

Registered number: 35857

Business and registered office:

13 Castle Street

St Helier

Jersey

JE4 5UT

MORGAN STANLEY (JERSEY) LIMITED

Report and financial statements

31 December 2015

MORGAN STANLEY (JERSEY) LIMITED

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MORGAN STANLEY (JERSEY) 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, the statement of cash flows, and the related notes, 1 to 16) for Morgan Stanley (Jersey) Limited (the "Company") for the year ended 31 December 2015.

RESULTS AND DIVIDENDS

The result for the year, after tax, was \$nil (2014: \$nil).

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

PRINCIPAL ACTIVITY

The principal activity of the Company is the issuance of financial instruments and the hedging of the obligations arising pursuant to such issuances.

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 United States ("US") and firmer growth in the Eurozone 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 US dollar weighing on global trade flows and increasing policy challenges in a number of major emerging market economies, most notably China. The US 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%.

The statement of comprehensive income is set out on page 10. The result for the year is \$nil which is consistent with the Company's function and the prior year.

The statement of financial position is set out on page 12. Total assets and total liabilities at 31 December 2015 were \$136,665,000 and \$136,209,000 respectively, both of which have decreased by \$67,310,000, or 33% from 31 December 2014. The decrease in total assets and total liabilities from 31 December 2014 is primarily due to a decrease in the value of issued structured notes, classified in financial liabilities designated at fair value through profit or loss, and the related hedging instruments, classified in financial assets designated at fair value through profit or loss. This is primarily as a result of issued structured notes reaching contractual maturity and fair value movements in the current year.

MORGAN STANLEY (JERSEY) LIMITED

DIRECTORS' 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.

Set out below is an overview of the Company's policies for the management of financial risk and other significant business risks. More detailed qualitative and quantitative disclosures about the Company's management of and exposure to financial risks are included in note 11 to the financial statements.

Market risk

Market risk refers to the risk of losses for a position or portfolio due to changes in rates, foreign exchange, equities, implied volatilities, correlations or other market factors.

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

The Company manages the market risk associated with its trading activities at both a trading division and an individual product level.

It is the policy and objective of the Company not to be exposed to market risk.

Credit risk

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

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

Credit risk exposure is managed on a global basis and in consideration of each significant legal entity within the Morgan Stanley Group. The credit risk management policies and procedures establish the framework for identifying, measuring, monitoring and controlling credit risk whilst ensuring transparency of material credit risks, ensuring compliance with established limits and escalating risk concentrations to appropriate senior management.

Liquidity and funding risk

Liquidity and funding risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity and funding risk also encompasses the Company's ability to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern.

MORGAN STANLEY (JERSEY) LIMITED

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Liquidity and funding risk (continued)

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 framework is further described in note 15.

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

Operational risk

Operational risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes, people and systems or from external events (e.g. fraud, theft, legal and compliance risks or damage to physical assets). Operational risk relates to the following risk event categories as defined by Basel Capital Standards: internal fraud; external fraud; employment practices and workplace safety; clients, products and business practices; business disruption and system failure; damage to physical assets; and execution, delivery and process management. Legal, regulatory and compliance risk is discussed below under "Legal, regulatory and compliance risk".

The Company may incur operational risk across the full scope of its business activities.

The Morgan Stanley Group has established an operational risk framework to identify measure, monitor and control risk across the Morgan Stanley Group. This framework includes escalation to the Company's Board of Directors and appropriate senior management personnel. Effective operational risk management is essential to reducing the impact of operational risk incidents and mitigating legal and reputational risks. The framework is continually evolving to account for changes in the Morgan Stanley Group and to respond to the changing regulatory and business environment. The Morgan Stanley Group has implemented operational risk data and assessment systems to monitor and analyse internal and external operational risk events, to assess business environment and internal control factors and to perform scenario analysis. The collected data elements are incorporated in the operational risk capital model. The model encompasses both quantitative and qualitative elements. Internal loss data and scenario analysis results are direct inputs to the capital model, while external operational incidents, business environment and internal control factors are evaluated as part of the scenario analysis process.

In addition, the Morgan Stanley Group employs a variety of risk processes and mitigants to manage its operational risk exposures. These include a strong governance framework, a comprehensive risk management programme and insurance. Operational risks and associated risk exposures are assessed relative to the risk tolerance established by the Morgan Stanley Group and are prioritised accordingly. The breadth and range of operational risk are such that the types of mitigating activities are wide-ranging. Examples of activities include enhancing defences against cyberattacks; use of legal agreements and contracts to transfer and/or limit operational risk exposures; due diligence; implementation of enhanced policies and procedures; exception management processing controls; and segregation of duties.

MORGAN STANLEY (JERSEY) LIMITED

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Operational risk (continued)

The Morgan Stanley Group's Operational Risk Department is independent of the divisions and reports to the Chief Risk Officer ("CRO"). The Operational Risk Department provides oversight of operational risk management and independently assesses measures and monitors operational risk. The Operational Risk Department works with Morgan Stanley Group's divisions and control groups to help ensure a transparent, consistent and comprehensive framework for managing operational risk within each area and across the Morgan Stanley Group. The Operational Risk Department scope includes oversight of technology and data risks (e.g. cybersecurity) and a supplier management (vendor risk oversight and assessment) programme. Furthermore, the Operational Risk Department supports the collection and reporting of operational risk incidents and the execution of operational risk assessments; provides the infrastructure needed for risk measurement and risk management; and ensures ongoing validation and verification of Morgan Stanley Group's advanced measurement approach for operational risk capital.

Business Continuity Management is responsible for identifying key risks and threats to Morgan Stanley Group's resiliency and planning to ensure that a recovery strategy and required resources are in place for the resumption of critical business functions following a disaster or other business interruption. Disaster recovery plans are in place for critical facilities and resources, and redundancies are built into the systems as deemed appropriate. The key components of Morgan Stanley Group's Business Continuity Management Programme include: crisis management; business recovery plans; applications/data recovery; work area recovery; and other elements addressing management, analysis, training and testing.

The Morgan Stanley Group maintains an information security programme that coordinates the management of information security risks and is designed to address regulatory requirements. Information security policies are designed to protect the Morgan Stanley Group's information assets against unauthorised disclosure, modification or misuse. These policies cover a broad range of areas, including: application entitlements, data protection, incident response, Internet and electronic communications, remote access and portable devices. The Morgan Stanley Group has also established policies, procedures and technologies to protect its computers and other assets from unauthorised access.

In connection with its ongoing operations, the Morgan Stanley Group utilises the services of external vendors, which it anticipates will continue and may increase in the future. These services include, for example, outsourced processing and support functions and consulting and other professional services. The Morgan Stanley Group manages its exposures to these services through a variety of means such as the performance of due diligence, consideration of operational risk, implementation of service level and other contractual agreements, and ongoing monitoring of the vendors' performance. The Morgan Stanley Group maintains a supplier risk management programme with policies, procedures, organisation, governance and supporting technology that satisfies regulatory requirements. The programme is designed to ensure that adequate risk management controls over the services exist, including, but not limited to information security, operational failure, financial stability, disaster recoverability, reputational risk, safeguards against corruption and termination.

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.

MORGAN STANLEY (JERSEY) LIMITED

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Legal, regulatory and compliance risk (continued)

The Company, principally through the Morgan Stanley Group's Legal and Compliance Division, has established procedures based on legal and regulatory requirements on a worldwide basis that are designed to facilitate compliance with applicable statutory and regulatory requirements and to require that the Company's policies relating to business conduct, ethics and practices are followed globally.

In addition, the Company has established procedures to mitigate the risk that a counterparty's performance obligations will be unenforceable, including consideration of counterparty legal authority and capacity, adequacy of legal documentation, the permissibility of a transaction under applicable law and whether applicable bankruptcy or insolvency laws limit or alter contractual remedies. The heightened legal and regulatory focus on the financial services industry presents a continuing business challenge for the Company.

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.

MORGAN STANLEY (JERSEY) LIMITED

DIRECTORS' REPORT

DIRECTORS

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

H Herrmann	Director
C Schmuck	Director
G Essex-Cater	Alternate Director
H Grant	Alternate Director (resigned 31 December 2015)
S Hopkins	Alternate Director
C Ruark	Alternate Director

EVENTS AFTER THE REPORTING DATE

There have been no significant events since the reporting date.

AUDITOR

The Directors have dispensed with the requirement to hold annual general meetings. As such, under Companies (Jersey) Law 1991, Deloitte LLP will remain in office until formally removed.

Approved by the Board and signed on its behalf by



Director
HARALD HERRMANN

MORGAN STANLEY (JERSEY) LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Companies (Jersey) Law 1991 requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU"). The financial statements are required by law to 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.

International Accounting Standard ("IAS") 1 '*Presentation of financial statements*' requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's ("IASB") '*Framework for the preparation and presentation of financial statements*'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

- (a) properly select and apply accounting policies;
- (b) present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- (c) provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- (d) make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with Companies (Jersey) Law 1991. 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.

Each of the Directors who held office at the date of approval of the Directors' report, confirm to the best of their knowledge:

- in accordance with rule 4.1.12(3)(a) of the Disclosure and Transparency Rules of the Financial Conduct Authority ("FCA"), the financial statements, which have been prepared in accordance with IFRSs as issued by the IASB and as endorsed by the EU, have been prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets, liabilities, financial position and result of the Company; and
- the management report presented by the Directors' report has been prepared in accordance with rule 4.1.12(3)(b) of the FCA's Disclosure and Transparency Rules, and includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that the Company faces.

Approved by the Board and signed on its behalf by



Director
HARALD HERRMANN

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY (JERSEY) LIMITED

We have audited the financial statements of Morgan Stanley (Jersey) 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, the statement of cash flows and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. 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 result for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY (JERSEY) LIMITED

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 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.



James Polson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

25 April 2016

MORGAN STANLEY (JERSEY) LIMITED**STATEMENT OF COMPREHENSIVE INCOME**
Year ended 31 December 2015

	Note	2015 \$'000	2014 \$'000
Net gains on financial instruments designated at fair value through profit or loss		-	-
Interest income	4	96	88
Interest expense	4	(96)	(88)
RESULT BEFORE INCOME TAX		<hr/> -	<hr/> -
Income tax	6	-	-
RESULT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<hr/> <hr/> -	<hr/> <hr/> -

All operations were continuing in the current and prior year.

The notes on pages 14 to 43 form an integral part of the financial statements.

MORGAN STANLEY (JERSEY) LIMITED

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

	Stated capital \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 January 2014	14	442	456
Result and total comprehensive income for the year	-	-	-
Balance at 31 December 2014	14	442	456
Result and total comprehensive income for the year	-	-	-
Balance at 31 December 2015	14	442	456

The notes on pages 14 to 43 form an integral part of the financial statements.

MORGAN STANLEY (JERSEY) LIMITED

Registered number: 35857

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

	Note	2015 \$'000	2014 \$'000
ASSETS			
Loans and receivables:			
Cash and short-term deposits		114	677
Trade receivables		3	133
Other receivables	16	4,194	4,154
		4,311	4,964
Financial assets designated at fair value through profit or loss	7	132,354	199,011
TOTAL ASSETS		136,665	203,975
LIABILITIES AND EQUITY			
Financial liabilities at amortised cost:			
Trade payables		17	-
Other payables	16	3,838	4,508
		3,855	4,508
Financial liabilities designated at fair value through profit or loss	7	132,354	199,011
TOTAL LIABILITIES		136,209	203,519
EQUITY			
Stated capital	8	14	14
Retained earnings		442	442
Equity attributable to owners of the Company		456	456
TOTAL EQUITY		456	456
TOTAL LIABILITIES AND EQUITY		136,665	203,975

These financial statements were approved by the Board and authorised for issue on *20th April 2016*

Signed on behalf of the Board



Director
Harald Herrmann

The notes on pages 14 to 43 form an integral part of the financial statements.

MORGAN STANLEY (JERSEY) LIMITED

STATEMENT OF CASH FLOWS Year ended 31 December 2015

	Note	2015 \$'000	2014 \$'000
OPERATING ACTIVITIES			
Result for the year		-	-
Adjustments for:			
Interest income		(96)	(88)
Interest expense		96	88
Operating cash flows before changes in operating assets and liabilities		-	-
Changes in operating assets			
Decrease in loans and receivables, excluding cash and short-term deposits		186	4
Decrease in financial assets designated at fair value through profit or loss		66,657	207,342
		66,843	207,346
Changes in operating liabilities			
Decrease in financial liabilities at amortised cost		(749)	(9,885)
Decrease in financial liabilities designated at fair value through profit or loss		(66,657)	(207,342)
		(67,406)	(217,227)
NET CASH FLOWS USED IN OPERATING ACTIVITIES		(563)	(9,881)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(563)	(9,881)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		677	10,558
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		114	677

The notes on pages 14 to 43 form an integral part of the financial statements.

MORGAN STANLEY (JERSEY) LIMITED

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

1. CORPORATE INFORMATION

The Company is incorporated and domiciled in Jersey, at the following address:

13 Castle Street, St Helier, Jersey, JE4 5UT.

2. BASIS OF PREPARATION

Statement of compliance

The Company has prepared its annual financial statements in accordance with IFRSs issued by the IASB as adopted by the EU, Interpretations issued by the IFRS Interpretations Committee and Companies (Jersey) Law 1991.

New standards and interpretations adopted during the year

The following amendments to standards relevant to the Company's operations were adopted during the year. Except where otherwise stated, these amendments to standards did not have a material impact on the Company's financial statements.

As part of the 2010 – 2012 Annual Improvements Cycle published in December 2013, the IASB made amendments to the following standards that are relevant to the Company's operations: IFRS 13 '*Fair value measurement*' ("IFRS 13") and IAS 24 '*Related party disclosures*' (for application in accounting periods beginning on or after 1 July 2014). The improvements were endorsed by the EU in December 2014 requiring application on or after 1 February 2015, with earlier application permitted. The Company adopted the 2010 – 2012 Annual Improvements with effect from 1 January 2015.

As part of the 2011 – 2013 Annual Improvements Cycle published in December 2013, the IASB made amendments to the following standard that is relevant to the Company's operations: IFRS 13 (for application in accounting periods beginning on or after 1 July 2014). The improvements were endorsed by the EU in December 2014 requiring application on or after 1 January 2015, with earlier application permitted. The Company adopted the 2011 – 2013 Annual Improvements with effect from 1 January 2015.

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

New standards and interpretations not yet adopted

At the date of authorisation of these financial statements, the following standards and amendments to standards relevant to the Company's operations were issued by the IASB but not yet mandatory. Except where otherwise stated, the Company does not expect that the adoption of the following standards and amendments to standards will have a material impact on the Company's financial statements.

An amendment to IAS 1 '*Presentation of financial statements*' in relation to the 'Disclosure initiative' was issued by the IASB in December 2014, for application in annual periods beginning on or after 1 January 2016. The amendment was endorsed by the EU in December 2015.

An amendment to IAS 7 '*Statement of cash flows*' was issued by the IASB in February 2016, as part of the Disclosure Initiative project. The amendment is applicable for annual periods beginning on or after 1 January 2017. Early application is permitted.

IFRS 9 '*Financial instruments*' ("IFRS 9") was issued by the IASB in November 2009, amended in November 2013, and revised and reissued by the IASB in July 2014. IFRS 9 is applicable retrospectively, except where otherwise prescribed by transitional provisions of the standard, and is effective for annual periods beginning on or after 1 January 2018. Early adoption, either in full or relating to own credit in isolation, is permitted. The Company is currently assessing the impact of IFRS 9 on its financial statements.

MORGAN STANLEY (JERSEY) LIMITED

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

2. BASIS OF PREPARATION (CONTINUED)

New standards and interpretations not yet adopted (continued)

As part of the 2012 – 2014 Annual Improvements Cycle published in September 2014, the IASB made amendments to the following standards that are relevant to the Company's operations: IFRS 7 '*Financial instruments: Disclosures*' and IAS 34 '*Interim financial reporting*' (for application in accounting periods beginning on or after 1 January 2016). The improvements were endorsed by the EU in December 2015.

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.

Use of estimates and sources of uncertainty

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions regarding the valuation of certain financial instruments, impairment of assets, and other matters that affect the financial statements and related disclosures. The Company believes that the estimates utilised in preparing the financial statements are reasonable, relevant and reliable. Actual results could differ from these estimates.

For further details on the judgements used in determining fair value of certain assets and liabilities, see note 13.

The going concern assumption

The Company's business activities, together with the factors likely to affect its future development, performance and position, are reflected in the Business Review section of the Directors' report on pages 1 to 5. 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 Directors' 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.

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 Directors' report are rounded to the nearest thousand US dollars.

b. Foreign currencies

All monetary assets and liabilities denominated in currencies other than US dollars are translated into US dollars at the rates ruling at the reporting date. Transactions in currencies other than US dollars are recorded at the rates prevailing at the dates of the transactions. All translation differences are taken through the statement of comprehensive income. Exchange differences recognised in the statement of comprehensive income are presented in 'Other income' or 'Other expense', except where noted in 3(c) below.

MORGAN STANLEY (JERSEY) LIMITED

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments

The Company classifies its financial assets into the following categories on initial recognition: financial assets designated at fair value through profit or loss and loans and receivables.

The Company classifies its financial liabilities into the following categories on initial recognition: financial liabilities designated at fair value through profit or loss and financial liabilities at amortised cost.

More information regarding these classifications is included below:

i) Financial instruments designated at fair value through profit or loss

The Company has designated certain financial instruments at fair value through profit or loss when the financial instruments are managed, evaluated and reported internally on a fair value basis.

From the date the transaction in a financial instrument designated at fair value through profit or loss is entered into (trade date) until settlement date, the Company recognises any unrealised fair value changes in the contract as financial instruments designated at fair value through profit or loss. On settlement date, the fair value of consideration given or received is recognised as a financial instrument designated at fair value through profit or loss (see note 3(d) below). All subsequent changes in fair value, foreign exchange differences, interest and dividends are reflected in the statement of comprehensive income in 'Net gains on financial instruments designated at fair value through profit or loss'.

Transaction costs are excluded from the initial fair value measurement of the financial instrument. These costs are recognised in the statement of comprehensive income in 'Other expense'.

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(d)) and subsequently measured at amortised cost less allowance for impairment. Interest is recognised in the statement of comprehensive income in 'Interest income', using the effective interest rate method as described below. Transaction costs that are directly attributable to the acquisition of the financial asset are added to or deducted from the fair value on initial recognition. Impairment losses and reversals of impairment losses on financial assets classified as loans and receivables are recognised in the statement of comprehensive income in 'Other expense'.

Financial assets classified as loans and receivables include trade receivables.

Financial liabilities at amortised cost are recognised when the Company becomes a party to the contractual provisions of the instrument. They are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost. Interest is recognised in the statement of comprehensive income in 'Interest expense' using the effective interest rate method as described below. Transaction costs that are directly attributable to the issue of the financial liability are added to or deducted from the fair value on initial recognition.

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

MORGAN STANLEY (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value

Fair value measurement

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

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 developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions 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:

- **Level 1 – Quoted prices (unadjusted) in an active market for identical assets or liabilities**
Valuations based on quoted prices in active markets for identical assets or liabilities that the Morgan Stanley Group has the ability to access. 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.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the product. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgement. Accordingly, the degree of judgement exercised by the Company in determining fair value is greatest for instruments categorised in Level 3 of the fair value hierarchy.

The Company considers prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or Level 2 to Level 3 of the fair value hierarchy.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

MORGAN STANLEY (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

Fair value measurement (continued)

For assets and liabilities that are transferred between Levels in the fair value hierarchy during the period, fair values are ascribed as if the assets or liabilities had been transferred as of the beginning of the period.

Valuation techniques

Many cash instruments and OTC derivative contracts have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that a party is willing to pay for an asset. Ask prices represent the lowest price that a party is willing to accept for an asset. The Company carries positions at the point within the bid-ask range that meets its best estimate of fair value. For offsetting positions in the same financial instrument, the same price within the bid-ask spread is used to measure both the long and short positions.

Fair value for many cash instruments and OTC derivative contracts is derived using pricing models. Pricing models take into account the contract terms as well as multiple inputs including, where applicable, commodity prices, equity prices, interest rate yield curves, credit curves, correlation, creditworthiness of the counterparty, creditworthiness of the Company, option volatility and currency rates. Where appropriate, valuation adjustments are made to account for various factors such as liquidity risk (bid-ask adjustments), credit quality, model uncertainty and concentration risk.

Adjustments for liquidity risk adjust model-derived mid-market levels of Level 2 and Level 3 financial instruments for the bid-mid or mid-ask spread required to properly reflect the exit price of a risk position. Bid-mid and mid-ask spreads are marked to levels observed in trade activity, broker quotes or other external third-party data. Where these spreads are unobservable for the particular position in question, spreads are derived from observable levels of similar positions.

The Company applies credit related valuation adjustments to its short-term and long-term borrowings (primarily structured notes) for which the fair value option was elected and to OTC derivatives. The Company considers the impact of changes in its own credit spreads based upon observations of the secondary bond market spreads when measuring the fair value for short-term and long-term borrowings. For OTC derivatives, the impact of changes in both the Company's and the counterparty's credit rating is considered when measuring fair value. In determining the expected exposure the Company simulates the distribution of the future exposure to a counterparty, then applies market-based default probabilities to the future exposure, leveraging external third-party credit default swap ("CDS") spread data. Where CDS spread data are unavailable for a specific counterparty, bond market spreads, CDS spread data based on the counterparty's credit rating or CDS spread data that reference a comparable counterparty may be utilised. The Company also considers collateral held and legally enforceable master netting agreements that mitigate its exposure to each counterparty.

Adjustments for model uncertainty are taken for positions whose underlying models are reliant on significant inputs that are neither directly nor indirectly observable, hence requiring reliance on established theoretical concepts in their derivation. These adjustments are derived by making assessments of the possible degree of variability using statistical approaches and market-based information where possible. The Company generally subjects all valuations and models to a review process initially and on a periodic basis thereafter.

MORGAN STANLEY (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

Valuation techniques (continued)

The Company may apply a concentration adjustment to certain of its OTC derivatives portfolios to reflect the additional cost of closing out a particularly large risk exposure. Where possible, these adjustments are based on observable market information but in many instances significant judgement is required to estimate the costs of closing out concentrated risk exposures due to the lack of liquidity in the marketplace.

During 2014, the Company incorporated funding valuation adjustments ("FVA") into the fair value measurements of OTC uncollateralised or partially collateralised derivatives and in collateralised derivatives where the terms of the agreement do not permit the reuse of the collateral received. The Company's implementation of FVA reflects the inclusion of FVA in the pricing and valuations by the majority of market participants involved in its principal exit market for these instruments. In general, FVA reflects a market funding risk premium inherent in the noted derivative instruments. The methodology for measuring FVA leverages the Company's existing credit-related valuation adjustment calculation methodologies, which apply to both assets and liabilities.

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 market 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.

Valuation process

The Valuation Review Group ("VRG") within the Financial Control Group ("FCG") is responsible for the Company's fair value valuation policies, processes and procedures. VRG is independent of the business units and reports to the Chief Financial Officer of the Morgan Stanley Group ("CFO"), who has final authority over the valuation of the Company's financial instruments. VRG implements valuation control processes to validate the fair value of the Company's financial instruments measured at fair value including those derived from pricing models. These control processes are designed to assure that the values used for financial reporting are based on observable inputs wherever possible. In the event that observable inputs are not available, the control processes are designed to ensure that the valuation approach utilised is appropriate and consistently applied and that the assumptions are reasonable.

The Company's control processes apply to financial instruments categorised in Level 1, Level 2 or Level 3 of the valuation hierarchy, unless otherwise noted. These control processes include:

Model Review. VRG, in conjunction with the Market Risk Department ("MRD") and, where appropriate, the Credit Risk Management Department, both of which report to the CRO, independently review valuation models' theoretical soundness, the appropriateness of the valuation methodology and calibration techniques developed by the business units using observable inputs. Where inputs are not observable, VRG reviews the appropriateness of the proposed valuation methodology to ensure it is consistent with how a market participant would arrive at the unobservable input. The valuation methodologies utilised in the absence of observable inputs may include extrapolation techniques and the use of comparable observable inputs. As part of the review, VRG develops a methodology to independently verify the fair value generated by the business unit's valuation models. All of the Company's valuation models are subject to an independent annual review.

MORGAN STANLEY (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

Valuation process (continued)

Independent Price Verification. The business units are responsible for determining the fair value of financial instruments using approved valuation models and valuation methodologies. Generally on a monthly basis, VRG independently validates the fair values of financial instruments determined using valuation models by determining the appropriateness of the inputs used by the business units and by testing compliance with the documented valuation methodologies approved in the model review process described above.

VRG uses recently executed transactions, other observable market data such as exchange data, broker/ dealer quotes, third-party pricing vendors and aggregation services for validating the fair values of financial instruments generated using valuation models. VRG assesses the external sources and their valuation methodologies to determine if the external providers meet the minimum standards expected of a third-party pricing source. Pricing data provided by approved external sources are evaluated using a number of approaches; for example, by corroborating the external sources' prices to executed trades, by analysing the methodology and assumptions used by the external source to generate a price and/ or by evaluating how active the third-party pricing source (or originating sources used by the third-party pricing source) is in the market. Based on this analysis, VRG generates a ranking of the observable market data to ensure that the highest-ranked market data source is used to validate the business unit's fair value of financial instruments.

For financial instruments categorised within Level 3 of the fair value hierarchy, VRG reviews the business unit's valuation techniques to ensure these are consistent with market participant assumptions.

The results of this independent price verification and any adjustments made by VRG to the fair value generated by the business units are presented to management of the Morgan Stanley Group's three business segments (i.e. Institutional Securities, Wealth Management and Investment Management), the CFO and the CRO on a regular basis.

Review of new Level 3 Transactions. VRG reviews the models and valuation methodology used to price all new material Level 3 transactions and both FCG and MRD management must approve the fair value of the trade that is initially recognised.

Gains and losses on inception

In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (i.e. the fair value of the consideration given or received). In certain circumstances, however, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Company recognises a gain or loss on inception of the transaction.

When the use of unobservable market data has a significant impact on determining fair value at the inception of the transaction, the entire initial gain or loss indicated by the valuation technique as at the transaction date is not recognised immediately in the statement of comprehensive income and is recognised instead when the market data becomes observable.

e. Derecognition of financial assets and liabilities

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risk and rewards of ownership of the asset.

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

MORGAN STANLEY (JERSEY) LIMITED

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Impairment of financial assets

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

Impairment losses on loans and receivables are measured as the difference between the carrying amount of the loans and receivables and the present value of estimated cash flows discounted at the asset's original effective interest rate. Such impairment losses are recognised in the statement of comprehensive income within 'Other expense' and are recognised against the carrying amount of the impaired asset on the statement of financial position. Interest on the impaired asset continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset.

If in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed as detailed by financial asset in note 3(c)(ii). Any reversal is limited to the extent that the value of the asset may not exceed the original amortised cost of the asset had no impairment occurred.

g. Cash and cash equivalents

Cash and cash equivalents comprise cash and demand deposits with banks, along with highly liquid investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

h. Offsetting of financial assets and financial liabilities

Where there is a currently legally enforceable right to set off the recognised amounts and an intention to either settle on a net basis or to realise the asset and 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. 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.

5. AUDIT FEES

Audit fees of \$74,000 (2014: \$78,000) have been borne by another Morgan Stanley Group undertaking in both the current and prior year

6. INCOME TAX EXPENSE

The Company is subject to Jersey income tax at the rate of 0.00% (2014:0.00%).

MORGAN STANLEY (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2015

7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments designated at fair value through profit or loss consist primarily of the following financial liabilities and financial assets:

Issued structured notes: These relate to financial liabilities which arise from selling structured products generally in the form of notes or warrants. These instruments contain an embedded derivative which significantly modifies the cash flows of the issuance. The return on the instrument is linked to an underlying that is not clearly and closely related to the debt host including, but not limited to, equity, credit or commodity-linked notes. The structured notes are designated at fair value through profit or loss as the risks to which the Company is a contractual party are risk managed on a fair value basis as part of the Company's trading portfolio and the risk is reported to key management personnel on this basis.

At 31 December 2015, the Company had warrants in issue with a carrying value of \$59,404,000 (2014: \$82,600,000) recognised as issued structured notes within financial liabilities designated at fair value through profit or loss, which are exercisable for redeemable preference shares on the warrant expiration date.

Prepaid equity securities contracts: These contracts involve derivatives for which an initial payment is paid at inception. These financial instruments are part of the hedging strategy for the obligations arising pursuant to the issuance of the structured notes. The prepaid equity securities contracts are designated at fair value through profit or loss as the risks to which the Company is a contractual party are managed on a fair value basis as part of the Company's trading portfolio and the risk is reported to key management personnel on this basis.

	2015		2014	
	Assets	Liabilities	Assets	Liabilities
	\$'000	\$'000	\$'000	\$'000
Issued structured notes	-	132,354	-	199,011
Prepaid equity securities contracts	132,354	-	199,011	-
	<u>132,354</u>	<u>132,354</u>	<u>199,011</u>	<u>199,011</u>

The following table presents the change in fair value and the cumulative change recognised in the statement of comprehensive income attributable to own credit risk for issued structured notes.

	Gain or (loss) recognised in the statement of comprehensive income		Cumulative gain or (loss) recognised in the statement of comprehensive income	
	Year ended 31 December 2015 \$'000	Year ended 31 December 2014 \$'000	2015 \$'000	2014 \$'000
Issued structured notes	(1,263)	(2,550)	849	2,112
Prepaid equity securities contracts	1,263	2,550	(849)	(2,112)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

MORGAN STANLEY (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

The change in fair value recognised through the statement of comprehensive income attributable to own credit risk for issued structured notes is determined as the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risk.

The carrying amount of financial liabilities designated at fair value was \$6,980,000 lower than the contractual amount due at maturity (2014: \$4,659,000 lower).

8. EQUITY

Stated capital

**Ordinary
shares of no
par value:
\$'000**

Issued and fully paid

At 1 January 2014, 31 December 2014 and 31 December 2015

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At 31 December 2015, the total issued stated capital equated to \$14,000 (2014: \$14,000) comprising of 10,000 British pound denominated ordinary shares of no par value. All ordinary shares are recorded at the rates of exchange ruling at the date the shares were paid up.

The Company is authorised to issue an unlimited number of shares designated as ordinary shares of no par value, an unlimited number of shares designated as nominal shares of no par value and an unlimited number of shares designated as unclassified shares of no par value available for issue as separate classes of preference shares of no par value.

MORGAN STANLEY (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2015

9. EXPECTED MATURITY OF ASSETS AND LIABILITIES

The tables below show 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
ASSETS			
Loans and receivables:			
Cash and short-term deposits	114	-	114
Trade receivables	3	-	3
Other receivables	4,194	-	4,194
	<u>4,311</u>	<u>-</u>	<u>4,311</u>
Financial assets designated at fair value through profit or loss	52,658	79,696	132,354
	<u>56,969</u>	<u>79,696</u>	<u>136,665</u>
LIABILITIES			
Financial liabilities at amortised cost:			
Trade payables	17	-	17
Other payables	3,838	-	3,838
	<u>3,855</u>	<u>-</u>	<u>3,855</u>
Financial liabilities designated at fair value through profit or loss	52,658	79,696	132,354
	<u>56,513</u>	<u>79,696</u>	<u>136,209</u>

MORGAN STANLEY (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2015

9. 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
ASSETS			
Loans and receivables:			
Cash and short-term deposits	677	-	677
Trade receivables	133	-	133
Other receivables	4,154	-	4,154
	4,964	-	4,964
Financial assets designated at fair value through profit or loss	53,402	145,609	199,011
	58,366	145,609	203,975
LIABILITIES			
Financial liabilities at amortised cost:			
Other payables	4,508	-	4,508
Financial liabilities designated at fair value through profit or loss	53,402	145,609	199,011
	57,910	145,609	203,519

10. SEGMENT REPORTING

Segment information is presented in respect of the Company's business and geographical segments. The business segments and geographical segments are based on the Company's management and internal reporting structure.

Business segments

Morgan Stanley structures its business segments primarily based upon the nature of the financial products and services provided to customers and Morgan Stanley's internal management structure. The Company's own business segments are consistent with those of Morgan Stanley.

The Company has one reportable business segment, Institutional Securities, which provides financial services to financial institutions. Its business includes the issuance of financial instruments and the hedging of the obligations arising pursuant to such issuances.

Geographical segments

The Company operates in one geographic region, Europe.

11. FINANCIAL RISK MANAGEMENT

Risk management procedures

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 is consistent with and leverages the risk management policies and procedures of the Morgan Stanley Group and which include escalation to appropriate senior management personnel.

MORGAN STANLEY (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2015

11. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk management procedures (continued)

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

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. The Company primarily incurs credit risk exposure to institutions through its Institutional Securities business segment.

The Company's credit risk management policies and procedures establish the framework for ensuring transparency of material credit risks, ensuring compliance with established limits and escalation of risk concentrations to appropriate senior management.

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

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

The Company does not have any significant exposure arising from items not recognised on its statement of financial position.

The impact of master netting arrangements and similar agreements on the Company's ability to offset financial assets and financial liabilities is disclosed in note 12.

Maximum exposure to credit risk by credit rating⁽¹⁾

Credit rating	Gross credit exposure	
	2015 \$'000	2014 \$'000
A	136,665	203,975

(1) Internal credit rating derived using methodologies generally consistent with those used by external rating agencies.

At 31 December 2015 there were no financial assets past due but not impaired or individually impaired (2014: \$none).

MORGAN STANLEY (JERSEY) LIMITED

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

11. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 the Company's viability as a going concern. Market or idiosyncratic stress events may negatively affect the Company's liquidity and may impact its ability to raise new funding.

The Morgan Stanley Group's Liquidity Risk Management Framework is critical to helping ensure that the Company maintains sufficient liquidity reserves and durable funding sources to meet its daily obligations and to withstand unanticipated stress events. In 2015, the Morgan Stanley Group established the Liquidity Risk Department as a distinct area in Risk Management to oversee and monitor liquidity and funding risk. The Liquidity Risk Department is independent of the business units and reports to the CRO. The Liquidity Risk Department ensures transparency of material liquidity and funding risks, compliance with established risk limits and escalation of risk concentrations to appropriate senior management. To execute these responsibilities, the Liquidity Risk Department establishes limits in line with the Morgan Stanley Group's risk appetite, identifies and analyses emerging liquidity and funding risks to ensure such risks are appropriately mitigated, monitors and reports risk exposures against metrics and limits, and reviews the methodologies and assumptions underpinning the Morgan Stanley Group's Liquidity Stress Tests to ensure sufficient liquidity and funding under a range of adverse scenarios. The liquidity and funding risks identified by these processes are summarised in reports produced by the Liquidity Risk Department that are circulated to and discussed with senior management, as appropriate.

The Treasury Department and applicable business units have primary responsibility for evaluating, monitoring and controlling the liquidity and funding risks arising from the Morgan Stanley Group's business activities, and maintain processes and controls to manage the key risks inherent in their respective areas. The Liquidity Risk Department coordinates with the Treasury Department and these business units to help ensure a consistent and comprehensive framework for managing liquidity and funding risk across the Morgan Stanley Group.

The Company's liquidity and funding risk management policies and procedures are consistent with those of the Morgan Stanley Group.

The primary goal of the Company's liquidity risk and funding management framework is to ensure that the Company has access to adequate funding across a wide range of market conditions. The framework is designed to enable the Company to fulfil its financial obligations and support the execution of its business strategies.

The following principles guide the Company's liquidity and funding risk management framework:

- Sufficient liquid assets should be maintained to cover maturing liabilities and other planned and contingent outflows;
- Maturity profile of assets and liabilities should be aligned, with limited reliance on short-term funding;
- Source, counterparty, currency, region, and term of funding should be diversified; and
- Liquidity Stress Tests should anticipate, and account for, periods of limited access to funding.

The Company hedges all of its financial liabilities arising from the issuance of financial instruments with financial assets entered into with other Morgan Stanley Group undertakings, where both the Company and other Morgan Stanley Group undertakings are wholly-owned subsidiaries of the same parent, Morgan Stanley. Further, the maturity profile of the financial assets matches the maturity profile of the financial liabilities.

MORGAN STANLEY (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2015

11. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

Liquidity management policies

The core components of the Morgan Stanley Group's liquidity management framework, which includes consideration of the liquidity risk for each individual legal entity, are the Required Liquidity Framework, Liquidity Stress Tests and the Global Liquidity Reserve, which support the Morgan Stanley Group's target liquidity profile.

Required Liquidity Framework

The Required Liquidity Framework reflects the amount of liquidity the Morgan Stanley Group must hold in both normal and stressed environments to ensure that its financial condition and overall soundness is not adversely affected by an inability (or perceived inability) to meet its financial obligations in a timely manner. The Required Liquidity Framework considers the most constraining liquidity requirement to satisfy all regulatory and internal limits at a consolidated and legal entity level.

Liquidity Stress Tests

The Morgan Stanley Group uses Liquidity Stress Tests to model liquidity inflows and outflows across multiple scenarios over a range of time horizons. These scenarios contain various combinations of idiosyncratic and systemic stress events of different severity and duration. The methodology, implementation, production and analysis of the Company's Liquidity Stress Tests are important components of the Required Liquidity Framework.

The assumptions underpinning the Liquidity Stress Tests include, but are not limited to, the following:

- no government support;
- no access to equity and unsecured debt markets;
- repayment of all unsecured debt maturing within the stress horizon;
- higher haircuts and significantly lower availability of secured funding;
- additional collateral that would be required by trading counterparties, certain exchanges and clearing organisations related to credit rating downgrades;
- additional collateral that would be required due to collateral substitutions, collateral disputes and uncalled collateral;
- discretionary unsecured debt buybacks;
- drawdowns on lending commitments provided to third parties;
- client cash withdrawals and reduction in customer short positions that fund long positions;
- limited access to the foreign exchange swap markets; and
- maturity roll-off of outstanding letters of credit with no further issuance.

The Liquidity Stress Tests are produced for Morgan Stanley and its major operating subsidiaries, as well as at major currency levels, to capture specific cash requirements and cash availability at various legal entities. The Liquidity Stress Tests assume that subsidiaries will use their own liquidity first to fund their obligations before drawing liquidity from Morgan Stanley. It is also assumed that Morgan Stanley will support its subsidiaries and will not have access to cash that may be held at certain subsidiaries. In addition to the assumptions underpinning the Liquidity Stress Tests, the settlement risk related to intra-day settlement and clearing of securities and financial activities is taken into consideration.

Since the Company hedges the liquidity risk of its financial liabilities with financial assets that match the maturity profile of the financial liabilities, the Company is not considered a major operating subsidiary for the purposes of liquidity risk. However, the Company would have access to the cash or liquidity reserves held by Morgan Stanley in the unlikely event that it was unable to access adequate financing to service its financial liabilities when they become payable.

MORGAN STANLEY (JERSEY) LIMITED

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

11. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

Liquidity Stress Tests (continued)

The Required Liquidity Framework and Liquidity Stress Tests are evaluated on an ongoing basis and reported to the Firm Risk Committee, Asset/ Liability Management Committee, and other appropriate risk committees.

Global Liquidity Reserve

The Morgan Stanley Group maintains sufficient liquidity reserves ("the Global Liquidity Reserve") to cover daily funding needs and to meet strategic liquidity targets sized by the Required Liquidity Framework and Liquidity Stress Tests. The size of the Global Liquidity Reserve is actively managed by the Morgan Stanley Group. The following components are considered in sizing the Global Liquidity Reserve: unsecured debt maturity profile, balance sheet size and composition, funding needs in a stressed environment inclusive of contingent cash outflows and collateral requirements. In addition, the Morgan Stanley Group's Global Liquidity Reserve includes a discretionary surplus based on the Morgan Stanley Group's risk tolerance and is subject to change dependent on market and firm-specific events.

The Morgan Stanley Group's Global Liquidity Reserve, to which the Company has access, is held within Morgan Stanley and its major operating subsidiaries and is composed of diversified cash and cash equivalents and unencumbered highly liquid securities.

Eligible unencumbered highly liquid securities include US government securities, US agency securities, US agency mortgage-backed securities, non-US government securities and other highly liquid investment grade securities.

The ability to monetise assets during a liquidity crisis is critical. The Morgan Stanley Group believes that the assets held in its Global Liquidity Reserve can be monetised within five business days in a stressed environment given the highly liquid and diversified nature of the reserves.

Funding management policies

The Morgan Stanley Group manages its funding in a manner that reduces the risk of disruption to the Morgan Stanley Group's and the Company's operations. The Morgan Stanley Group pursues a strategy of diversification of secured and unsecured funding sources (by product, by investor and by region) and attempts to ensure that the tenor of the Morgan Stanley Group's, and the Company's, liabilities equals or exceeds the expected holding period of the assets being financed.

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

Balance sheet management

In managing both the Morgan Stanley Group's and the Company's funding risk the composition and size of the entire balance sheet, not just financial liabilities, is monitored and evaluated. A substantial portion of the Morgan Stanley Group's total assets consists of liquid marketable securities and short-term receivables arising principally from the Institutional Securities business segment's sales and trading activities. The liquid nature of these assets provides the Morgan Stanley Group and the Company with flexibility in managing the size of its balance sheet.

MORGAN STANLEY (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

11. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

Maturity analysis

In the following maturity analysis of financial assets and financial liabilities, financial assets designated at fair value through profit or loss and financial liabilities designated at fair value through profit or loss are disclosed according to their earliest contractual maturity; all such amounts are presented at their fair value, consistent with how these financial instruments are managed. All other amounts represent undiscounted cash flows receivable and payable by the Company arising from its financial assets and financial liabilities to earliest contractual maturities as at 31 December 2015 and 31 December 2014. Receipts of financial assets and repayments of financial liabilities that are subject to immediate notice are treated as if notice were given immediately and are classified as on demand. This presentation is considered by the Company to appropriately reflect the liquidity risk arising from these financial assets and financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial assets and financial liabilities is managed by the Company.

	On demand \$'000	Less than 1 month \$'000	Equal to or more than 1 month but less than 3 months \$'000	Equal to or more than 3 months but less than 1 year \$'000	Equal to or more than 1 year but less than 5 years \$'000	Equal to or more than 5 years \$'000	Total \$'000
31 December 2015							
Financial assets							
Loans and receivables:							
Cash and short-term deposits	114	-	-	-	-	-	114
Trade receivables	3	-	-	-	-	-	3
Other receivables	4,194	-	-	-	-	-	4,194
Financial assets designated at fair value through profit or loss:							
Prepaid equity securities contracts	-	2,169	18,997	31,492	79,696	-	132,354
Total financial assets	4,311	2,169	18,997	31,492	79,696	-	136,665
Financial liabilities							
Financial liabilities at amortised cost:							
Trade payables	17	-	-	-	-	-	17
Other payables	3,838	-	-	-	-	-	3,838
Financial liabilities designated at fair value through profit or loss:							
Issued structured notes	-	2,169	18,997	31,492	79,696	-	132,354
Total financial liabilities	3,855	2,169	18,997	31,492	79,696	-	136,209

MORGAN STANLEY (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2015

11. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

Maturity analysis (continued)

31 December 2014	On demand \$'000	Less than 1 month \$'000	Equal to or more than 1 month but less than 3 months \$'000	Equal to or more than 3 months but less than 1 year \$'000	Equal to or more than 1 year but less than 5 years \$'000	Equal to or more than 5 years \$'000	Total \$'000
Financial assets							
Loans and receivables:							
Cash and short-term deposits	677	-	-	-	-	-	677
Trade receivables	133	-	-	-	-	-	133
Other receivables	4,154	-	-	-	-	-	4,154
Financial assets designated at fair value through profit or loss:							
Prepaid equity securities contracts	-	-	23,675	29,727	145,609	-	199,011
Total financial assets	4,964	-	23,675	29,727	145,609	-	203,975
Financial liabilities							
Financial liabilities at amortised cost:							
Other payables	4,508	-	-	-	-	-	4,508
Financial liabilities designated at fair value through profit or loss:							
Issued structured notes	-	-	23,675	29,727	145,609	-	199,011
Total financial liabilities	4,508	-	23,675	29,727	145,609	-	203,519

Market risk

Market risk is defined by IFRS 7 as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Sound market risk management is an integral part of the Company's culture. The Company is responsible for ensuring that market risk exposures are well-managed and monitored. The Company also ensures transparency of material market risks, monitors compliance with established limits, and escalates risk concentrations to appropriate senior management.

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

The Company enters into the majority of its financial asset transactions with other Morgan Stanley Group undertakings, where both the Company and the other Morgan Stanley Group undertakings are wholly-owned subsidiaries of the same group parent entity, Morgan Stanley.

MORGAN STANLEY (JERSEY) LIMITED

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

11. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (continued)

The issued financial instruments expose the Company to the risk of changes in market prices of the underlying securities, interest rate risk and, where denominated in currencies other than US dollars, the risk of changes in rates of exchange between the US dollar and the other relevant currencies. The Company uses the contracts that it purchases from other Morgan Stanley Group undertakings, to hedge the market price, interest rate and foreign currency risks associated with the issuance of the financial instruments, consistent with the Company's risk management strategy. As such, the Company is not exposed to any market risk on these financial instruments.

12. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING

In order to manage credit exposure arising from its business activities, the Company applies various credit risk management policies and procedures, see note 11 for further details. Primarily in connection with prepaid equity securities contracts, the Company enters into master netting arrangements with its counterparties. These agreements provide the Company with the right, in the ordinary course of business and/ or in the event of a counterparty default (such as bankruptcy or a counterparty's failure to pay or perform), to net a counterparty's rights and obligations under such agreement. However, in certain circumstances, the Company may not have such an agreement in place; the relevant insolvency regime (which is based on type of counterparty entity and the jurisdiction of organisation of the counterparty) may not support the enforceability of the agreement; or the Company may not have sought legal advice to support the enforceability of the agreement. In cases where the Company has not determined an agreement to be enforceable, the related amounts are not offset in the narrative disclosures.

In the statement of financial position, financial assets and financial liabilities are only offset and presented on a net basis where there is a current 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. Due to the absence of such conditions, financial assets and financial liabilities are presented on a gross basis in the statement of financial position. In relation to financial assets and financial liabilities designated at fair value through profit or loss, intercompany cross-product netting arrangements are in place which would allow for \$124,747,000 (2014: \$190,539,000) to be further offset.

MORGAN STANLEY (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2015

13. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

a. Financial assets and liabilities recognised at fair value on a recurring basis

The following tables present the carrying value of the Company's financial assets and financial liabilities recognised at fair value on a recurring basis, classified according to the fair value hierarchy.

2015

	Quoted prices in active market (Level 1) \$'000	Valuation techniques using observable inputs (Level 2) \$'000	Valuation techniques with significant unobservable inputs (Level 3) \$'000	Total \$'000
Financial assets designated at fair value through profit or loss:				
Prepaid equity securities contracts	-	130,170	2,184	132,354
Total financial assets measured at fair value	-	130,170	2,184	132,354
Financial liabilities designated at fair value through profit or loss:				
Issued structured notes	-	130,170	2,184	132,354
Total financial liabilities measured at fair value	-	130,170	2,184	132,354

2014

	Quoted prices in active market (Level 1) \$'000	Valuation techniques using observable inputs (Level 2) \$'000	Valuation techniques with significant unobservable inputs (Level 3) \$'000	Total \$'000
Financial assets designated at fair value through profit or loss:				
Prepaid equity securities contracts	-	194,461	4,550	199,011
Total financial assets measured at fair value	-	194,461	4,550	199,011
Financial liabilities designated at fair value through profit or loss:				
Issued structured notes	-	194,461	4,550	199,011
Total financial liabilities measured at fair value	-	194,461	4,550	199,011

MORGAN STANLEY (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2015

13. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

a. Financial assets and liabilities recognised at fair value on a recurring basis (continued)

The Company's valuation approach and fair value hierarchy categorisation for certain significant classes of financial instruments recognised at fair value on a recurring basis is as follows:

Issued structured notes and prepaid equity securities contracts designated at fair value through profit or loss

The Company issues structured notes and purchases prepaid equity securities contracts that have coupons or repayment terms linked to the performance of debt or equity securities, indices, currencies or commodities. Fair value of structured notes and prepaid equity securities contracts is determined using valuation models for the derivative and debt portions of the notes. These models incorporate observable inputs referencing identical or comparable securities, including prices to which the notes are linked, interest rate yield curves, option volatility and currency, and commodity or equity prices. Independent, external and traded prices for the notes are considered as well. The impact of the Company's own credit spreads is also included based on observed secondary bond market spreads. Generally, structured notes and prepaid equity securities contracts are categorised in Level 2 of the fair value hierarchy. In instances where significant inputs are unobservable, they are categorised in Level 3 of the fair value hierarchy.

b. Transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets and liabilities recognised at fair value on a recurring basis

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the current and prior year.

c. Changes in Level 3 financial assets and liabilities recognised at fair value on a recurring basis

The following tables present the changes in the fair value of the Company's Level 3 financial assets and financial liabilities for the years ended 31 December 2015 and 31 December 2014.

Additionally, both observable and unobservable inputs may be used to determine the fair value of positions that the Company has classified within the Level 3 category. As a result, the unrealised gains/ (losses) during the period for assets and liabilities within the Level 3 category presented in the tables below may include changes in fair value during the period that were attributable to both observable (e.g. changes in market interest rates) and unobservable (e.g. changes in unobservable long-dated volatilities) inputs.

The Morgan Stanley Group operates a number of intra-group policies to ensure that, where possible, revenues and related costs are matched. Where the trading positions included in the below table are risk managed using financial instruments held by other Morgan Stanley Group undertakings, these policies potentially result in the recognition of offsetting gains or losses in the Company.

MORGAN STANLEY (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2015

13. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

c. Changes in Level 3 financial assets and liabilities recognised at fair value on a recurring basis (continued)

2015

	Balance at 1 January 2015 \$'000	Total gains or (losses) recognised in statement of comprehensive income ⁽¹⁾ \$'000	Purchases \$'000	Issuances \$'000	Settlements \$'000	Net transfers in and/or out of Level 3 ⁽²⁾ \$'000	Balance at 31 December 2015 \$'000	Unrealised gains / (losses) for Level 3 assets /liabilities outstanding as at 31 December 2015 ⁽³⁾ \$'000
Financial assets designated at fair value through profit or loss:								
Prepaid equity securities contracts	4,550	(414)	-	-	(63)	(1,889)	2,184	(405)
Total financial assets measured at fair value	4,550	(414)	-	-	(63)	(1,889)	2,184	(405)
Financial liabilities designated at fair value through profit or loss:								
Issued structured notes	(4,550)	414	-	-	63	1,889	(2,184)	405
Total financial liabilities measured at fair value	(4,550)	414	-	-	63	1,889	(2,184)	405

(1) The total gains or (losses) are recognised in the statement of comprehensive income as detailed in the financial instruments accounting policy (note 3c).

(2) For financial assets and financial liabilities that were transferred into and out of Level 3 during the year, gains or (losses) are presented as if the assets or liabilities had been transferred into or out of Level 3 as at the beginning of the year.

(3) Amounts represent unrealised gains or (losses) for the year ended 31 December 2015 related to assets and liabilities still outstanding at 31 December 2015. The unrealised gains or (losses) are recognised in statement of comprehensive income as detailed in the financial instruments accounting policy (note 3c).

There were no transfers from Level 2 to Level 3 of the fair value hierarchy during the year.

During the current year, the Company reclassified approximately \$1,889,000 of prepaid equity securities contracts and issued structured notes from Level 3 to Level 2. The reclassifications were due to an increase in market price quotations for these or comparable instruments or available broker quotes, such that observable inputs were utilised for fair value measurement.

MORGAN STANLEY (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2015

13. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

c. Changes in Level 3 financial assets and liabilities recognised at fair value on a recurring basis (continued)

2014

	Balance at 1 January 2014	Total gains or (losses) recognised in statement of comprehensive income ⁽¹⁾	Purchases	Issuances	Settlements	Net transfers in and/or out of Level 3 ⁽²⁾	Balance at 31 December 2014	Unrealised gains / (losses) for Level 3 assets /liabilities outstanding as at 31 December 2014 ⁽³⁾
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets designated at fair value through profit or loss:								
Prepaid equity securities contracts	32,326	(4,068)	-	-	(2,367)	(21,341)	4,550	1,314
Total financial assets measured at fair value	32,326	(4,068)	-	-	(2,367)	(21,341)	4,550	1,314
Financial liabilities designated at fair value through profit or loss:								
Issued structured notes	(32,326)	4,068	-	-	2,367	21,341	(4,550)	(1,314)
Total financial liabilities measured at fair value	(32,326)	4,068	-	-	2,367	21,341	(4,550)	(1,314)

(1) The total gains or (losses) are recognised in the statement of comprehensive income as detailed in the financial instruments accounting policy (note 3c).

(2) For financial assets and financial liabilities that were transferred into and out of Level 3 during the year, gains or (losses) are presented as if the assets or liabilities had been transferred into or out of Level 3 as at the beginning of the year.

(3) Amounts represent unrealised gains or (losses) for the year ended 31 December 2014 related to assets and liabilities still outstanding at 31 December 2014. The unrealised gains or (losses) are recognised in the statement of comprehensive income as detailed in the financial instruments accounting policy (note 3c).

During the prior year, the Company reclassified approximately \$2,779,000 of prepaid equity securities contracts and issued structured notes from Level 2 to Level 3. The reclassifications were due to a reduction in the volume of recently executed transactions and market price quotations for these instruments, or lack of available broker quotes, such that certain significant inputs for the fair value measurement became unobservable.

During the prior year, the Company reclassified approximately \$24,120,000 of prepaid equity securities contracts and issued structured notes from Level 3 to Level 2. The reclassifications were due to an increase in market price quotations for these or comparable instruments or available broker quotes, such that observable inputs were utilised for fair value measurement.

MORGAN STANLEY (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

13. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

d. Valuation of Level 3 financial assets and liabilities recognised at fair value on a recurring basis

The disclosures below provide information on the sensitivity of fair value measurements to key inputs and assumptions.

1. Quantitative information about and qualitative sensitivity of significant unobservable inputs

The tables below provide information on the valuation techniques, significant unobservable inputs and their ranges and averages for each major category of assets and liabilities measured at fair value on a recurring basis with a significant Level 3 balance.

The level of aggregation and breadth of products cause the range of inputs to be wide and not evenly distributed across the inventory. Further, the range of unobservable inputs may differ across firms in the financial services industry because of diversity in the types of products included in each firm's inventory. The following disclosures also include qualitative information on the sensitivity of the fair value measurements to changes in the significant unobservable inputs.

2015	Fair value \$'000	Valuation technique	Significant unobservable input(s)/ Sensitivity of the fair value to changes in the unobservable inputs	Range	Averages ⁽¹⁾
Financial assets designated at fair value through profit or loss:					
Prepaid equity securities contracts	2,184	Option model	At the money volatility / (A)	10% to 30%	19%
			Volatility skew / (A)	0% to -18%	-5%
			Cross commodity correlation / (A)	33% to 100%	93%
Financial liabilities designated at fair value through profit or loss:					
Issued structured notes	(2,184)	Option model	At the money volatility / (A)	10% to 30%	19%
			Volatility skew / (A)	0% to -18%	-5%
			Cross commodity correlation / (A)	33% to 100%	93%

(1) Amounts represent weighted averages which are calculated by weighting each input by the fair value of the respective financial instruments.

Sensitivity of the fair value to changes in the unobservable inputs:

(A) Significant increase/ (decrease) in the unobservable input in isolation would result in a significantly lower/ (higher) fair value measurement.

MORGAN STANLEY (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

13. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

d. Valuation of Level 3 financial assets and liabilities recognised at fair value on a recurring basis (continued)

2014	Fair value \$'000	Valuation technique	Significant unobservable input(s)/ Sensitivity of the fair value to changes in the unobservable inputs	Range	Averages ⁽¹⁾
Financial assets designated at fair value through profit or loss:					
Prepaid equity securities contracts	4,550	Option model	At the money volatility / (B) Volatility skew / (B) Equity - Equity correlation / (A) Equity - Foreign exchange correlation / (B) Cross commodity correlation / (B)	13% to 30% -1% to 0% 39% to 65% -25% 33% to 100%	23% 0% 52% -25% 93%
Financial liabilities designated at fair value through profit or loss:					
Issued structured notes	(4,550)	Option model	At the money volatility / (B) Volatility skew / (A) Equity - Equity correlation / (B) Equity - Foreign exchange correlation / (B) Cross commodity correlation / (B)	13% to 30% -1% to 0% 39% to 65% -25% 33% to 100%	23% 0% 52% -25% 93%

(1) Amounts represent weighted averages which are calculated by weighting each input by the fair value of the respective financial instruments.

Sensitivity of the fair value to changes in the unobservable inputs:

- (A) Significant increase/ (decrease) in the unobservable input in isolation would result in a significantly higher/ (lower) fair value measurement.
 (B) Significant increase/ (decrease) in the unobservable input in isolation would result in a significantly lower/ (higher) fair value measurement.

The following provides a description of significant unobservable inputs included in the table above for all major categories of assets and liabilities:

- **Volatility** – the measure of the variability in possible returns for an instrument given how much that instrument changes in value over time. Volatility is a pricing input for options and, generally, the lower the volatility, the less risky the option. The level of volatility used in the valuation of a particular option depends on a number of factors, including the nature of the risk underlying that option (e.g. the volatility of a particular underlying equity security may be significantly different from that of a particular underlying commodity index), the tenor and the strike price of the option.
- **Volatility skew** – the measure of the difference in implied volatility for options with identical underliers and expiry dates but with different strikes. The implied volatility for an option with a strike price that is above or below the current price of an underlying asset will typically deviate from the implied volatility for an option with a strike price equal to the current price of that same underlying asset.
- **Correlation** – a pricing input where the payoff is driven by more than one underlying risk. Correlation is a measure of the relationship between the movements of two variables (i.e. how the change in one variable influences a change in the other variable).

MORGAN STANLEY (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

13. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

d. Valuation of Level 3 financial assets and liabilities recognised at fair value on a recurring basis (continued)

2. Sensitivity of fair values to changing significant assumptions to reasonably possible alternatives

All financial instruments are valued in accordance with the techniques outlined in the fair value hierarchy disclosure above. Some of these techniques, including those used to value instruments categorised in Level 3 of the fair value hierarchy, are dependent on unobservable parameters and the fair value for these financial instruments has been determined using parameters appropriate for the valuation methodology based on prevailing market evidence. It is recognised that the unobservable parameters could have a range of reasonably possible alternative values.

In estimating the change in fair value, to provide information about the variability of the fair value measurement, the unobservable parameters were varied to the extremes of the ranges of reasonably possible alternatives using statistical techniques, such as dispersion in comparable observable external inputs for similar asset classes, historic data or judgement if a statistical technique is not appropriate. Where a financial instrument has more than one unobservable parameter, the sensitivity analysis reflects the greatest reasonably possible increase or decrease to fair value by varying the assumptions individually. It is unlikely that all unobservable parameters would be concurrently at the extreme range of possible alternative assumptions and therefore the sensitivity shown below is likely to be greater than the actual uncertainty relating to the financial instruments.

The following tables present the sensitivity of the fair value of Level 3 financial assets and financial liabilities to reasonably possible alternative assumptions, providing quantitative information on the potential variability of the fair value measurement.

2015	Fair value \$'000	Effect of reasonably possible alternative assumptions	
		Increase in fair value \$'000	Decrease in fair value \$'000
Financial assets designated at fair value through profit or loss:			
Prepaid equity securities contracts	2,184	22	(22)
Financial liabilities designated at fair value through profit or loss:			
Issued structured notes	(2,184)	(22)	22

MORGAN STANLEY (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

13. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

d. Valuation of Level 3 financial assets and liabilities recognised at fair value on a recurring basis (continued)

2014	Fair value \$'000	Effect of reasonably possible alternative assumptions	
		Increase in fair value \$'000	Decrease in fair value \$'000
Financial assets designated at fair value through profit or loss:			
Prepaid equity securities contracts	4,550	29	(25)
Financial liabilities designated at fair value through profit or loss:			
Issued structured notes	(4,550)	(29)	25

e. Assets and liabilities measured at fair value on a non-recurring basis

Non-recurring fair value measurements of assets and liabilities are those which are required or permitted in the statement of financial position in particular circumstances. There were no assets or liabilities measured at fair value on a non-recurring basis during the year or prior year.

14. ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

For all financial instruments not measured at fair value, the carrying amount is considered to be a reasonable approximation of fair value due to the short term nature of these assets and liabilities.

15. CAPITAL MANAGEMENT

The Morgan Stanley Group manages its capital on a global basis with consideration for its legal entities. The capital managed by the Morgan Stanley Group broadly includes ordinary share capital, preference share capital, subordinated loans and reserves.

The Morgan Stanley Group's required capital ("Required Capital") estimation is based on the Required Capital Framework, an internal capital adequacy measure. This framework is a risk-based and leverage use-of-capital measure, which is compared with the Morgan Stanley Group's regulatory capital to ensure that the Morgan Stanley Group maintains an amount of going concern capital after absorbing potential losses from extreme stress events where applicable, at a point in time. The Morgan Stanley Group defines the difference between its regulatory capital and aggregate Required Capital as Parent capital.

The Required Capital Framework will evolve over time in response to changes in the business and regulatory environment and to incorporate enhancements in modelling techniques. The Morgan Stanley Group will continue to evaluate the framework with respect to the impact of future regulatory requirements, as appropriate.

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

MORGAN STANLEY (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

15. CAPITAL MANAGEMENT (CONTINUED)

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

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

The Company manages the following items as capital:

	2015 \$'000	2014 \$'000
Stated capital	14	14
Reserves	442	442
	<u>456</u>	<u>456</u>

16. RELATED PARTY DISCLOSURES

Parent and ultimate controlling entity

The Company's immediate and ultimate parent undertaking and controlling entity and the smallest and largest group of which the Company is a member and for which group financial statements are prepared is Morgan Stanley. Morgan Stanley is incorporated in the State of Delaware, the United States of America and copies of its financial statements can be obtained from www.morganstanley.com/investorrelations.

Key management compensation

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company. Key management personnel include the Board of Directors of the Company.

Compensation paid to key management personnel in respect of their services rendered to the Company is:

	2015 \$'000	2014 \$'000
Short-term employee benefits	8	15
Share-based payments	1	4
Other long-term employee benefits	-	4
	<u>9</u>	<u>23</u>

The share-based payment costs disclosed above reflect the amortisation of equity-based awards granted to key management personnel over the last three years and are therefore not directly aligned with other staff costs in the current year.

Key management personnel compensation is borne by other Morgan Stanley Group undertakings in both the current and prior year.

MORGAN STANLEY (JERSEY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2015

16. RELATED PARTY DISCLOSURES (CONTINUED)

Alternate Directors

During the year, Sanne Corporate Services Limited ("SCSL") and Sanne Secretaries Limited ("SSL") provided administration and secretarial services respectively to the Company at commercial rates. SCSL was a subsidiary of Sanne Fiduciary Services Limited ("SFSL") until 31 July 2015 when SCSL and SFSL merged, SSL is a subsidiary of SFSL. Each of SSL and SFSL is a member of the "Sanne Group" (where the "Sanne Group" means Sanne Group PLC and all of its subsidiaries and affiliates of the same). Each of G Essex-Cater, H Grant, S Hopkins and C Ruark is/was a Director and/or employee of SFSL and should be regarded as interested in any transaction with any member of the Sanne Group.

During the year \$18,000 (2014: \$16,000) was payable in respect of administrative services of which \$4,000 was outstanding at the year-end (2014: \$3,000). These amounts are borne by another Morgan Stanley Group undertaking in the current and prior year.

Transactions with related parties

The Morgan Stanley Group conducts business for clients globally through a combination of both functional and legal entity organisational structures. Accordingly, the Company is closely integrated with the operations of the Morgan Stanley Group and enters into transactions with other Morgan Stanley Group undertakings on an arm's length basis for the purposes of utilising financing, trading and risk management, and infrastructure services. The nature of these relationships along with information about the transactions and outstanding balances is given below. Settlement of the outstanding balances will be made via inter-company mechanisms. The Company has not recognised any expense and has made no provision for impairment relating to the amount of outstanding balances from related parties (2014: \$nil).

In addition, the management and execution of business strategies on a global basis results in many Morgan Stanley transactions impacting a number of Morgan Stanley Group undertakings. The Morgan Stanley Group operates a number of intra-group policies to ensure that, where possible, revenues and related costs are matched. For the year ended 31 December 2015, a net gain of \$162,000 was recognised in the statement of comprehensive income arising from such policies (2014: net loss of \$42,000).

Funding

The Company receives general funding from and provides funding to other Morgan Stanley Group undertakings.

General funding is undated, unsecured, floating rate lending. Funding may be received or provided for specific transaction related funding requirements, or for general operational purposes. The interest rates are established by the Morgan Stanley Group Treasury function for all entities within the Morgan Stanley Group and approximate the market rate of interest that the Morgan Stanley Group incurs in funding its business.

MORGAN STANLEY (JERSEY) LIMITED

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16. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions with related parties (continued)

Funding (continued)

Details of the outstanding balances on these funding arrangements and the related interest income or expense recognised in the statement of comprehensive income during the year are shown in the table below:

	2015		2014	
	Interest \$'000	Balance \$'000	Interest \$'000	Balance \$'000
Amounts due from the Company's direct parent undertakings	14	563	10	582
Amounts due from other Morgan Stanley Group undertakings	82	3,631	78	3,572
	<u>96</u>	<u>4,194</u>	<u>88</u>	<u>4,154</u>
Amounts due to the Company's direct parent undertakings	85	3,826	72	3,931
Amounts due to other Morgan Stanley Group undertakings	11	12	16	577
	<u>96</u>	<u>3,838</u>	<u>88</u>	<u>4,508</u>

Trading and risk management

On the issuance of financial instruments, the Company enters into hedges of the obligations by purchasing financial instruments from other Morgan Stanley Group undertakings. All such transactions are entered into on an arm's length basis. The total amounts receivable and payable on these financial instruments were as follows:

	2015		2014	
	Interest \$'000	Balance \$'000	Interest \$'000	Balance \$'000
Amounts due from other Morgan Stanley Group undertakings	-	132,357	-	199,144
Amounts due to other Morgan Stanley Group undertakings	-	124,764	-	190,539

Infrastructure services

The Company uses infrastructure services, including the provision of office facilities, operated by other Morgan Stanley Group undertakings at no charge. In addition, as disclosed in note 5, the audit fees have been borne by another Morgan Stanley Group undertaking in the current and prior year.

Amounts outstanding at the reporting date are included within the general funding balances disclosed above.