

**Registered number: 04013563**

Registered office:  
20 Bank Street  
Canary Wharf  
London E14 4AD  
United Kingdom

**BAYFINE UK**

**Report and financial statements**

**31 December 2015**

WEDNESDAY



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## **BAYFINE UK**

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## **BAYFINE UK**

### **STRATEGIC REPORT**

The Directors present their Strategic report for Bayfine UK (the “Company”) for the year ended 31 December 2015.

#### **PRINCIPAL ACTIVITY**

The principal activity of the Company is to enter into financing transactions and investments.

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”.

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

#### **BUSINESS REVIEW**

During the first half of 2015, global growth was supported by a rebound in the U.S. 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 U.S. dollar weighing on global trade flows and increasing policy challenges in a number of major emerging market economies, most notably China. The U.S. 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, 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 European Central Bank (“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%.

On 23 June 2016, the UK electorate voted to leave the European Union (the “EU”). It is difficult to predict the future of the UK’s relationship with the EU, which uncertainty may increase the volatility in the global financial markets in the short- and medium-term. There are several alternative models of relationship that the UK might seek to negotiate with the EU, the timeframe for which is uncertain but could take two years or more. The regulatory framework applicable to financial institutions with significant operations in Europe, such as Morgan Stanley, is expected to evolve and specific and meaningful information regarding the long-term consequences of the vote is expected to become clearer over time. Morgan Stanley will continue to evaluate various courses of action in the context of the development of the UK’s withdrawal from the EU and the referendum’s potential impact on its operations.

The statement of comprehensive income is set out on page 9. The Company made a profit after tax of \$8,383,000 compared to a profit after tax of \$9,310,000 in the prior year. This decrease in profit was driven by \$435,000 decrease in interest income accrued on amounts due from other Morgan Stanley Group undertakings. Further decrease in profit was attributable to the fact that the Company recognised a tax benefit of \$70,000 in the prior year as against a tax charge of \$427,000 recognised in the current year.

## **BAYFINE UK**

### **STRATEGIC REPORT**

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

The statement of financial position of the Company is set out on page 11. The Company's total assets at the end of the year were \$419,504,000 compared to total assets of \$410,764,000 in the prior year. The increase in total assets is attributable to interest income recognised during the year, due from other Morgan Stanley Group undertakings. The Company's total liabilities increased from \$470,000 at the end of prior year to \$827,000 at the end of current year. The increase in total liabilities was primarily attributable to the tax liability recognised during the year.

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 include escalation to appropriate senior management personnel of the Company.

##### *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 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, and includes consideration of market risk at the legal entity level.

##### *Credit risk*

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

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

## **STRATEGIC REPORT**

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

#### **Risk management (continued)**

##### *Liquidity and funding risk (continued)*

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

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

##### *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".

##### *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.

## **STRATEGIC REPORT**

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

#### **Risk management (continued)**

##### *Culture, values and conduct of employees*

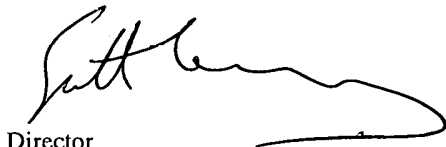
All employees of the Morgan Stanley Group are accountable for conducting themselves in accordance with the Morgan Stanley Group's core values *Putting Clients First, Doing the Right Thing, Leading with Exceptional Ideas, and Giving Back*. The Morgan Stanley Group is committed to establishing a strong culture anchored in these core values, and in its governance framework, which includes management oversight, effective risk management and controls, training and development programs, 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.

Approved by the Board and signed on its behalf by



Director

S. Merry.

8 September 2016.

## **BAYFINE UK**

### **DIRECTORS' REPORT**

The Directors present their report and financial statements (which comprise the statement of comprehensive income, the statement of changes in equity, the statement of financial position and the related notes, 1 to 14) for the Company for the year ended 31 December 2015.

### **RESULTS AND DIVIDENDS**

The profit for the year, after tax, was \$8,383,000 (2014: \$9,310,000 profit after tax).

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

### **RISK MANAGEMENT AND FUTURE DEVELOPMENTS**

Information regarding risk management and future developments has been included in the Strategic report.

### **DIRECTORS**

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

L Bainbridge  
S I Merry

### **DIRECTORS' AND OFFICERS' LIABILITY INSURANCE**

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

### **DIRECTORS' INDEMNITY**

Qualifying third party indemnity provisions (as defined in section 234 of 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.

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

On 26 May 2016, the Company paid an interim dividend of \$146,000,000 to its shareholder.

Following the dividend payment, the Company reduced and cancelled part of its share capital, reducing the share capital from 171,000,000 ordinary shares of \$1 each to 62,000 ordinary shares of \$1 each for a total consideration of \$170,938,000 and paid a distribution from share premium of \$103,051,000 to the sole shareholder.

### **AUDITOR**

Deloitte LLP have expressed their willingness to continue in office as auditor of the Company and, under Sections 485 to 488 of the Companies Act 2006, will be deemed to be re-appointed.

### **Statement as to disclosure of information to the auditor**

Each of the persons who are Directors of the Company at the date when this report is approved confirms that:

- so far as each of the Directors is aware, there is no relevant audit information (being information needed by the Company's auditor in connection with preparing their report) of which the Company's auditor is unaware; and
- each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

## BAYFINE UK

### DIRECTORS' REPORT

#### AUDITOR (CONTINUED)

##### Statement as to disclosure of information to the auditor (continued)

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

#### CHANGE IN ACCOUNTING FRAMEWORK

The Financial Reporting Council has revised financial reporting in the UK and the Republic of Ireland to fundamentally reform United Kingdom Generally Accepted Accounting Practices ("UK GAAP"). Under the new framework, from 1 January 2015, the Company has transitioned to FRS 101 *Reduced Disclosure Framework* ("FRS 101"). There were no material adjustments to any period presented, on adoption of FRS 101, other than the reclassification of certain items in order to conform to the current presentation.

#### DIRECTORS' RESPONSIBILITIES STATEMENT


The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has 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.  
8 September 2016.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BAYFINE UK**

We have audited the financial statements of Bayfine UK for the year ended 31 December 2015 which comprise the statement of comprehensive income, the statement of changes in equity, the statement of financial position and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of Directors and auditor**

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BAYFINE UK (CONTINUED)**

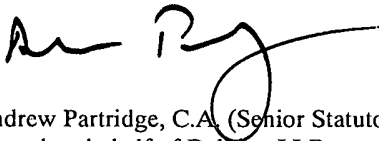
### **Opinion on other matters prescribed by the Companies Act 2006 (continued)**

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report and the Directors' report.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Andrew Partridge, C.A. (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Glasgow, United Kingdom

9/9/16.

**BAYFINE UK****STATEMENT OF COMPREHENSIVE INCOME**  
**Year ended 31 December 2015**

	<b>Note</b>	<b>2015</b> <b>\$'000</b>	<b>2014</b> <b>\$'000</b>
Interest income	4	8,831	9,266
Interest expense	4	(11)	(7)
Other expense	5	(10)	(19)
<b>PROFIT BEFORE TAXATION</b>		<b>8,810</b>	<b>9,240</b>
Income tax (expense)/benefit	6	(427)	70
<b>PROFIT AND OTHER COMPREHENSIVE INCOME FOR THE YEAR AFTER TAX</b>		<b>8,383</b>	<b>9,310</b>

All operations were continuing in the current and prior year.

The notes on pages 12 to 19 form an integral part of the financial statements.

## BAYFINE UK

### STATEMENT OF CHANGES IN EQUITY Year ended 31 December 2015

	Share capital \$'000	Share premium \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 January 2014	171,000	103,089	126,895	400,984
Profit for the year	-	-	9,310	9,310
Balance at 31 December 2014	171,000	103,089	136,205	410,294
Profit for the year	-	-	8,383	8,383
Balance at 31 December 2015	171,000	103,089	144,588	418,677

The notes on pages 12 to 19 form an integral part of the financial statements.

**BAYFINE UK**

Registered number: 04013563

**STATEMENT OF FINANCIAL POSITION****As at 31 December 2015**

	<b>Note</b>	<b>2015 \$'000</b>	<b>2014 \$'000</b>
<b>ASSETS</b>			
Loans and receivables:			
Other receivables	7	419,504	410,695
Current tax assets		-	69
<b>TOTAL ASSETS</b>		<u>419,504</u>	<u>410,764</u>
<b>LIABILITIES AND EQUITY</b>			
Financial liabilities at amortised cost:			
Other payables	8	466	470
Current tax liabilities		361	-
<b>TOTAL LIABILITIES</b>		<u>827</u>	<u>470</u>
<b>EQUITY</b>			
Share capital	10	171,000	171,000
Share premium account	10	103,089	103,089
Retained earnings		144,588	136,205
<b>Equity attributable to owners of the Company</b>		<u>418,677</u>	<u>410,294</u>
<b>TOTAL EQUITY</b>		<u>418,677</u>	<u>410,294</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>419,504</u>	<u>410,764</u>

These financial statements were approved by the Board and authorised for issue on 8 September 2016.

Signed on behalf of the Board

Director

S. Merry

The notes on pages 12 to 19 form an integral part of the financial statements.

## **BAYFINE UK**

### **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2015**

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

The Company is incorporated and domiciled in England, United Kingdom, at the following registered address 20 Bank Street, Canary Wharf, London E14 4AD, United Kingdom. The Company is a private company and is limited by shares. The registered number of the Company is 04013563.

Details of the parent and ultimate parent of the group are disclosed in the Related party disclosures note 13.

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

##### **Statement of compliance**

The financial statements have been prepared in accordance with *Financial Reporting Standard 101 Reduced Disclosure Framework* ("FRS 101") and therefore the Company has adopted the following standards issued by the Financial Reporting Council, with effect from 1 January 2015:

- FRS 100 *Application of Financial Reporting Requirements* ("FRS 100")
- FRS 101 (as issued in August 2014)
- Amendments to FRS 101 *Reduced Disclosure Framework* 2014/15 cycle review and other minor amendments

Included within the Amendments to FRS 101 above are amendments arising for consistency with company law which have been early adopted with effect from 1 January 2015.

The Company meets the definition of a qualifying entity as defined in FRS 100 and has taken advantage of the following disclosure exemptions under FRS 101:

- (a) The requirements of IFRS 7 *Financial Instruments: Disclosures*
- (b) The requirements of paragraphs 91-99 of IFRS 13 *Fair Value Measurement*
- (c) The requirements of paragraphs 10(d), 16, 38A, 38B, 38C, 38D, 111 and 134-136 of IAS 1 *Presentation of Financial Statements*
- (d) The requirements of IAS 7 *Statement of Cash Flows*
- (e) The requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- (f) The requirements of paragraphs 17 and 18A of IAS 24 *Related Party Disclosures*
- (g) The requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member

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

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

As noted in the Statement of compliance above, the Company has adopted FRS 101 for the first time in the current year.

There were no material adjustments to any period presented on adoption of FRS 101, other than the reclassification of certain items in order to conform to the current presentation.

## **BAYFINE UK**

### **NOTES TO THE FINANCIAL STATEMENTS** **Year ended 31 December 2015**

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

##### **Basis of measurement**

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

##### **Use of estimates and sources of uncertainty**

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions regarding 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 3(d).

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

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

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

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.

## **BAYFINE UK**

### **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2015**

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

##### **a. Functional currency**

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

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

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

All monetary assets and liabilities denominated in currencies other than US dollars are translated into US dollars at the rates ruling at the reporting date. Transactions in currencies other than US dollars 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'.

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

The Company classifies its financial assets as loans and receivables on initial recognition.

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

More information regarding these classifications is included below:

##### **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 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.



## **BAYFINE UK**

### **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2015**

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

##### **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.

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).

##### **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.

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). Any reversal is limited to the extent that the value of the asset may not exceed the original amortised cost of the asset had no impairment occurred.

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

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

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, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the current tax is also recorded within other comprehensive income or equity respectively.

## BAYFINE UK

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

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

##### h. 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 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.

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

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

#### 5. OTHER EXPENSE

	2015 \$'000	2014 \$'000
Net foreign exchange losses	3	11
Auditor's remuneration:		
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	<u>7</u>	<u>8</u>
	<u>10</u>	<u>19</u>

The Company employed no staff during the year (2014: nil)

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

#### 6. INCOME TAX EXPENSE/(BENEFIT)

##### Analysis of expense/(benefit) in the year

	2015 \$'000	2014 \$'000
<b>Current tax expense/(benefit)</b>		
UK corporation tax at 20.25% (2014: 21.49%)		
- Current year	-	-
- Adjustments in respect of prior years	427	(70)
<b>Income tax expense/(benefit)</b>	<u>427</u>	<u>(70)</u>

## BAYFINE UK

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

#### 6. INCOME TAX EXPENSE/(BENEFIT) (CONTINUED)

##### Reconciliation of effective tax rate

The current year income tax expense is lower (2014: lower) than that resulting from applying the average standard rate of corporation tax in the United Kingdom ("UK") for the year of 20.25% (2014: 21.49%). The main differences are explained below:

	2015 \$'000	2014 \$'000
Profit before income tax	8,810	9,240
Income tax using the average standard rate of corporation tax in the UK of 20.25% (2014: 21.49%)	1,784	1,986
Impact on tax of:		
Group relief received for no cash consideration	(1,784)	(1,986)
Adjustment to tax in respect of prior years	427	(70)
<b>Total income tax expense/(benefit) in the statement of comprehensive income</b>	<b>427</b>	<b>(70)</b>

#### 7. OTHER RECEIVABLES

	2015 \$'000	2014 \$'000
Amounts due from other Morgan Stanley Group undertakings	419,504	410,695

#### 8. OTHER PAYABLES

	2015 \$'000	2014 \$'000
Amounts due to other Morgan Stanley Group undertakings	466	470

#### 9. COMMITMENTS AND CONTINGENCIES

The Company had received Group relief surrendered by a fellow group company for no consideration in respect of prior periods. This relief may be withdrawn depending on the resolution of certain issues impacting the tax position of that company. It is not possible at this time to determine the timing of resolution or the amount of any potential outflow arising from such resolution. The current estimate of the maximum amount repayable, if any, is \$1,500,000.

## BAYFINE UK

### NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2015

#### 10. EQUITY

	Ordinary shares of \$1 each Number	Ordinary shares of \$1 each \$'000
<b>Allotted and fully paid</b>		
At 1 January 2015 and 31 December 2015	<u>171,000,000</u>	<u>171,000</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled, on a show of hands, to one vote and, on a poll, one vote per share at meetings of the shareholders of the Company. All shares rank equally with regard to the Company's residual assets.

#### *Share premium*

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

#### 11. EXPECTED MATURITY OF ASSETS AND LIABILITIES

None of the Company's assets and liabilities are expected to be recovered or settled more than twelve months after the reporting date (2014: \$none)

#### 12. SEGMENT REPORTING

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

#### 13. RELATED PARTY DISCLOSURES

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

The Company's immediate parent undertaking is Bayfine DE Inc., which has its registered office at c/o The Corporation Trust Company (DE) Corporation Trust Center 1209, Orange Street, Wilmington, Delaware, United States of America. Copies of its financial statements can be obtained from [www.morganstanley.com/investorrelations](http://www.morganstanley.com/investorrelations).

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

##### **Key management compensation**

##### **Directors' remuneration**

The Directors did not receive any remuneration for their qualifying services to the Company during the year (2014: \$nil).

## **BAYFINE UK**

### **NOTES TO THE FINANCIAL STATEMENTS** **Year ended 31 December 2015**

#### **14. EVENTS AFTER THE REPORTING PERIOD**

On 26 May 2016, the Company paid an interim dividend of \$146,000,000 to its shareholder.

Following the dividend payment, the Company reduced and cancelled part of its share capital, reducing the share capital from 171,000,000 ordinary shares of \$1 each to 62,000 ordinary shares of \$1 each for a total consideration of \$170,938,000 and paid a distribution from share premium of \$103,051,000 to the sole shareholder.