data, including market prices for forwards and futures, analytical review and estimates of future tax rates, incorporating the Company's own assumptions where required. The certificates and warrants can typically be redeemed at short notice and so the certificates and warrants provide minimal exposure to the credit risk of Morgan Stanley.	Level 2

17. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

a. Financial assets and liabilities recognised at fair value on a recurring basis (continued)

Asset/Liability	Valuation Technique	Valuation Hierarchy Classification
Loans	The fair value of loans to other Morgan Stanley Group undertakings is estimated based on the present value of expected future cash flows using its best estimate of interest rate yield curves.	Level 2

b. Transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets and liabilities recognised at fair value on a recurring basis

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the current and prior year.

c. Changes in Level 3 financial assets and liabilities recognised at fair value on a recurring basis

The following tables present the changes in the fair value of the Company's Level 3 financial assets and financial liabilities for the years ended 31 December 2015 and 31 December 2014. Level 3 instruments may be hedged with instruments classified in Level 1 and Level 2. As a result, the realised and unrealised gains/ (losses) for assets and liabilities within the Level 3 category presented in the tables below do not reflect the related realised and unrealised gains/ (losses) on hedging instruments that have been classified by the Company within Level 2 category.

Additionally, both observable and unobservable inputs may be used to determine the fair value of positions that the Company has classified within the Level 3 category. As a result, the unrealised gains/ (losses) during the period for assets and liabilities within the Level 3 category presented in the tables below may include changes in fair value during the period that were attributable to both observable (e.g. changes in market interest rates) and unobservable (e.g. changes in unobservable long-dated volatilities) inputs.

17. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

c. Changes in Level 3 financial assets and liabilities recognised at fair value on a recurring basis (continued)

The Morgan Stanley Group operates a number of intra-group policies to ensure that, where possible, revenues and related costs are matched. Where the trading positions included in the below table are risk managed using financial instruments held by other Morgan Stanley Group undertakings, these policies potentially result in the recognition of offsetting gains or losses in the Company.

2015

	Balance at 1 January 2015 €000	Total gains or (losses) recognised in statement of comprehensive income [(1)] €000	Purchases €000	Issuances €000	Settlements €000	Net transfers in and/or out of Level 3 [(2)] €000	Balance at 31 December 2015 €000	Unrealised gains / (losses) for Level 3 assets /liabilities outstanding as at 31 December 2015 [(3)] €000
Financial assets classified as held for trading:								
Net derivative contracts: [(4)]								
Equity	31,005	(62,309)	-	-	(9,458)	12,307	(28,455)	(57,851)
Financial assets designated at fair value through profit or loss:								
Prepaid equity securities contracts	1,972	(3,283)	23,951	-	(1,581)	(789)	20,270	(4,187)
Total financial assets measured at fair value	**32,977**	**(65,592)**	**23,951**	**-**	**(11,039)**	**11,518**	**(8,185)**	**(62,038)**
Total financial liabilities designated at fair value through profit or loss:								
Notes	(411,034)	56,374	-	(131,714)	98,608	67,709	(320,057)	48,393
Total financial liabilities measured at fair value	**(411,034)**	**56,374**	**-**	**(131,714)**	**98,608**	**67,709**	**(320,057)**	**48,393**

(1) The total gains or (losses) are recognised in the statement of comprehensive income as detailed in the financial instruments accounting policy (note 3c).

(2) For financial assets and financial liabilities that were transferred into and out of Level 3 during the year, gains or (losses) are presented as if the assets or liabilities had been transferred into or out of Level 3 as at the beginning of the year.

(3) Amounts represent unrealised gains or (losses) for the year ended 31 December 2015 related to assets and liabilities still outstanding at 31 December 2015. The unrealised gains or (losses) are recognised in the statement of comprehensive income as detailed in the financial instruments accounting policy (note 3c).

(4) Net derivative contracts represent Financial assets classified as held for trading – derivative contracts net of Financial liabilities classified as held for trading – derivative contracts.

17. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

c. Changes in Level 3 financial assets and liabilities recognised at fair value on a recurring basis (continued)

During the year, the Company reclassified approximately €823,000 of net derivative contracts and €22,722,000 of issued Structured Notes from Level 2 to Level 3. The reclassifications were due to a reduction in the volume of recently executed transactions or a lack of available broker quotes for these instruments, such that certain significant inputs became unobservable.

During the year, the Company reclassified approximately €13,130,000 of net derivative contracts, €789,000 of prepaid equity securities contracts and €90,431,000 of issued Structured Notes from Level 3 to Level 2. The reclassifications were due to the availability of market quotations for these or comparable instruments, or available broker quotes, or consensus data such that certain significant inputs became observable.

2014

	Balance at 1 January 2014	Total gains or (losses) recognised in statement of comprehensive income (1)	Purchases	Issuances	Settlements	Net transfers in and/or out of Level 3 (2)	Balance at 31 December 2014	Unrealised gains / (losses) for Level 3 assets /liabilities outstanding as at 31 December 2014 (3)
	€000	€000	€000	€000	€000	€000	€000	€000
Financial assets classified as held for trading:								
Net derivative contracts:(4)(5)								
Equity	91,815	(19,577)	-	-	(39,885)	(1,348)	31,005	(16,810)
Financial assets designated at fair value through profit or loss:								
Prepaid equity securities contracts	26,697	461	962	-	(23,239)	(2,909)	1,972	(153)
Total financial assets measured at fair value	**118,512**	**(19,116)**	**962**	**-**	**(63,124)**	**(4,257)**	**32,977**	**(16,963)**
Financial liabilities designated at fair value through profit or loss:								
Notes	(421,704)	8,334	-	(153,682)	105,346	50,672	(411,034)	(121)
Total financial liabilities measured at fair value	**(421,704)**	**8,334**	**-**	**(153,682)**	**105,346**	**50,672**	**(411,034)**	**(121)**

(1) The total gains or (losses) are recognised in the statement of comprehensive income as detailed in the financial instruments accounting policy (note 3c).

(2) For financial assets and financial liabilities that were transferred into and out of Level 3 during the year, gains or (losses) are presented as if the assets or liabilities had been transferred into or out of Level 3 as at the beginning of the year.

(3) Amounts represent unrealised gains or (losses) for the year ended 31 December 2014 related to assets and liabilities still outstanding at 31 December 2014. The unrealised gains or (losses) are recognised in the statement of comprehensive income as detailed in the financial instruments accounting policy (note 3c)

(4) Net derivative contracts represent Financial assets classified as held for trading – derivative contracts net of Financial liabilities classified as held for trading – derivative contracts.

17. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

c. Changes in Level 3 financial assets and liabilities recognised at fair value on a recurring basis (continued)

During the prior year, the Company reclassified approximately €312,000 of net derivative contracts and €40,214,000 of issued Structured Notes from Level 2 to Level 3. The reclassifications were due to a reduction in the volume of recently executed transactions or a lack of available broker quotes for these instruments, such that certain significant inputs became unobservable.

During the prior year, the Company reclassified approximately €1,660,000 of net derivative contracts, €2,909,000 of prepaid equity securities contracts and €90,886,000 of issued Structured Notes from Level 3 to Level 2. The reclassifications were due to the availability of market quotations for these or comparable instruments, or available broker quotes, or consensus data such that certain significant inputs became observable.

d. Valuation of Level 3 financial assets and liabilities recognised at fair value on a recurring basis

The disclosures below provide information on the sensitivity of fair value measurements to key inputs and assumptions.

1. Quantitative information about and qualitative sensitivity of significant unobservable inputs.

   The table below provides information on the valuation techniques, significant unobservable inputs and their ranges and averages for each major category of assets and liabilities measured at fair value on a recurring basis with a significant Level 3 balance.

   The level of aggregation and breadth of products cause the range of inputs to be wide and not evenly distributed across the inventory. Further, the range of unobservable inputs may differ across firms in the financial services industry because of diversity in the types of products included in each firm's inventory. The following disclosures also include qualitative information on the sensitivity of the fair value measurements to changes in the significant unobservable inputs.

17. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

d. Valuation of Level 3 financial assets and liabilities recognised at fair value on a recurring basis (continued)

2015	Fair value $'000	Valuation technique(s)	Significant unobservable input(s)/ Sensitivity of the fair value to changes in the unobservable inputs	Range [(2)]	Averages [(3)]
ASSETS					
Financial assets designated at fair value through profit or loss:					
Prepaid equity securities contracts	20,270	Option model	Gap charge / (B)	0% to 1%	1%
LIABILITIES					
Financial liabilities classified as held for trading:					
Net derivative contracts: [(1)]					
Equity [(4)]	(28,455)	Option model	At the money volatility / (B) (C)	20% to 50%	36%
			Volatility skew / (A) (C)	-1% to 0%	0%
			Equity - Equity correlation / (A) (C)	33% to 97%	65%
			Equity - Foreign exchange correlation / (B) (C)	-85% to 50%	-40%
		Net asset value ("NAV")	NAV value / (A) (C)	100%	100%
Financial liabilities designated at fair value through profit or loss:					
Notes	(320,057)	Option model	At the money volatility / (A) (C)	6% to 50%	35%
			Volatility skew / (B) (C)	-1% to 0%	-0%
			Equity - Equity correlation / (B) (C)	35% to 97%	65%
			Equity - Foreign exchange correlation / (A) (C)	-85% to 30%	-39%
		NAV	NAV value / (A) (C)	100%	100%

(1) Net derivative contracts represent financial assets classified as held for trading – derivative contracts net of financial liabilities classified as held for trading – derivative contracts.

(2) The ranges of significant unobservable inputs are represented in percentages.

(3) Amounts represent weighted averages which are calculated by weighting each input by the fair value of the respective financial instruments except for derivative instruments where inputs are weighted by risk.

(4) Includes derivative contracts with multiple risks (i.e. hybrid products)

Sensitivity of the fair value to changes in the unobservable inputs:

(A) Significant increase/ (decrease) in the unobservable input in isolation would result in a significantly higher/ (lower) fair value measurement.
(B) Significant increase/ (decrease) in the unobservable input in isolation would result in a significantly lower/ (higher) fair value measurement.
(C) There are no predictable relationships between the significant unobservable inputs.

17. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

d. Valuation of Level 3 financial assets and liabilities recognised at fair value on a recurring basis (continued)

2014	Fair value $'000	Valuation technique(s)	Significant unobservable input(s)/ Sensitivity of the fair value to changes in the unobservable inputs	Range [2]	Averages [3]
ASSETS					
Financial assets classified as held for trading:					
Net derivative contracts: [1]					
Equity [4]	31,005	Option model	At the money volatility / (B) (C)	20% to 39%	27%
			Volatility skew / (B) (C)	-1% to 1%	-1%
			Equity - Equity correlation / (B) (C)	40% to 90%	60%
			Equity - Foreign exchange correlation / (B) (C)	-70% to 56%	-27%
		NAV	NAV value / (A) (C)	100%	100%
Financial assets designated at fair value through profit or loss:					
Prepaid equity securities contracts	1,972	Option model	At the money volatility / (A) (C)	15% to 31%	20%
			Volatility skew / (A) (C)	-1% to 0%	0%
LIABILITIES					
Financial liabilities designated at fair value through profit or loss:					
Notes	(411,034)	Option model	At the money volatility / (B) (C)	15% to 39%	27%
			Volatility skew / (B) (C)	-1% to 1%	-1%
			Equity - Equity correlation / (B) (C)	40% to 90%	60%
			Equity - Foreign exchange correlation / (B) (C)	-70% to 56%	-27%
		NAV	NAV value / (A) (C)	100%	100%

(1) Net derivative contracts represent financial assets classified as held for trading – derivative contracts net of financial liabilities classified as held for trading – derivative contracts.

(2) The ranges of significant unobservable inputs are represented in percentages.

(3) Amounts represent weighted averages which are calculated by weighting each input by the fair value of the respective financial instruments except for derivative instruments where inputs are weighted by risk.

(4) Includes derivative contracts with multiple risks (i.e. hybrid products)

Sensitivity of the fair value to changes in the unobservable inputs:

(A) Significant increase/ (decrease) in the unobservable input in isolation would result in a significantly higher/ (lower) fair value measurement.
(B) Significant increase/ (decrease) in the unobservable input in isolation would result in a significantly lower/ (higher) fair value measurement.
(C) There are no predictable relationships between the significant unobservable inputs.

17. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

d. Valuation of Level 3 financial assets and liabilities recognised at fair value on a recurring basis (continued)

The following provides a description of significant unobservable inputs included in the table above for all major categories of assets and liabilities:

- *Gap charge* – a pricing input used to value the risk of significant unexpected movements in the underlying equity components of the security. The input captures the risk that these unexpected movements occur prior to the re-hedging or adjustment of a portfolio to account for such unexpected movements.
- *Correlation* – a pricing input where the payoff is driven by more than one underlying risk. Correlation is a measure of the relationship between the movements of two variables (i.e. how the change in one variable influences a change in the other variable).
- *Volatility* – the measure of the variability in possible returns for an instrument given how much that instrument changes in value over time. Volatility is a pricing input for options and, generally, the lower the volatility, the less risky the option. The level of volatility used in the valuation of a particular option depends on a number of factors, including the nature of the risk underlying that option (e.g. the volatility of a particular underlying equity security may be significantly different from that of a particular underlying commodity index), the tenor and the strike price of the option.
- *Volatility skew* – the measure of the difference in implied volatility for options with identical underliers and expiry dates but with different strikes. The implied volatility for an option with a strike price that is above or below the current price of an underlying asset will typically deviate from the implied volatility for an option with a strike price equal to the current price of that same underlying asset.
- *Funding spread* – the difference between the interbank funding rate and a specific bank funding rate. Embedded within this spread is the cost of the optionality for the client to put back certificates at any time to be repaid at par.

2. Sensitivity of fair values to changing significant assumptions to reasonably possible alternatives

All financial instruments are valued in accordance with the techniques outlined in the fair value hierarchy disclosure above. Some of these techniques, including those used to value instruments categorised in Level 3 of the fair value hierarchy, are dependent on unobservable parameters and the fair value for these financial instruments has been determined using parameters appropriate for the valuation methodology based on prevailing market evidence. It is recognised that the unobservable parameters could have a range of reasonably possible alternative values.

In estimating the change in fair value, to provide information about the variability of the fair value measurement, the unobservable parameters were varied to the extremes of the ranges of reasonably possible alternatives using statistical techniques, such as dispersion in comparable observable external inputs for similar asset classes, historic data or judgement if a statistical technique is not appropriate. Where a financial instrument has more than one unobservable parameter, the sensitivity analysis reflects the greatest reasonably possible increase or decrease to fair value by varying the assumptions individually. It is unlikely that all unobservable parameters would be concurrently at the extreme range of possible alternative assumptions and therefore the sensitivity shown below is likely to be greater than the actual uncertainty relating to the financial instruments.

The following tables present the sensitivity of the fair value of Level 3 financial assets and financial liabilities to reasonably possible alternative assumptions, providing quantitative information on the potential variability of the fair value measurement.

17. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

d. Valuation of Level 3 financial assets and liabilities recognised at fair value on a recurring basis (continued)

2015		**Effect of reasonably possible alternative assumptions**	
	Fair value €000	**Increase in fair value €000**	**Decrease in fair value €000**
Financial assets designated at fair value through profit or loss:			
Prepaid equity securities contracts	20,270	397	(397)
Financial liabilities classified as held for trading:			
Net derivatives contracts:(1)			
Equity	(28,455)	4,245	(3,990)
Financial liabilities designated at fair value through profit or loss:	(320,057)	(4,642)	4,387
Notes			

(1) Net derivative contracts represent financial assets classified as held for trading – derivative contracts net of financial liabilities classified as held for trading – derivative contracts.

2014		**Effect of reasonably possible alternative assumptions**	
	Fair value €000	**Increase in fair value €000**	**Decrease in fair value €000**
Financial assets classified as held for trading:			
Net derivatives contracts:(1)			
Equity	31,005	425	(2,271)
Financial assets designated at fair value through profit or loss:			
Prepaid equity securities contracts	1,972	2	(90)
Financial liabilities designated at fair value through profit or loss:			
Notes	(411,034)	(427)	2,361

(1) Net derivative contracts represent financial assets classified as held for trading – derivative contracts net of financial liabilities classified as held for trading – derivative contracts.

17. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

e. Assets and liabilities measured at fair value on a non-recurring basis

Non-recurring fair value measurements of assets and liabilities are those which are required or permitted in the statement of financial position in particular circumstances. There were no assets or liabilities measured at fair value on a non-recurring basis during the year or prior year.

18. ASSETS AND LIABILITIES 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.

19. CAPITAL MANAGEMENT

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

The Morgan Stanley Group's required capital ("Required Capital") estimation is based on the Required Capital Framework, an internal capital adequacy measure. This 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 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, issue new shares, or sell assets to reduce debt.

The Company manages the following items as capital:

	2015 €000	2014 €000
Share capital	15,018	15,018
Reserves	22,672	15,052
	37,690	30,070

20. RELATED PARTY DISCLOSURES

Parent and subsidiary relationship

Parent and ultimate controlling entity

The Company's immediate parent undertaking is Archimedes Investments Coöperatieve U.A. which is registered in The Netherlands.

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.

Key management compensation

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company. Key management personnel include the Board of Directors of the Company plus key business unit management.

Compensation paid by the Company to key management personnel in respect of their services rendered to the Company is:

	2015 €000	2014 €000
Short-term employee benefits	29	25
Post-employment benefits	2	1
Share-based payments	1	3
Other long-term employee benefits	-	3
TMF management fees	337	281
	369	313

The share-based payment costs disclosed above reflect the amortisation of equity-based awards granted to key management personnel over the last three years and are therefore not directly aligned with other staff costs in the current year.

Key management personnel compensation is borne by other Morgan Stanley Group undertakings in both the current and prior years.

Included in the above, TMF Management B.V., not in the Morgan Stanley Group, provided key management personnel services to the Company for which a fee of €13,000 was charged for the year (2014: €13,000) and of which €nil was accrued at 31 December 2015 (2014: €nil).

Transactions with related parties

The Morgan Stanley Group conducts business for clients globally through a combination of both functional and legal entity organisational structures. Accordingly, the Company is closely integrated with the operations of the Morgan Stanley Group and enters into transactions with other Morgan Stanley Group undertakings on an arm's length basis for the purposes of utilising financing, trading and risk management, and infrastructure services. Settlement of the outstanding balances will be made via inter-company mechanisms. The nature of these relationships along with information about the transactions and outstanding balances is given below. The Company has not recognised any expense and has made no provision for impairment relating to the amount of outstanding balances from related parties (2014: €nil).

20. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions with related parties (continued)

In addition, the management and execution of business strategies on a global basis results in many Morgan Stanley transactions impacting a number of Morgan Stanley Group undertakings. The Morgan Stanley Group operates a number of intra-group policies to ensure that, where possible, revenues and related costs are matched. For the year ended 31 December 2015, a net loss of €2,445,000 was recognised in the statement of comprehensive income arising from such policies (2014: net loss of €1,135,000).

Funding

The Company receives general funding from and provides funding to other Morgan Stanley Group undertakings.

General funding is undated, unsecured, floating rate lending. Funding may be received or provided for specific transaction related funding requirements, or for general operational purposes. The interest rates are established by the Morgan Stanley Group Treasury function for all entities within the Morgan Stanley Group and approximate the market rate of interest that the Morgan Stanley Group incurs in funding its business.

Other funding

Other funding includes CPECs issued to the Company's direct parent undertaking, Archimedes Investments Coöperatieve U.A.. The specific terms of the related yield are detailed in note 8.

Details of the outstanding balances on these funding arrangements and the related interest income or expense recognised in the statement of comprehensive income during the year are shown in the table below:

	2015		2014	
	Interest €000	Balance €000	Interest €000	Balance €000
Amounts due from the Company's indirect parent undertaking	19,049	1,139,744	24,549	1,193,364
Amounts due from other Morgan Stanley Group undertakings	4,107	26,734	383	292,928
	23,156	1,166,478	24,932	1,486,292
Amounts due to the Company's direct and indirect parent undertakings	36,884	1,159,890	24,775	1,195,354
Amounts due to other Morgan Stanley Group undertakings	255	229,715	9	10,024
	37,139	1,389,605	24,784	1,205,378

20. RELATED PARTY DISCLOSURES (CONTINUED)

Trading and risk management

The Company issues Structured Notes and hedges the obligations arising from the issuance by entering into prepaid equity securities contracts, derivative contracts and loans designated at fair value through profit or loss with other Morgan Stanley Group undertakings. All such transactions are entered into on an arm's length basis. The total amounts receivable and payable on issued Structured Notes, prepaid equity securities contracts, derivative contracts and loans designated at fair value through profit or loss were as follows:

	2015 €000	2014 €000
Amounts due from other Morgan Stanley Group undertakings	7,603,231	6,594,927
Amounts due to the Company's indirect parent undertakings on unsettled securities and derivative transactions	271	2,585
Amounts due to other Morgan Stanley Group undertakings	2,178,513	2,112,114
	2,178,784	2,114,699

The Company has pledged collateral of €256,024,000 (2014: €nil) to other Morgan Stanley Group undertakings and has received collateral of €nil (2014: €250,917,000) from other Morgan Stanley Group undertakings to mitigate credit risk on exposures arising under derivatives contracts and prepaid equity securities contracts between the Company and other Morgan Stanley Group undertakings.

Infrastructure services

The Company uses infrastructure services including the provision of office facilities, operated by other Morgan Stanley Group undertakings at no charge.

MORGAN STANLEY B.V.

ADDITIONAL INFORMATION
Year ended 31 December 2015

Independent auditor's report

The independent auditor's report is recorded on the next page.

Statutory rules concerning appropriation of the net result

The Articles of Association of the Company provide that the net result for the year is at the disposition of the General Meeting of Shareholders.

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

Appropriation of the net result for the year

The statement of financial position is presented after the proposed appropriation of net result for the year ended 31 December 2015. The Directors propose to add profit to the statement of comprehensive income as part of the equity shareholders' funds.

Subsequent events

There have been no significant events since the reporting date.