

**Registered number: 04091675**

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

**MORGAN STANLEY MALLARD INVESTMENTS LIMITED**

**Report and financial statements**

**31 December 2015**

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COMPANIES HOUSE

# **MORGAN STANLEY MALLARD INVESTMENTS LIMITED**

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# MORGAN STANLEY MALLARD INVESTMENTS LIMITED

## STRATEGIC REPORT

The Directors present their Strategic report for Morgan Stanley Mallard Investments Limited (the "Company") for the year ended 31 December 2015.

### PRINCIPAL ACTIVITY

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

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

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 for the Company is set out on page 9. The Company made a loss, after tax, of \$52,113,000 compared to a loss, after tax, in the prior year of \$68,858,000. The decrease in the loss is primarily due to a \$12,309,000 charge as a result of the write off of a deferred tax asset in the prior year, pursuant to change in legislation.

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 \$3,831,806,000 compared to total assets of \$3,836,561,000 in the prior year. The decrease in total assets is driven by \$4,755,000 decrease in other receivables which is represented by dividends receivable from a subsidiary undertaking. Total liabilities increased by \$47,358,000 from \$3,764,312,000 at the end of prior year to \$3,811,670,000 at the end of current year. This increase was primarily attributable to interest expense accrued on amounts due to other group undertakings offset by intercompany loan settlements made during the year, using proceeds of dividend receipts.

# MORGAN STANLEY MALLARD INVESTMENTS LIMITED

## STRATEGIC REPORT

### BUSINESS REVIEW (CONTINUED)

The performance of the Company is included in the results of the Morgan Stanley Group which are disclosed in the Morgan Stanley Group's Annual Report on Form 10-K to the 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 the Company's Board of Directors and appropriate senior management personnel.

The Company manages the market risk associated with its trading activities at both a trading division and an individual product level, 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 the Company's Board of Directors and appropriate senior management personnel.

Credit risk exposure is managed on a global basis and in consideration of each significant legal entity within the Morgan Stanley Group. Its 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.

# MORGAN STANLEY MALLARD INVESTMENTS LIMITED

## 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, 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 in inadequate or failed processes, people and systems or formal 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 Basil 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. In the current environment of rapid and possibly transformational regulatory changes, the Company also views regulatory changes as a component of legal risk.

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.

# MORGAN STANLEY MALLARD INVESTMENTS LIMITED

## 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 **EMILY LAINO**



16 SEPTEMBER 2016

Director

# **MORGAN STANLEY MALLARD INVESTMENTS LIMITED**

## **DIRECTORS' REPORT**

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

## **RESULTS AND DIVIDENDS**

The loss for the year, after tax, was \$52,113,000 (2014: \$68,858,000 loss 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:

E T Laino	(appointed 26 April 2016)
S I Merry	
J E Iragori Rizo	(resigned 26 April 2016)

## **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**

There have been no significant events since the reporting date.

## **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.

# **MORGAN STANLEY MALLARD INVESTMENTS LIMITED**

## **DIRECTORS' REPORT**

### **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 **EMILY LANNO**



Director

16 SEPTEMBER 2016

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY MALLARD INVESTMENTS LIMITED**

We have audited the financial statements of Morgan Stanley Mallard Investments Limited 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 loss 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.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY MALLARD INVESTMENTS LIMITED (CONTINUED)**

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

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

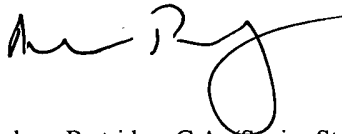
- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

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

19 September 2016.

# **MORGAN STANLEY MALLARD INVESTMENTS LIMITED**

## **STATEMENT OF COMPREHENSIVE INCOME** **Year ended 31 December 2015**

	<b>Note</b>	<b>2015</b> <b>\$'000</b>	<b>2014</b> <b>\$'000</b>
Net gains on investment in subsidiaries	4	28,451	28,451
Interest expense	5	(80,557)	(84,992)
Other expense	6	(7)	(8)
<b>LOSS BEFORE TAXATION</b>		<u>(52,113)</u>	<u>(56,549)</u>
Income tax expense	7	-	(12,309)
<b>LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<u><u>(52,113)</u></u>	<u><u>(68,858)</u></u>

All operations were continuing in the current and prior year.

The notes on pages 12 to 22 form an integral part of the financial statements.

# **MORGAN STANLEY MALLARD INVESTMENTS LIMITED**

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

	<b>Share capital \$'000</b>	<b>Retained earnings \$'000</b>	<b>Total equity \$'000</b>
<b>Balance at 1 January 2014</b>	296,200	(155,093)	141,107
Loss for the year	-	(68,858)	(68,858)
<b>Balance at 31 December 2014</b>	<u>296,200</u>	<u>(223,951)</u>	<u>72,249</u>
Loss for the year	-	(52,113)	(52,113)
<b>Balance at 31 December 2015</b>	<u>296,200</u>	<u>(276,064)</u>	<u>20,136</u>

The notes on pages 12 to 22 form an integral part of the financial statements.

**MORGAN STANLEY MALLARD INVESTMENTS LIMITED**

Registered number: 04091675

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

	Note	2015 \$'000	2014 \$'000
<b>ASSETS</b>			
Loans and receivables:			
Other receivables	8	19,097	23,852
Investment in subsidiary undertaking	9	3,812,709	3,812,709
<b>TOTAL ASSETS</b>		<u>3,831,806</u>	<u>3,836,561</u>
<b>LIABILITIES AND EQUITY</b>			
Financial liabilities at amortised cost:			
Other payables	10	<u>3,811,670</u>	<u>3,764,312</u>
<b>TOTAL LIABILITIES</b>		3,811,670	3,764,312
<b>EQUITY</b>			
Share capital	11	296,200	296,200
Retained earnings		<u>(276,064)</u>	<u>(223,951)</u>
<b>Equity attributable to owners of the Company</b>		20,136	72,249
<b>TOTAL EQUITY</b>		<u>20,136</u>	<u>72,249</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>3,831,806</u>	<u>3,836,561</u>

These financial statements were approved by the Board and authorised for issue on 16 SEPTEMBER 2016

Signed on behalf of the Board



Director

EMILY LANO

The notes on pages 12 to 22 form an integral part of the financial statements.

# MORGAN STANLEY MALLARD INVESTMENTS LIMITED

## 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. The Company is a private company and is limited by shares. The registered number of the Company is 04091675.

Details of the parent and ultimate parent of the group are disclosed in the related party disclosures included in note 14.

### 2. BASIS OF PREPARATION

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 & Co. International plc, which has prepared consolidated financial statements for the year ended 31 December 2015, has its registered office at England and Wales. The financial statements therefore present information about the Company as an individual entity and not about its group.

#### 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:

- 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 requirement in paragraph 38 of IAS 1 *Presentation of Financial Statements* to present comparative information in respect of Paragraph 79(a)(iv) of IAS 1 *Presentation of Financial Statements*
- (d) The requirements of paragraphs 10(d), 16, 38A, 38B, 38C, 38D, 111 and 134-136 of IAS 1 *Presentation of Financial Statements*
- (e) The requirements of IAS 7 *Statement of Cash Flows*
- (f) The requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- (g) The requirements of paragraphs 17 and 18A of IAS 24 *Related Party Disclosures*
- (h) 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.
- (i) The requirements of paragraphs 6 and 21 of IFRS 1 *First-time Adoption of International Financial Reporting Standards*

# **MORGAN STANLEY MALLARD INVESTMENTS LIMITED**

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

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

#### **Statement of compliance (continued)**

Where relevant, equivalent disclosures have been provided in the group accounts of Morgan Stanley & Co International plc, in which the Company has been consolidated, of which copies can be obtained as detailed at note 14.

#### **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.

#### **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.

#### **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. In addition, the notes to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

As set out in the 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.

## **MORGAN STANLEY MALLARD INVESTMENTS LIMITED**

### **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 and Strategic 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 and non-monetary assets and liabilities denominated 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', except where noted in 3(c) below.

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

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

The Company classifies its financial liabilities as financial liabilities at amortised cost.

More information regarding these classifications is included below:

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

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

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

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

Financial assets classified as loans and receivables are recognised when the Company becomes a party to the contractual provisions of the instrument. They are initially measured at fair value (see note 3(e) 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.

# MORGAN STANLEY MALLARD INVESTMENTS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

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

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

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(e) below) and subsequently measured at amortised cost. Interest is recognised in the statement of comprehensive income in 'Interest expense' using the effective interest rate method as described below. Transaction costs that are directly attributable to the issue of the financial liability are added to or deducted from the fair value on initial recognition.

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

#### d. Offsetting of financial assets and financial liabilities

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

#### e. 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).

#### f. 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.

# MORGAN STANLEY MALLARD INVESTMENTS LIMITED

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

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

#### g. 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 investment in subsidiary undertaking 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.

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

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.

#### h. 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 loss 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.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and limited to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is reflected within other comprehensive income or equity, respectively.

Current tax assets are offset against current tax liabilities when there is a legally enforceable right to set off current tax assets against current tax liabilities and the Company intends to settle its current tax assets and current tax liabilities on a net basis or to realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and current tax liabilities on a net basis.

# **MORGAN STANLEY MALLARD INVESTMENTS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2015**

### **4. NET GAINS ON INVESTMENTS IN SUBSIDIARY UNDERTAKINGS**

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Income from investments in subsidiary undertakings	<u>28,451</u>	<u>28,451</u>

### **5. INTEREST EXPENSE**

Interest expense represents total interest expense for financial liabilities that are not carried at fair value.

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.

### **6. OTHER EXPENSE**

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
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>

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 14).

# MORGAN STANLEY MALLARD INVESTMENTS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

### 7. INCOME TAX EXPENSE

#### Analysis of expense in the year

	2015 \$'000	2014 \$'000
<b>Current tax</b>		
UK corporation tax at 20.25% (2014: 21.49%)		
- Current year	-	-
<b>Total current tax</b>	-	-
<b>Deferred taxation</b>		
- Current year	-	-
- Adjustment in respect of prior year	-	(12,309)
<b>Total deferred tax</b>	-	(12,309)
<b>Income tax</b>	-	(12,309)

#### Reconciliation of effective tax rate

The current year income tax result 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
Loss before income tax	(52,113)	(56,549)
Income tax using the average standard rate of corporation tax in the UK of 20.25% (2014: 21.49%)	(10,553)	(12,152)
Impact on tax of:		
Group relief surrendered for no cash consideration	16,314	18,266
Tax exempt dividends	(5,761)	(6,114)
<b>Total income tax in the statement of comprehensive income</b>	-	-

# MORGAN STANLEY MALLARD INVESTMENTS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

### 8. OTHER RECEIVABLES

	2015 \$'000	2014 \$'000
Amounts due from other Morgan Stanley Group undertakings	<u>19,097</u>	<u>23,852</u>

Amount due from Morgan Stanley group undertakings represents dividends receivable of \$19,097,000 (2014: \$23,852,000)

### 9. INVESTMENT IN SUBSIDIARY UNDERTAKING

	Subsidiary undertaking \$'000
<b>Cost and net book value</b>	
At 1 January 2015 and 31 December 2015	<u>3,812,709</u>

Details of all investments in subsidiaries (including indirect subsidiaries) of the Company at 31 December 2015 and 31 December 2014 are as follows:

Name of Company	Address of undertaking's registered office	Type of shares held	Proportion of shares held		Proportion of voting rights held		Nature of business
			2015	2014	2015	2014	
Morgan Stanley Millbrae Investments B.V.	20 Bank Street, Canary Wharf, London, E14 4AD, United Kingdom	Class A shares	100%	100%	67%	67%	Financial services
Morgan Stanley Millbrae Investments B.V.	20 Bank Street, Canary Wharf, London, E14 4AD, United Kingdom	Redeemable preference shares	100%	100%	33%	33%	Financial services

### 10. OTHER PAYABLES

	2015 \$'000	2014 \$'000
Amounts due to other Morgan Stanley Group undertakings	<u>3,811,670</u>	<u>3,764,312</u>

# MORGAN STANLEY MALLARD INVESTMENTS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

### 11. EQUITY

	Ordinary shares of \$1 each Number	Ordinary shares of \$1 each \$'000	Ordinary shares of £1 each Number	Ordinary shares of £1 each \$'000	Total ordinary shares \$'000
<b>Alloted and fully paid</b>					

At 1 January 2015 and  
31 December 2015

296,200,000	296,200	1	-	296,200
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The 1 ordinary share of £1 is recorded at the rates of exchange ruling at the date the shares was paid up.

### 12. EXPECTED MATURITY OF ASSETS AND LIABILITIES

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

At 31 December 2015

	Less than or equal to twelve months €'000	More than twelve months €'000	Total €'000
<b>ASSETS</b>			
Loans and receivables:			
Other receivables	19,097	-	19,097
Investments in subsidiary	-	3,812,709	3,812,709
	<u>19,097</u>	<u>3,812,709</u>	<u>3,831,806</u>
<b>LIABILITIES</b>			
Financial liabilities at amortised cost:			
Other payables	3,811,670	-	3,811,670
	<u>3,811,670</u>	<u>-</u>	<u>3,811,670</u>

# MORGAN STANLEY MALLARD INVESTMENTS LIMITED

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

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

At 31 December 2014

	Less than or equal to twelve months €'000	More than twelve months €'000	Total €'000
<b>ASSETS</b>			
Loans and receivables:			
Other receivables	23,852	-	23,852
Investments in subsidiary	-	3,812,709	3,812,709
	<u>23,852</u>	<u>3,812,709</u>	<u>3,836,561</u>
<b>LIABILITIES</b>			
Financial liabilities at amortised cost:			
Other payables	3,764,312	-	3,764,312
	<u>3,764,312</u>	<u>-</u>	<u>3,764,312</u>

### 13. 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").

### 14. RELATED PARTY DISCLOSURES

#### *Parent and ultimate controlling entity*

The Company's immediate parent undertaking is Morgan Stanley Montgomerie Investments Limited, which has its registered office at 20 Bank Street, Canary Wharf, London, United Kingdom, E14 4AD and is registered in England and Wales. Copies of its financial statements can be obtained from the Registrar of Companies for England and Wales, Companies House, Crown Way, Cardiff CF14 3UZ.

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 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).

The parent 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 & Co: International plc, which has its registered office at 25 Cabot Square, Canary Wharf, London, England, E14 4QA and is registered in England and Wales. Copies of its financial statements can be obtained from the Registrar of Companies for England and Wales, Companies House, Crown Way, Cardiff CF14 3UZ.

**MORGAN STANLEY MALLARD INVESTMENTS LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2015**

**14. RELATED PARTY DISCLOSURES (CONTINUED)**

**Key management compensation**

**Directors' remuneration**

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