Registered number: 05652474

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

MORGAN STANLEY AMALTHEA UK LIMITED

Report and financial statements

31 December 2017

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MORGAN STANLEY AMALTHEA UK LIMITED

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MORGAN STANLEY AMALTHEA UK LIMITED

STRATEGIC REPORT

The Directors present their Strategic report for Morgan Stanley Amalthea UK Limited (the "Company") for the year ended 31 December 2017.

PRINCIPAL ACTIVITY

During 2017 the principal activity of the Company was to provide research and development and Information Technology ("IT") support services to other Morgan Stanley Group undertakings. On 1 April 2017, the Company transferred this activity to another Morgan Stanley Group undertaking and therefore from this date the Company's principal activity is to enter into financing transactions with other Morgan Stanley Group undertakings.

As described below in the Directors' report and in note 15 to the financial statements, since the reporting date the Company has paid a dividend of $609,000, representing the entire retained earnings balance of the Company, in line with the Directors' intent to cease operating in the foreseeable future. The financial statements have therefore been prepared on a basis other than that of a going concern.

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".

BUSINESS REVIEW

On 23 June 2016, the United Kingdom (the "UK") electorate voted to leave the European Union (the "EU"). On 29 March 2017, the UK invoked Article 50 of the Lisbon Treaty which triggered a two-year period, subject to extension (which would need the unanimous approval of the EU Member States), during which the UK government is expected to negotiate its withdrawal agreement with the EU. Absent any extension, the UK is expected to leave the EU in March 2019. The terms and conditions of the anticipated withdrawal from the EU, and which of the several alternative models of relationship that the UK might ultimately negotiate with the EU, remain uncertain. However, the UK government has stated that the UK will leave the EU single market and will seek a phased period of implementation for the new relationship that may cover the legal and regulatory framework applicable to financial institutions with significant operations in Europe, such as Morgan Stanley. Since any transition or implementation periods and the eventual successor arrangements require agreement of both the UK and the EU, there is a risk that these arrangements may not be agreed by March 2019.

It is difficult to predict the future of the UK's relationship with the EU, which may result in increased volatility in the global financial markets in the short- and medium-term. Potential effects of the UK exit from the EU and potential mitigation actions may vary considerably depending on the timing of withdrawal and the nature of any transition, implementation or successor arrangements. Morgan Stanley is taking steps to make changes to its European operations in an effort to ensure that it can continue to provide cross-border banking and investment services in EU Member States without the need for separate regulatory authorisations in each member state. These changes must be approved by the relevant regulatory authorities and therefore it is currently unclear what the final post-Brexit structure of European operations will be. Depending on the extent to which Morgan Stanley may be required to make material changes to European operations beyond those currently planned, results of Morgan Stanley's operations and business prospects could be negatively affected.

Overview of 2017

The statement of comprehensive income is set out on page 9. The Company reported a loss for the year after tax of $10,000, compared to the prior year $nil result after tax. Prior to 1 April 2017, consistent with the Company's function, the Company's expenses were recharged to another Morgan Stanley Group undertaking. The current year loss relates to $20,000 of audit fees partly offset by $10,000 of financing income relating to the period post 1 April 2017.

STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

Overview of 2017 (continued)

The statement of financial position is set out on page 11. Total assets decreased by $462,814,000 from $463,439,000 at 31 December 2016 to $625,000 at 31 December 2017, primarily as a result of the transfer of the Company's intangible assets to another Morgan Stanley Group undertaking. Total liabilities have decreased by $462,804,000 from $462,824,000 at 31 December 2016 to $20,000 at 31 December 2017. The decrease in liabilities is primarily due to a decrease in amounts due to Morgan Stanley Group undertakings which were repaid with the proceeds from the transfer of the Company's intangible assets.

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 10K to the United States ("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's own risk management policy framework, leverages the risk management policies and procedures of the Morgan Stanley Group.

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 and compliance with established limits and escalating risk concentrations to appropriate senior management.

Liquidity risk
Liquidity 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 risk encompasses the Company's ability (or perceived ability) to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten the Company's viability as a going concern. Liquidity risk also encompasses the associated funding risks triggered by the market or idiosyncratic stress events that may cause unexpected changes in funding needs or an inability to raise new funding.

STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Liquidity 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 risk management framework is to ensure that the Morgan Stanley Group, including the Company, has access to adequate funding across a wide range of market conditions and time horizons. 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 and 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, cyber attacks 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".

Conduct risk refers to the risk that the Company's actions or behaviours do not adequately consider the impact on its clients, expected market users or the markets. Conduct risk is managed within the framework set out by the Morgan Stanley International ("MSI") Group (being MSI Limited and its subsidiaries, the Company's ultimate UK parent undertaking), and is managed and owned across business and control functions through policies, processes and controls within a designed framework.

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 which 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, anti-corruption and terrorist financing rules and regulations.

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.

Approved by the Board and signed on its behalf by

Director
O. Harding
12 September 2018.

MORGAN STANLEY AMALTHEA UK 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 15 for the Company for the year ended 31 December 2017.

RESULTS AND DIVIDENDS

The loss for the year, after tax, was $10,000 (2016: $nil).

During the year, no dividends were paid or proposed (2016: $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
D T Harding
H S Weller

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

In line with the Directors' intent to cease trading in the foreseeable future, on 12 September 2018 the Directors paid a dividend of $609,000, representing the entire distributable reserves of the Company.

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.

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.

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), including Financial Reporting Standard ("FRS") 101 *Reduced Disclosure Framework* ("FRS 101"). 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, including FRS 101, have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Approved by the Board and signed on its behalf by

Director

D. Harding

12 September 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY AMALTHEA UK LIMITED

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Morgan Stanley Amalthea UK Limited ("the Company") which comprise:

- the statement of comprehensive income;
- the statement of changes in equity;
- the statement of financial position; and
- the related notes 1 to 15.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Financial statements prepared other than on a going concern basis

We draw attention to note 2 in the financial statements, which indicates that the financial statements have been prepared on a basis other than that of a going concern. Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY AMALTHEA UK LIMITED (CONTINUED)

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of Directors

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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions 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 or the Directors' Report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY AMALTHEA UK LIMITED (CONTINUED)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Use of our report

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.

P Cowley

Paul Cowley, C.A. (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom

24 September 2018

MORGAN STANLEY AMALTHEA UK LIMITED

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2017

	Note	2017 $'000	2016 $'000
Fee income	4	27,553	123,904
Interest income	5	1,220	-
Interest expense	5	(4,007)	(9,473)
Other expense	6	(24,776)	(114,431)
(LOSS)/ RESULT BEFORE TAXATION		(10)	-
Income tax expense	7	-	-
(LOSS)/ RESULT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(10)	-

On 1 April 2017, the Company discontinued its research and development and IT support service activity. For further details, refer to the Principal Activity section of the Strategic report.

The notes on pages 12 to 20 form an integral part of the financial statements.

MORGAN STANLEY AMALTHEA UK LIMITED

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2017

	Share capital $'000	Retained earnings $'000	Total equity $'000
Balance at 1 January 2016	-	615	615
Total comprehensive income for the year	-	-	-
Balance at 31 December 2016	-	615	615
Total comprehensive income for the year	-	(10)	(10)
Balance at 31 December 2017	-	605	605

The notes on pages 12 to 20 form an integral part of the financial statements.

MORGAN STANLEY AMALTHEA UK LIMITED
Registered number: 05652474

STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	Note	2017 $'000	2016 $'000
ASSETS			
Loans and receivables:			
Other receivables	8	625	595
Intangible assets	9	-	462,844
TOTAL ASSETS		625	463,439
LIABILITIES AND EQUITY			
Financial liabilities at amortised cost:			
Other payables	10	20	462,824
TOTAL LIABILITIES		20	462,824
EQUITY			
Share capital	11	-	-
Retained earnings		605	615
Equity attributable to owners of the Company		605	615
TOTAL EQUITY		605	615
TOTAL LIABILITIES AND EQUITY		625	463,439

These financial statements were approved by the Board and authorised for issue on 12 September 2018

Signed on behalf of the Board

Director

D. Harding

The notes on pages 12 to 20 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2017

1. CORPORATE INFORMATION

The Company is incorporated and domiciled in England and Wales, UK, 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 05652474.

The Company's immediate parent undertaking is Morgan Stanley UK Group, 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.

The Company's 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 which, together with the Company and Morgan Stanley's other subsidiary undertakings, form the Morgan Stanley Group. 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.

2. BASIS OF PREPARATION

As explained in the Strategic report on page 1, the Company will cease operating in the foreseeable future. Consequently, the financial statements have been prepared on a basis other than that of a going concern. No adjustments arose from ceasing to apply the going concern basis. The financial statements do not include any provision for the future costs of terminating the Company's activities except to the extent that such costs were committed at the reporting date.

Statement of compliance

These financial statements are prepared in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), including FRS 101.

The Company meets the definition of a qualifying entity as defined in FRS 100 *Application of Financial Reporting Requirements*. The Company has taken advantage of the disclosure exemptions available under FRS 101 in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets and shares outstanding, presentation of a cash-flow statement, accounting standards not yet effective and related party transactions.

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 1.

New standards and interpretations adopted during the year

The following amendment to standards relevant to the Company's operations was adopted during the year. This amendment did not have a material impact on the Company's financial statements.

An amendment to International Accounting Standard ("IAS") 12 *Income Taxes* was issued by the International Accounting Standards Board ("IASB") in January 2016, for application in annual periods beginning on or after 1 January 2017. The amendment was endorsed by the EU in November 2017.

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

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 UK Accounting Standards, including FRS 101, and UK company law.

Critical judgements in applying the Company's accounting policies

No judgements have been made in the process of applying the Company's accounting policies that have had a significant effect on the amounts recognised in the financial statements.

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 and Directors' reports 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'.

c. Financial instruments

The Company classifies its financial assets as and 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 other 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. **Financial instruments (continued)**

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

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

d. Fair value

Fair value measurement

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

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, assumptions are set to reflect those that the Company believes market participants would use in pricing the asset or liability at the measurement date.

Where the Company manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the Company measures the fair value of that group of financial instruments consistently with how market participants would price the net risk exposure at the measurement date.

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

The hierarchy is broken down into three levels based on the observability of inputs as follows, with Level 1 being the highest and level 3 being the lowest level:

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

  Valuations based on quoted prices in active markets that the Morgan Stanley Group has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgement.

- Level 2 – Valuation techniques using observable inputs

  Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

- Level 3 – Valuation techniques with significant unobservable inputs

  Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

If the asset has been transferred, and the entity neither transfers nor retains substantially all of the risks and rewards of the asset, then the entity determines whether it has retained control of the asset.

If the entity has retained control of the asset, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset. If the entity has not retained control of the asset, it derecognises the asset and separately recognises any rights or obligation created or retained in the transfer.

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

f. Impairment of financial assets

In the prior year, impairment losses on loans and receivables were 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. In the current year, consistent with the preparation of the financial statements on a basis other than that of a going concern, impairment losses have been recognised where the amortised cost of the loans and receivables exceeds their net realisable value.

g. Fees income

Fee income within the statement of comprehensive income represents management recharge income for services rendered to other Morgan Stanley Group undertakings and is recognised as the related services are performed.

h. Intangible assets

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Expenditure on internally developed software is recognised as an asset when the Company is able to demonstrate its intention and ability to complete the development, to use the software in a manner that will generate future economic benefits, and to reliably measure the costs to complete the development. Internally developed software is stated at capitalised cost less accumulated amortisation and any impairment (see note 3(i) below). Amortisation is recognised in 'Other expense' in the statement of comprehensive income on a straight line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of internally developed software is two to ten years.

i. Impairment of non-financial assets

Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). 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. Non-financial assets that have suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j. Income tax

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

The tax currently payable is calculated based on taxable profit for the year. Taxable profit may differ from profit/ (loss) before taxation 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 income statement, 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.

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.

k. Offsetting of financial assets and financial liabilities

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

4. FEE INCOME

	2017 $'000	2016 $'000
Management charges to other Morgan Stanley Group undertakings	27,553	123,904

5. 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' within the statement of comprehensive income.

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

6. OTHER EXPENSE

	2017 $'000	2016 $'000
Amortisation of intangible assets (note 9)	20,086	69,422
Service charges from other Morgan Stanley Group undertakings relating to staff costs	4,562	43,823
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	20	19
Loss on disposal of intangible assets	108	1,167
	24,776	114,431

The Company employed no staff during the year (2016: nil)

Disclosures relating to remuneration received by Directors in respect of their qualifying services to the Company are included in the Related party disclosures note (note 14).

7. INCOME TAX EXPENSE

Analysis of expense in the year

	2017 $'000	2016 $'000
Current tax expense		
UK corporation tax at 19.25% (2016: 20.00%)		
- Current year	-	-
Income tax expense	-	-

Finance (No.2) Act 2015 enacted a reduction in the UK corporation tax rate to 19% with effect from 1 April 2017. Finance Act 2016 enacted a further reduction in the UK corporation tax rate to 17% with effect from 1 April 2020 which may impact the current tax charge in future periods.

7. INCOME TAX EXPENSE (CONTINUED)

Reconciliation of effective tax rate

The current year income tax expense is higher than (2016: equal to) that resulting from applying the average standard rate of corporation tax in the UK for the year of 19.25% (2016: 20.00%). The main differences are explained below:

	2017 $'000	2016 $'000
(Loss)/ result before taxation	(10)	-
Income tax using the average standard rate of corporation tax in the UK of 19.25% (2016: 20.00%)	(2)	-
Impact on tax of:		
Group relief surrendered for no cash consideration	2	-
Total income tax expense in the statement of comprehensive income	-	-

8. OTHER RECEIVABLES

	2017 $'000	2016 $'000
Amounts due from other Morgan Stanley Group undertakings	625	595

9. INTANGIBLE ASSETS

	Internally developed software $'000
Cost	
At 1 January 2017	773,130
Additions	33,280
Disposals	(867)
Assets disposed to another Morgan Stanley Group undertaking during the year	(805,543)
At 31 December 2017	-

9. INTANGIBLE ASSETS (CONTINUED)

	Internally developed software $'000
Amortisation	
At 1 January 2017	310,286
Charge for the year	20,086
Disposals	(448)
Amortisation on assets disposed to another Morgan Stanley Group undertaking during the year	(329,924)
At 31 December 2017	-
Carrying amount	
At 31 December 2017	-

10. OTHER PAYABLES

	2017 $'000	2016 $'000
Amounts due to other Morgan Stanley Group undertakings	20	462,824

11. EQUITY

	Ordinary shares of £1 each Number	Ordinary shares $'000
Allotted and fully paid		
At 1 January 2017 and 31 December 2017	1	-

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

12. 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 period (2016: none).

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 relationships

Parent and ultimate controlling entities

The parent and ultimate controlling entities are disclosed in note 1 to the financial statements.

Directors' remuneration

The Company has three directors during the year who are employed by other Morgan Stanley Group entities. The Directors' services to the Company are considered to be incidental to their other responsibilities within the Morgan Stanley Group and as such, Directors' remuneration is $nil for the current year (2016: $nil).

15. EVENTS AFTER THE REPORTING DATE

On 12 September 2018 a dividend of $609,000 was paid, representing the entire distributable reserves of the Company.