

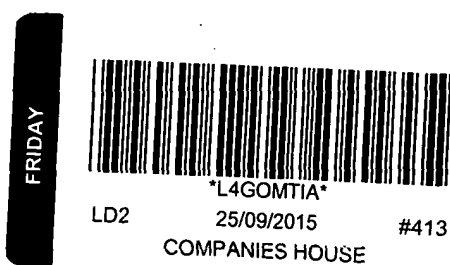
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Registered office:
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BAYFINE UK

Report and financial statements

31 December 2014



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 2014.

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

The profit and loss account for the year is set out on page 9. The Company made a profit after tax of \$9,310,000 in the year compared to a profit after tax of \$10,908,000 in the prior year. The decrease is primarily attributed to a prior year tax benefit of \$1,492,000 compared to \$70,000 in the current year.

The balance sheet on page 10 of the financial statements shows that the Company’s net assets at the end of the year were \$410,294,000, an increase of \$9,310,000. This is principally due to interest of \$9,266,000 accruing on amounts due from 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 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 Morgan Stanley Group seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities, in accordance with defined policies and procedures. The Company’s own risk management policy framework leverages the risk management policies and procedures of the Morgan Stanley Group.

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STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

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.

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, and to meet regulatory stress testing requirements proposed by its regulators globally.

Operational risk

Operational risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes, people and systems or from external events. This definition includes legal, regulatory and compliance risks, but excludes strategic risk. Operational risk relates to the following risk event categories as defined by Basel II: internal fraud; external fraud; employment practices and workplace safety; clients, products and business practices; business disruption and system failure; damage to physical assets; and execution, delivery and process management.

The Company is exposed to legal, regulatory and compliance risks, which include the risk of legal or regulatory sanctions, material financial loss; such as fines, penalties, judgements, damages and/or settlements or loss to reputation the Company may suffer as a result of a failure to comply with laws, regulations, rules, self-regulatory organisation standards and codes of conduct applicable to business activities. Legal risk also includes contractual and commercial risks in the event that a counterparty's performance obligations will be unenforceable. The Morgan Stanley Company is generally subject to extensive regulation in the different jurisdictions in which it conducts its business. In the current environment of rapid and possibly transformational regulatory changes, the Morgan Stanley Company also views regulatory changes as a component of legal risk.

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STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)


Operational risk (continued)

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

Culture, Values and Conduct of Employees

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

Approved by the Board and signed on its behalf by



Director

S I MERLY

23 SEPTEMBER 2015

BAYFINE UK

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 14) for the Company for the year ended 31 December 2014.

RESULTS AND DIVIDENDS

The profit for the year, after tax, was \$9,310,000 (2013: \$10,908,000 profit after tax).

During the year no dividends were paid or proposed (2013: \$nil).

RISK MANAGEMENT AND FUTURE DEVELOPMENTS

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

DIRECTORS

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

L Bainbridge

S I Merry

H B Mogenson (resigned 2 September 2014)

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.

POST BALANCE SHEET EVENTS

There have been no significant events since the balance sheet date.

BAYFINE UK

DIRECTORS' REPORT

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.

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

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 UK Generally Accepted Accounting Practice (UK accounting standards and applicable law). 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 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.

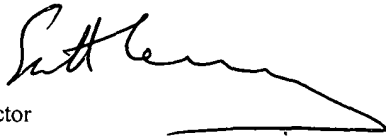
BAYFINE UK

DIRECTORS' REPORT

DIRECTORS' RESPONSIBILITIES STATEMENT (CONTINUED)

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

SI MELLY

23 SEPTEMBER 2015

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 2014 which comprise the profit and loss account, the balance sheet 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).

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 2014 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 matter prescribed by the Companies Act 2006

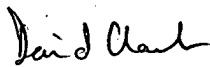
In our opinion the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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.



David Claxton, ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Glasgow, United Kingdom

23 September 2014

BAYFINE UK

PROFIT AND LOSS ACCOUNT **Year ended 31 December 2014**

	Note	2014 \$'000	2013 \$'000
Interest income	2	9,266	9,503
Interest expense	3	(7)	(8)
Other expense	4	(19)	(79)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		9,240	9,416
Tax on profit on ordinary activities	6	70	1,492
PROFIT FOR THE FINANCIAL YEAR	10	<u>9,310</u>	<u>10,908</u>

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 11 to 15 form an integral part of the financial statements.

BAYFINE UK*Registered number: 04013563***BALANCE SHEET****As at 31 December 2014**

	Note	2014 \$'000	2013 \$'000
CURRENT ASSETS			
Debtors	7	410,764	401,469
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
	8	(470)	(485)
NET CURRENT ASSETS		<u>410,294</u>	<u>400,984</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>410,294</u>	<u>400,984</u>
NET ASSETS		<u><u>410,294</u></u>	<u><u>400,984</u></u>
CAPITAL AND RESERVES			
Called up share capital	9	171,000	171,000
Share premium	10	103,089	103,089
Profit and loss account	10	136,205	126,895
SHAREHOLDERS' FUNDS		<u><u>410,294</u></u>	<u><u>400,984</u></u>

These financial statements were approved by the Board and authorised for issue on **23 SEPTEMBER 2015**

Signed on behalf of the Board



Director

S I MERRY

The notes on pages 11 to 15 form an integral part of the financial statements.

BAYFINE UK

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

1. ACCOUNTING POLICIES

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

a. Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable UK company law and accounting standards.

b. The going concern assumption

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

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 reports and financial statements.

c. 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, Directors' report and Strategic report are rounded to the nearest thousand US dollars.

d. 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 balance sheet 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 profit and loss account and are presented in 'Other income' or 'Other expense'.

e. Interest income and expense

Interest income and interest expense are recognised on an accruals basis within 'Interest income' and 'Interest expense' in the profit and loss account.

f. 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.

g. 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.

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NOTES TO THE FINANCIAL STATEMENTS **Year ended 31 December 2014**

2. INTEREST INCOME

	2014	2013
	\$'000	\$'000
Interest income from loans to Morgan Stanley Group undertakings	<u>9,266</u>	<u>9,503</u>

3. INTEREST EXPENSE

	2014	2013
	\$'000	\$'000
Interest expense on loans from Morgan Stanley Group undertakings	<u>7</u>	<u>8</u>

4. OTHER EXPENSE

	2014	2013
	\$'000	\$'000
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Company's financial statements	8	8
Net foreign exchange losses	<u>11</u>	<u>71</u>
	<u>19</u>	<u>79</u>

The Company employed no staff during the year (2013: nil).

5. DIRECTORS' BENEFITS

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

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of benefit in the year

	2014	2013
	\$'000	\$'000
UK corporation tax at 21.49% (2013: 23.25%)		
- Current year	-	-
- Adjustment in respect of prior years	(70)	(1,492)
Tax on profit on ordinary activities	<u>(70)</u>	<u>(1,492)</u>

BAYFINE UK

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

6. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

Factors affecting the current tax benefit for the year

The current year UK taxation benefit is higher (2013: higher) than that resulting from applying the average standard UK corporation tax rate of 21.49% (2013: 23.25%). The main differences are explained below:

	2014 \$'000	2013 \$'000
Profit on ordinary activities before tax	9,240	9,416
Profit on ordinary activities multiplied by the average standard rate of corporation tax in the UK of 21.49% (2013: 23.25%)	1,986	2,189
Effects of:		
Group relief received for no cash consideration	(1,986)	(2,189)
Adjustments to the tax charge in respect of previous years	(70)	(1,492)
Current tax benefit for the year	(70)	(1,492)

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

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

7. DEBTORS

	2014 \$'000	2013 \$'000
Amounts due from Morgan Stanley Group undertakings	410,695	401,469
Corporation tax recoverable	69	-
	410,764	401,469

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014 \$'000	2013 \$'000
Amounts owed to Morgan Stanley Group undertakings	470	154
Corporation tax payable	-	331
	470	485

BAYFINE UK

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

9. CALLED UP SHARE CAPITAL

Shares classified as equity	2014 \$'000	2013 \$'000
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Allotted and fully paid:

171,000,000 ordinary shares of \$1 each	<u>171,000</u>	<u>171,000</u>
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10. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Called up share capital \$'000	Share premium account \$'000	Profit and loss account \$'000	Total \$'000
At 1 January 2013	171,000	103,089	115,987	390,076
Profit for the financial year	-	-	10,908	10,908
At 1 January 2014	<u>171,000</u>	<u>103,089</u>	<u>126,895</u>	<u>400,984</u>
Profit for the financial year	-	-	9,310	9,310
At 31 December 2014	<u>171,000</u>	<u>103,089</u>	<u>136,205</u>	<u>410,294</u>

11. SEGMENTAL REPORTING

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

12. COMMITMENTS AND CONTINGENCIES

The Company has 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.

13. 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.

BAYFINE UK

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2014

14. PARENT UNDERTAKINGS

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 is incorporated in the state of Delaware, the United States of America and copies of its financial statements can be obtained from www.morganstanley.com/investorrelations.

The Company's immediate controlling party is Bayfine DE Inc. which is registered in the state of Delaware, the United States of America.