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UK registration number: FC 026606

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MORGAN STANLEY SINOPE CAYMAN LIMITED

Report and financial statements

31 December 2011

MORGAN STANLEY SINOPE CAYMAN LIMITED

CONTENTS **PAGE**

MORGAN STANLEY SINOPE CAYMAN LIMITED

DIRECTORS' REPORT

The Directors present their report and financial statements (which comprise the profit and loss account, the balance sheet, and the related notes, 1 to 15) for Morgan Stanley Sinope Cayman Limited (the "Company") for the year ended 31 December 2011

RESULTS AND DIVIDENDS

The profit for the year, after tax, was €3,486,000 (2010 €4,653,000 profit after tax)

During the year no dividends were paid or proposed (2010 €nil)

PRINCIPAL ACTIVITY

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

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

The Company's ultimate parent undertaking and controlling entity is Morgan Stanley, which, together with the Company and Morgan Stanley's other subsidiary undertakings, form the "Morgan Stanley Group"

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

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

BUSINESS REVIEW

The profit and loss for the year is set out on page 6 The Company's profit for the year has decreased by €1,167,000, from €4,653,000 in the prior year to €3,486,000 in the current year The decrease has been driven by an increase in the average EUR floating rate of interest (the "Average Rate") payable by the Company on its financial liabilities at amortised cost of €477,313,000 The Average Rate increased from 2 07% in 2010 to 2 4% in 2011 Of the Company's assets €44,502,000 are at a fixed rate of 4 1%, therefore any change in the Average Rate has a direct impact on profit after tax

The balance sheet for the Company is set out on page 7 The Company's net assets for the year were €138,139,000 compared to €134,653,000 in the prior year The €3,487,000 increase is attributable to interest accrued on the Company's loans On 14 December 2011, a loan payable to a Morgan Stanley Group undertaking of €297,883,000 was called, and replaced by a loan payable of €474,995,000, and a loan receivable of €176,835,000 to Morgan Stanley Group undertakings, increasing debtors and creditors respectively Both loans remain at the same terms to other Morgan Stanley Group undertakings

The performance of the Company is included in the results of the Morgan Stanley Group which are disclosed in the Morgan Stanley Group's Annual Report on Form 10-K to the United States Securities and Exchange Commission The Morgan Stanley Group manages its key performance indicators on a global basis but in consideration of individual legal entities For this reason, the Company's Directors believe that providing further performance indicators for the Company itself would not enhance an understanding of the development, performance or position of the business of the Company

DIRECTORS' REPORT (CONTINUED)

Current market conditions

During 2011, economic conditions have remained challenging with concerns about the sovereign debt crisis in Europe, the US federal debt ceiling and slower economic growth leading to volatility on the global equity markets These conditions present difficulties and uncertainty for the business outlook which may adversely impact the financial performance of the Company in the future

Morgan Stanley continues to actively manage its capital and liquidity position to ensure adequate resources are available to support the activities of the Morgan Stanley Group, to enable the Morgan Stanley Group to withstand market stresses, and to meet regulatory stress testing requirements proposed by regulators globally Throughout 2011, the Morgan Stanley Group has been focused on the composition of its funding liabilities, reducing reliance on short term funding in favour of more diverse and durable funding sources This remains an ongoing objective of the Morgan Stanley Group

In line with this active management, in June 2011, the Morgan Stanley Group's capital position has been further strengthened by converting its outstanding Series B Non-Cumulative Non-Voting Perpetual Convertible Preferred Stock with a face value of $7 8 billion and a 10% dividend issued to Mitsubishi UFJ Financial Group Inc ("MUFG"), for 385,464,097 shares in Morgan Stanley's common stock

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 and is managed within the context of the broader Morgan Stanley Group's business activities The Morgan Stanley Group seeks to identify, assess, monitor and manage each of the various types of risk involved in its activities on a global basis, in accordance with defined policies and procedures and in consideration of the individual legal entities

Market risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as liquidity, will result in losses for a position or portfolio

The Morgan Stanley Group manages the market risk associated with its trading activities in consideration of each individual legal entity, but on a global basis, at both a trading division and an individual product level

Credit risk

Credit risk refers to the risk of loss arising from borrower or counterparty default when a borrower, counterparty or obligor does not meet its obligations

The Morgan Stanley Group manages credit risk exposure on a global basis as well as giving consideration to each individual legal entity, by ensuring transparency of material credit risks, ensuring compliance with established limits, approving material extensions of credit, escalating risk concentrations to appropriate senior management and mitigating credit risk through the use of collateral and other arrangements

DIRECTORS' REPORT (CONTINUED)

Risk management (continued)

Liquidity and funding risk

Liquidity and funding risk refers to the risk that the Company will be unable to meet its funding obligations in a timely manner Liquidity risk stems from the potential risk that the Company will be unable to obtain necessary funding through borrowing money at favourable interest rates or maturity terms, or selling assets in a timely manner and at a reasonable price

The Morgan Stanley Group's senior management establishes the overall liquidity and funding policies of the Morgan Stanley Group and the liquidity risk management policies and procedures conducted within the Company are consistent with those of the Morgan Stanley Group The Morgan Stanley Group's liquidity and funding risk management policies are designed to mitigate the potential risk that entities within the Morgan Stanley Group, including the Company, may be unable to access adequate financing to service their financial liabilities when they become payable without material, adverse franchise or business impact The key objective of the liquidity and funding risk management framework is to support the successful execution of both the Company's and the Morgan Stanley Group's business strategies while ensuring ongoing and sufficient liquidity through the business cycle and during periods of stressed market conditions

Operational risk

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

The Morgan Stanley Group has established an operational risk management process which operates on a global and regional basis to identify, measure, monitor and control risk Effective operational risk management is essential to reducing the impact of operational risk incidents and mitigating legal, regulatory, and reputational risks

Legal and regulatory risk

Legal and regulatory risk includes the risk of exposure to fines, penalties, judgements, damages and/or settlements in conjunction with regulatory or legal actions as a result of non-compliance with applicable legal or regulatory requirements or litigation Legal risk also includes contractual risk such as the risk that a counterparty's performance obligations will be unenforceable In the current environment of rapid and possibly transformational regulatory change, the Morgan Stanley Group also views regulatory change as a component of legal risk

The Morgan Stanley Group has established procedures based on legal and regulatory requirements on a worldwide basis that are designed to foster compliance with applicable statutory and regulatory requirements The Morgan Stanley Group, principally through the Legal and Compliance Division, also has established procedures that are designed to require that the Morgan Stanley Group's policies relating to conduct, ethics and business practices are followed globally In connection with its businesses, the Morgan Stanley Group has and continuously develops various procedures addressing issues such as regulatory capital requirements, sales and trading practices, new products, potential conflicts of interest, structured transactions, use and safekeeping of customer funds and securities, credit granting, money laundering, privacy and recordkeeping In addition, the Morgan Stanley Group has established procedures to mitigate the risk that a counterparty's performance obligations will be unenforceable, including consideration of counterparty legal authority and capacity, adequacy of legal documentation, the permissibility of a transaction under applicable law and whether applicable bankruptcy or insolvency laws limit or alter contractual remedies The legal and regulatory focus on the financial services industry presents a continuing business challenge for the Morgan Stanley Group

MORGAN STANLEY SINOPE CAYMAN LIMITED

DIRECTORS' REPORT (CONTINUED)

Significant changes in the way that major financial services institutions are regulated are occurring in the UK, Europe, the US and worldwide The reforms being discussed and, in some cases, already implemented, include several that contemplate comprehensive restructuring of the regulation of the financial services industry Such measures will likely lead to stricter regulation of financial institutions generally, and heightened prudential requirements for systemically important firms in particular Such measures could include taxation of financial transactions, liabilities and employee compensation as well as reforms of the over-the-counter ("OTC") derivatives markets, such as mandated exchange trading and clearing, position limits, margin, capital and registration requirements

Many of these reforms, if enacted, may materially affect the Company's and the Morgan Stanley Group's business, financial condition, results of operations and cash flows in the future

DIRECTORS

The following Directors held office throughout the year and to the date of approval of this report

P K M Falk
S I Merry

DIRECTORS' LIABILITY INSURANCE

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

QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

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

POST BALANCE SHEET EVENTS

There have been no significant events since the balance sheet date

MORGAN STANLEY SINOPE CAYMAN LIMITED

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

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

The Directors are required to prepare such financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit and or loss of the Company for that period In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK accounting standards have been followed, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

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

Approved by the Board and signed on its behalf by

Director
S Merry
28 May 2012

MORGAN STANLEY SINOPE CAYMAN LIMITED

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2011

	Note	2011 €'000	2010 €'000
Interest income	2	11,062	10,887
Interest expense	3	(7,576)	(6,234)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		3,486	4,653
Tax on profit on ordinary activities	5	-	-
PROFIT FOR THE FINANCIAL YEAR		3,486	4,653

All operations were continuing in the current and prior year

There were no recognised gains or losses during the current or prior year other than those disclosed above Accordingly no statement of total recognised gains and losses has been prepared

A reconciliation of the movement in shareholders' funds is disclosed in note 10 to the financial statements

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

MORGAN STANLEY SINOPE CAYMAN LIMITED
Registered number MC 161501

BALANCE SHEET
As at 31 December 2011

	Note	2011 €'000	2010 €'000
FIXED ASSETS			
Investments			
- Subsidiary undertakings	6	403,320	403,320
CURRENT ASSETS			
Loans and receivables			
- Debtors	7	212,132	33,616
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Financial liabilities at amortised cost	8	(477,313)	(302,283)
NET CURRENT LIABILITIES		(265,181)	(268,667)
TOTAL ASSETS LESS CURRENT LIABILITIES		138,139	134,653
CAPITAL AND RESERVES			
Called up share capital	9	135,000	135,000
Profit and loss account	10	3,139	(347)
SHAREHOLDERS' FUNDS		138,139	134,653

These financial statements were approved by the Board and authorised for issue on 28 May 2012

Signed on behalf of the Board

Director
S.Merry

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

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2011

1. ACCOUNTING POLICIES

The Company's principal accounting policies are summarised below and have been applied consistently throughout the year and preceding year

a) Basis of preparation

The financial statements are prepared under the historical cost convention, modified by the inclusion of financial instruments at fair value as described in note 1(e) below, and in accordance with applicable United Kingdom company law and accounting standards

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

The Company is not required to prepare consolidated financial statements by virtue of the exemption under section 400 of the Companies Act 2006 The results of the Company are included within the financial statements of Morgan Stanley Himalia Cayman Limited, a company incorporated in the Cayman Islands, which will prepare consolidated financial statements for the year to 31 December 2011 The financial statements therefore present information about the Company as an individual entity and not about its group

b) The going concern assumption

The Company's business activities, together with the factors likely to affect its future development, performance and position, are reflected in the Business Review section of the Directors' report on pages 1 to 4

As set out in the Director's report, the Company operates within the global liquidity management framework and the Required Capital Framework of the Morgan Stanley Group Throughout the difficult market conditions, this framework has continued to provide sufficient liquidity to the Morgan Stanley Group and to the Company Although the Company is in a net current liability position, the Company is performing in line with expectations and the net current liability position is due to amounts owing to fellow Morgan Stanley Group undertakings within the next 12 months, the demand for repayment of which is wholly within the control of the Morgan Stanley Group

Taking all of these factors into consideration, the Directors believe it is reasonable to assume that the Company will not be required to meet its debts without the Company having 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

c) Functional currency

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

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

1. ACCOUNTING POLICIES (CONTINUED)

d) Foreign currencies

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

e) Financial instruments

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

The Company classifies its financial liabilities into the following categories on initial recognition financial liabilities at amortised cost

More information regarding these classifications is included below

i) Investments in subsidiary undertakings

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

ii) Loans and receivables and financial liabilities at amortised cost

Financial assets classified as loans and receivables are initially recognised on settlement date at fair value (see note 1(f) below) and subsequently measured at amortised cost less allowance for impairment Interest is recognised in the profit and loss account in 'Interest income', using the effective interest rate method as described below Transaction costs that are directly attributable to the acquisition of the financial asset are added to or deducted from the fair value on initial recognition Impairment losses and reversals of impairment losses on financial assets classified as loans and receivables are recognised in the profit and loss account in 'Other expense'

Financial liabilities held at amortised cost are initially recognised on settlement date at fair value (see note 1(f) below) and subsequently measured at amortised cost Interest is recognised in the profit and loss account in 'Interest expense' using the effective interest rate method as described below Transaction costs that are directly attributable to the issue of the financial liability are added to or deducted from the fair value on initial recognition

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

1. ACCOUNTING POLICIES (CONTINUED)

f) Fair value of financial instruments

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

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)

g) Impairment of financial assets

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

h) Taxation

UK corporation tax is provided at amounts expected to be paid / recovered using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date

i) Cash flow statement

The Company's ultimate parent undertaking produces consolidated financial statements in which the Company is included and which are publicly available Accordingly, the Company, which is a wholly-owned subsidiary, has elected to avail itself of the exemption provided in Financial Reporting Standard ("FRS") 1 (Revised 1996) *Cash flow statements* and not present a cash flow statement

2. INTEREST INCOME

	2011	2010
	€'000	€'000
Interest income from loans to Morgan Stanley Group undertakings	11,062	10,887

Included in Interest income from loans to Morgan Stanley Group undertakings is €10,887,000 (2010 €10,887,000) of preference share dividends

3. INTEREST EXPENSE

	2011	2010
	€'000	€'000
Interest expense on loans from Morgan Stanley Group undertakings	7,576	6,234

MORGAN STANLEY SINOPE CAYMAN LIMITED

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2011

4. STAFF COSTS

The Company employed no staff durıng the year (2010 Nıl)

The Dırectors dıd not receıve any remuneratıon for theır qualıfyıng servıces to the Company durıng the year (2010 Nıl)

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysıs of charge ın the year

	2011 €'000	2010 €'000
UK corporatıon tax at 26 49% (2010 28%)		
- Current year	-	-
Tax on profit on ordınary actıvıtıes	-	-

Factors affectıng the tax charge for the year

The current year UK taxatıon charge ıs lower than that resultıng from applyıng the average standard UK corporatıon tax rate of 26 49% (2010 28%) The maın dıfferences are explaıned below

	2011 €'000	2010 €'000
Profit on ordınary actıvıtıes before tax	3,486	4,653
Profit on ordınary actıvıtıes multıplıed by the average standard rate of corporatıon tax ın the UK of 26 49% (2010 28%)	923	1,303
Effects of:		
Group relıef surrendered for nıl cash consıderatıon	1,961	1,745
Non-taxable dıvıdends on preference shares shown as ınterest ıncome	(2,884)	(3,048)
Current tax charge for the year	-	-

Fınance (No 2) Act 2010 enacted a 1% reductıon ın the UK corporatıon tax rate to 27% wıth effect from Aprıl 2011 Fınance Act 2011 enacted a further 1% reductıon ın the rate of UK corporatıon tax to 26% from Aprıl 2011 The combıned 2% reductıon ın the tax rate ımpacted the current tax charge ın 2011

Fınance Act 2011 enacted an addıtıonal 1% reductıon to the UK corporatıon tax rate to 25% wıth effect from Aprıl 2012 In the Budget announcement on the 21 March 2012, thıs reductıon was ıncreased to 2% and was substantıvely enacted on 26 March 2012 The combıned 2% reductıon ın the tax rate to 24% from 1 Aprıl 2012 wıll ımpact the current tax charge ın 2012

6. FIXED ASSET INVESTMENTS

Fixed asset investments in subsidiary undertakings

	Subsidiary undertakings
Cost and Net book value	**€'000**
At 31 December 2011	403,320

Subsidiaries and significant holdings

Details of the investments in which the Company holds more than 20% of the nominal value of any class of share capital, and investments with a book value greater than 20% of the Company's own assets at 31 December 2011, are as follows

Name of company	Country of incorporation	Type of shares held	Proportion of shares held	Proportion of voting rights	Nature of business
Morgan Stanley Adrastea Netherlands B V	The Netherlands	Ordinary	100%	23 529%	Financial services
Morgan Stanley Adrastea Netherlands B V	The Netherlands	Class A Redeemable Preference	100%	76 469%	Financial services
Morgan Stanley Adrastea Netherlands B V	The Netherlands	Class B Redeemable Preference Shares	100%	0 001%	Financial services
Morgan Stanley Adrastea Netherlands B V	The Netherlands	Class C Redeemable Preference Shares	100%	0 001%	Financial services

7. DEBTORS

	2011 €'000	2010 €'000
Debtors classified within loans and receivables at amortised cost		
Amounts due from Morgan Stanley Group undertakings	212,132	33,616

8. FINANCIAL LIABILITIES AT AMORTISED COST

	2011 €'000	2010 €'000
Financial liabilities at amortised cost falling due within one year		
Amounts owing to Morgan Stanley Group undertakings	477,313	302,283

9. CALLED UP SHARE CAPITAL

Shares classified as equity

	2011 €'000	2010 €'000
Allotted and fully paid:		
101 ordinary shares of $1 each	-	-

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

10. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Called up share capital €'000	Share premium account €'000	Profit and loss account €'000	Total €'000
At 1 January 2010	-	135,000	(5,000)	130,000
Total recognised gains and losses	-	-	4,653	4,653
At January 2011	-	135,000	(347)	134,653
Total recognized gains and losses	-	-	3,486	3,486
At 31 December 2011	-	135,000	3,139	138,139

11. FINANCIAL RISK MANAGEMENT

Risk management procedures

Risk is an inherent part of both Morgan Stanley's and the Company's business activity and is managed by the Company within the context of the broader Morgan Stanley Group The Morgan Stanley Group seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities in accordance with defined policies and procedures The Company's own risk management policies and procedures are consistent with those of the Morgan Stanley Group

Significant risks faced by the Company resulting from its investment activities are set out below

Credit risk

Credit risk refers to the risk of loss arising from a borrower or counterparty default

The Morgan Stanley Group manages credit risk exposure on a global basis, but in consideration of each individual legal entity, including those of the Company The credit risk management policies and procedures of the Morgan Stanley Group include ensuring transparency of material credit risks, ensuring compliance with established limits, approving material extensions of credit and escalating risk concentrations to appropriate senior management Credit risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to appropriate key management personnel of the Company

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

The maximum exposure to credit risk of the Company at the reporting date is the carrying amount of the financial assets held in the balance sheet The Company has not entered into any credit enhancements to manage its exposure to credit risk

The Company does not have any significant exposure arising from off-balance sheet items

Exposure to credit risk by class

Class	**Gross Credit Exposure**	
	2011	**2010**
	€'000	**€'000**
Loans and receivables		
Amounts due from Morgan Stanley Group Undertakings	212,132	33,616

11. FINANCIAL RISK MANAGEMENT (CONTINUED)

Maximum exposure to credit risk by credit rating

Credit rating	Gross Credit Exposure 2011 €'000	2010 €'000
A	212,132	33,616

At 31 December 2011 there were no financial assets past due but not impaired or individually impaired (2010 None)

Liquidity risk

Liquidity risk is the risk that the entity may encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset

The Morgan Stanley Group's senior management establishes the overall liquidity and funding policies of the Morgan Stanley Group and the liquidity risk management policies and procedures conducted within the Company are consistent with those of the Morgan Stanley Group The Morgan Stanley Group's liquidity and funding risk management policies are designed to mitigate the potential risk that entities within the Morgan Stanley Group, including the Company, may be unable to access adequate financing to service their financial liabilities when they become payable without material, adverse franchise or business impact The key objective of the liquidity and funding risk management framework is to support the successful execution of both the Morgan Stanley Group's and the Company's business strategies while ensuring ongoing and sufficient liquidity through the business cycle and during periods of stressed market conditions

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 Contingency Funding Plan ("CFP"), Liquidity Stress Tests and the Global Liquidity Reserves These elements support the Morgan Stanley Group's target liquidity profile

Contingency funding plan The CFP describes the data and information flows, limits and triggers, escalation procedures, roles and responsibilities, and available mitigating actions in the event of a liquidity stress The CFP assesses current and future funding sources and uses and establishes a plan for monitoring and managing a potential liquidity stress event A set of escalation triggers identifies early signs of stress and activates a response plan

11. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity Stress Tests Liquidity stress tests model liquidity outflows across multiple scenarios over a range of time horizons

The assumptions underpinning the Liquidity Stress Tests include, but not limited to, the following (i) no government support, (ii) no access to unsecured debt markets, (iii) repayment of all unsecured debt maturing within one year, (iv) higher haircuts and significantly lower availability of secured funding, (v) additional collateral that would be required by trading counterparties and certain exchanges and clearing organisations related to multi-notch credit rating downgrades, (vi) additional collateral that would be required due to collateral substitutions, collateral disputes and uncalled collateral, (vii) discretionary unsecured debt buybacks, (viii) drawdowns on unfunded commitments provided to third parties, (ix) client cash withdrawals and reduction in customer short positions that fund long positions, (x) limited access tothe foreign exchange swap markets, (xi) return of securities borrowed on an uncollateralised basis, and (xii) maturity roll-off of outstanding letters of credit with no further issuance

The Liquidity Stress Tests are produced at the Morgan Stanley Group and major operating subsidiary, level as well as 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 does not have access to cash that may be held at certain subsidiaries that are subject to regulatory, legal or tax constraints

The Company is not considered a major subsidiary for the purposes of liquidity risk However, the Company would have access to the cash or liquidity reserves held by Morgan Stanley in the unlikely event they were unable to access adequate financing to service their financial liabilities when they become payable

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

Global liquidity reserve The Morgan Stanley Group maintains sufficient liquidity reserves ("the Global Liquidity Reserve") to cover daily funding needs and meet strategic liquidity targets sized by the CFP and Liquidity Stress Tests These liquidity targets are based on the Morgan Stanley Group's risk tolerance, balance sheet level and composition, subsidiary funding needs, and upcoming debt maturities, which are subject to change dependent on market and firm-specific events

The Global Liquidity Reserve, to which the Company has access, is held within Morgan Stanley and the Morgan Stanley Group's major operating subsidiaries and consists of highly liquid and diversified cash and cash equivalents and unencumbered securities (including U S government securities, U S agency securities, U S agency mortgage-backed securities, FDIC-guaranteed corporate debt and non- S government securities)

Funding management policies

The Morgan Stanley Group's funding management policies are designed to provide for financings that are executed 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

11. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Morgan Stanley Group funds its balance sheet on a global basis through diverse sources, which includes consideration of the funding risk of each legal entity These sources may include the Morgan Stanley Group's equity capital, long-term debt, repurchase agreements, securities lending, deposits, commercial paper, letters of credit and lines of credit The Morgan Stanley Group has active financing programs for both standard and structured products, targeting global investors and currencies

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 consist of highly liquid marketable securities and short-term collateralised receivables arising from its Institutional Securities sales and trading activities The liquid nature of these assets provides the Morgan Stanley Group and the Company with flexibility in financing and managing its business

Maturity analysis

In the following maturity analysis the amounts represent the 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 2011 Receipt 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

In December 2011, the Company has loans and receivables due from Morgan Stanley Group undertakings of €212,132,000 compared to €33,616,000 in 2010 All loans are repayable on demand

For financial liabilities the Company has liabilities owing to Morgan Stanley Group undertakings of €477,313,000 compared to €302,283,000 in 2010 All amounts are payable on demand

Market risk

Market risk is defined under FRS 29 *Financial instruments disclosures* as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices The Company is exposed to the following types of market risk under this definition, interest rate risk

Sound market risk management is an integral part of the Company's and the Morgan Stanley Group's culture The Company is responsible for ensuring that market risk exposures are well-managed and prudent and more broadly for ensuring transparency of material market risks, monitoring compliance with established limits, and escalating risk concentrations to appropriate senior management

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

The Company enters into all 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 Company actively manages its market risk by hedging with other Morgan Stanley Group undertakings The residual market risk on the entity is not material

11. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk

Interest rate risk is defined under FRS 29 '*Financial instruments disclosures*' as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates The Company is primarily exposed to interest rate risk under this definition as a result of changes in the future cash flows of floating rate intercompany loans held at amortised cost

The application of a parallel shift in market interest rates of 50 basis points to these positions, with all other variables remaining constant, would result in an increase or decrease in pre-tax profit or loss reported in the profit and loss account of the Company of approximately €1,554,000 (2010 €1,519,000)

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

Tier 1 capital and common equity attribution to the business segments is based on capital usage calculated by Required Capital In principle, each business segment is capitalised as if it were an operating entity with limited diversification benefit between the business segments Required Capital is assessed at each business segment and further attributed to product lines This process is intended to align capital with the risks in each business segment in order to allow senior management to evaluate returns on a risk-adjusted basis

The Required Capital Framework will evolve over time in response to changes in the business and regulatory environment and to incorporate enhancements in modelling techniques

The Morgan Stanley Group actively manages its consolidated capital position based upon, among other things, business opportunities, risks, capital availability and rates of return together with internal capital policies, regulatory requirements and rating agency guidelines and, therefore, in the future may expand or contract its capital base to address the changing needs of its businesses

The Morgan Stanley Group also aims to adequately capitalise at a legal entity level whilst safeguarding that entity's ability to continue as a going concern and ensuring that it meets all regulatory capital requirements, so that it can continue to provide returns for the Morgan Stanley Group

In order to maintain or adjust the capital structure as described above, the Company may adjust the amount of dividends paid, return capital to shareholders, issue new shares, or sell assets to reduce debt

12. CAPITAL MANAGEMENT (CONTINUED)

	2011 €'000	2010 €'000
Called up share capital	-	-
Share premium account	135,000	135,000
Profit and loss account	3,139	(347)
	138,139	134,653

13. SEGMENTAL REPORTING

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

14. RELATED PARTY TRANSACTIONS

The Company is exempt from the requirement to disclose transactions with fellow wholly owned Morgan Stanley Group undertakings under paragraph 3(c) of FRS 8 *Related party disclosures* There were no other related party transactions requiring disclosure

15. PARENT UNDERTAKINGS

The ultimate parent undertaking and controlling entity and the largest group of which the Company is a member and for which group financial statements are prepared is Morgan Stanley Morgan Stanley is incorporated in the state of Delaware, the United States of America and copies of its financial statements can be obtained from 25 Cabot Square, Canary Wharf, London E14 4QA

The parent and immediate undertaking of the smallest group of companies for which group financial statements are drawn up and of which the Company is a member is Morgan Stanley Himalia Cayman Limited, which is registered in Cayman Islands Copies of its financial statements can be obtained from the Registrar of Companies for England and Wales, Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ