Registered number: 34161590

Registered office:
Luna Arena
Herikerbergweg 238
1101 CM
Amsterdam
The Netherlands

MORGAN STANLEY B.V.

Report and financial statements

31 December 2016

MORGAN STANLEY B.V.

CONTENTS	PAGE

DIRECTORS' REPORT

The Directors present their report and financial statements (which comprise the income statement, 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 20) for Morgan Stanley B.V. (the "Company") for the year ended 31 December 2016.

RESULTS AND DIVIDENDS

The profit for the year, after tax, was €3,876,000 (2015: €7,620,000).

During the year, no dividends were paid or proposed (2015: €nil).

PRINCIPAL ACTIVITY

The principal activity of the Company is the issuance of financial instruments including notes, certificates and warrants ("Structured Notes") and the hedging of the obligations arising pursuant to such issuances.

The Company was incorporated under Dutch law on 6 September 2001 and has its statutory seat in Amsterdam, The Netherlands. The business office of the Company is at Luna Arena, Herikerbergweg 238, 1101 CM, Amsterdam, The Netherlands.

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".

FUTURE OUTLOOK

There have not been any significant changes in the Company's principal, financing or investment activity in the year under review and no significant change in the Company's principal activity is expected.

BUSINESS REVIEW

Global market and economic conditions

Growth in the global economy hovered just above the 3% mark in the first half of 2016, with soft growth in the United States (the "US") providing a drag. Headwinds to the US economy came from the Federal Reserve's December 2015 interest rate increase, the marked appreciation in the US dollar since the summer of 2014 and the sharp fall in investment by the energy sector. Growth was solid in the Eurozone and Japan and strong in China. The Bank of Japan introduced negative interest rates in January 2016, whilst the European Central Bank moved interest rates further into negative territory in March 2016. Meanwhile, despite the United Kingdom (the "UK") public's vote to leave the European Union (the "EU") in June, global growth strengthened in the second half of 2016. Growth was solid in both the Eurozone and the UK, with the latter benefitting from an interest rate cut and renewed quantitative easing by the Bank of England. US growth strengthened, and surveys showed increased business and consumer confidence following the November US presidential election. The Federal Reserve increased interest rates again in December 2016. Chinese growth remained solid, aided by supportive fiscal policy and continued credit expansion. Survey indicators suggest that global growth has remained strong in the early months of 2017 and consumer price inflation is moving back towards central bank targets in the key developed economies. In March 2017, the Federal Reserve increased interest rates for the third time in the cycle.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

UK Referendum

On 23 June 2016, the UK electorate voted to leave the EU. It is difficult to predict the future of the UK's relationship with the EU, which uncertainty may increase the volatility in the global financial markets in the short- and medium-term. On 29 March 2017, the UK formally invoked Article 50 of the Lisbon Treaty, which triggered a two-year period, subject to extension, during which the UK government is expected to negotiate its withdrawal agreement with the EU. Absent any extension, the UK is expected to leave the EU in early 2019. The terms and conditions of the anticipated withdrawal from the EU, and which of the several alternative models of relationship that the UK might ultimately negotiate with the EU, remain uncertain. However, the UK government has stated that the UK will leave the EU single market and will seek a phased period of implementation for the new relationship that may cover the legal and regulatory framework applicable to financial institutions with significant operations in Europe, such as Morgan Stanley. Potential effects of the UK exit from the EU and potential mitigation actions may vary considerably depending on the timing of withdrawal and the nature of any transition or successor arrangements. Any future limitations on providing financial services into the EU from our UK operations could require us to make potentially significant changes to our operations in the UK and Europe and our legal structure there, which could have an adverse effect on our business and financial results.

Overview of 2016 financial results

The issued Structured Notes 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 Euros, the risk of changes in rates of exchange between the Euro 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 Structured Notes.

The income statement for the year is set out on page 10. The Company reported a profit before income tax of €5,160,000 for the year ended 31 December 2016, compared to a profit before income tax of €10,151,000 for the prior year.

The profit before income tax for the year ended 31 December 2016 is primarily comprised of management charges recognised in 'Other income' of €5,916,000, compared to €5,711,000 received in the prior year. Management charges received for issued Structured Notes have increased driven by a higher level of issuance activity during 2016. The decrease in profit before tax is due to fair value movements attributable to changes in credit risk of certain Structured Notes, whereby the Company reported a net gain of €4,440,000 in 'Net gains on financial liabilities designated at fair value through profit or loss' for the year ended 31 December 2015. No such net gain or loss has been recognised in the income statement for the year ended 31 December 2016, following the Company's early adoption in isolation of the requirements of IFRS 9 '*Financial instruments*' ("IFRS 9") relating to the presentation of fair value movements due to changes in credit risk on financial liabilities designated at fair value through profit or loss. On redemption at par of these Structured Notes during the current year, a €4,440,000 loss in fair value attributable to credit risk (€3,330,000 loss net of tax) has been recognised in other comprehensive income for the year ended 31 December 2016. The Company also availed itself of the option within IFRS 9 to not restate comparatives.

The Company has recognised a net gain of €31,323,000 on financial instruments classified as held for trading compared to a net loss of €478,444,000 for the prior year, with a corresponding net loss of €31,323,000 on financial instruments designated at fair value through profit or loss (2015: €482,884,000 gain). This is due to fair value changes attributable to market movements on the securities underlying Structured Notes hedged by derivatives classified as held for trading.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

The statement of financial position for the Company is set out on page 13. The Company's total assets at 31 December 2016 are €9,569,083,000, an increase of €798,875,000 or 9% when compared to 31 December 2015. Total liabilities of €9,530,847,000 represent an increase of €798,329,000 or 9%, when compared to total liabilities at 31 December 2015. Structured Notes have increased since 31 December 2015 as a result of new issuances and fair value movements in the year partially offset by maturities. The increase in the value of issued Structured Notes has resulted in a net increase in the value of the related hedging instruments.

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 the Company's Board of Directors and to appropriate senior management personnel of the Company, as well as oversight through the Company's Board of Directors.

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 15 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 the Company's Board of Directors and appropriate senior management personnel.

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

It is the policy and objective of the Company not to be exposed to net 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 the Company's Board of Directors and appropriate senior management personnel.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

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.

Country risk exposure

Country risk exposure is the risk that events in, or affecting, a foreign country might adversely affect the Company. "Foreign country" means any country other than The Netherlands. Sovereign risk, by contrast, is the risk that a government will be unwilling or unable to meet its debt obligations, or renege on the debt it guarantees. Sovereign risk is single-name risk for a sovereign government, its agencies and guaranteed entities.

Country risk exposure is measured in accordance with the Morgan Stanley Group's internal risk management standards and includes obligations from sovereign governments, corporations, clearing houses and financial institutions. The Morgan Stanley Group actively manages country risk exposure through a comprehensive risk management framework that combines credit and market fundamentals and allows the Morgan Stanley Group to effectively identify, monitor and limit country risk. Country risk exposure before and after hedges is monitored and managed.

The Morgan Stanley Group's obligor credit evaluation process may also identify indirect exposures whereby an obligor has vulnerability or exposure to another country or jurisdiction. Examples of indirect exposures include mutual funds that invest in a single country, offshore companies whose assets reside in another country to that of the offshore jurisdiction and finance company subsidiaries of corporations. Indirect exposures identified through the credit evaluation process may result in a reclassification of country risk.

The Morgan Stanley Group conducts periodic stress testing that seeks to measure the impact on the Company's credit and market exposures of shocks stemming from negative economic or political scenarios. When deemed appropriate by the Morgan Stanley Group's risk managers, the stress test scenarios include possible contagion effects. The analysis, and the results of the stress tests, may result in the amendment of limits or exposure mitigation.

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 encompasses the risk that the Company's financial condition or overall soundness is adversely affected by an inability or perceived inability to meet its financial obligations in a timely manner. It also includes the associated funding risks triggered by the market or idiosyncratic stress events that may cause unexpected changes in funding needs or an inability to raise new funding.

The primary goal of the Morgan Stanley Group's liquidity 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 and time horizons. The framework is designed to enable the Morgan Stanley Group to fulfil its financial obligations and support the execution of the Company's business strategies. The framework is further described in note 19.

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.

The Company hedges all of its financial liabilities 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.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Operational risk

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

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

The Company has established an operational risk framework to identify measure, monitor and control risk across the Company. This framework is consistent with the framework established by the Morgan Stanley Group and 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 Company and to respond to the changing regulatory and business environment. The Company 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 Company 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 Board 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.

Primary responsibility for the management of operational risk is with the business segments, the control groups and the business managers therein. The business managers maintain processes and controls designed to identify, assess, manage, mitigate and report operational risk. Each of the business segments has a designated operational risk coordinator. The operational risk coordinator regularly reviews operational risk issues and reports to the Company's senior management within each business. Each control group also has a designated operational risk coordinator and a forum for discussing operational risk matters with the Company's senior management. Oversight of operational risk is provided by the Operational Risk Oversight Committee, regional risk committees and senior management. In the event of a merger; joint venture; divestiture; reorganisation; or creation of a new legal entity, a new product or a business activity, operational risks are considered, and any necessary changes in processes or controls are implemented.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

The Operational Risk Department is independent of the divisions and reports to the Chief Risk Officer of the Morgan Stanley Group ("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 the divisions and control groups to help ensure a transparent, consistent and comprehensive framework for managing operational risk within each area and across the Company. The Operational Risk Department scope includes oversight of technology and data risks (e.g. cybersecurity), fraud risk management and prevention programme 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 the Company's advanced measurement approach for operational risk capital.

Business Continuity Management is responsible for identifying key risks and threats to the Company'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 the Company'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 Company 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 Company'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 Company has also established policies, procedures and technologies to protect its computers and other assets from unauthorised access.

In connection with its ongoing operations, the Company 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 Company 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 Company 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, anti-corruption and terrorist financing rules and regulations. The Company is generally subject to extensive regulation in the different jurisdictions in which it conducts its business.

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

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

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 building on our strong culture anchored in these core values, supported by our governance framework, Board and management oversight, effective risk management and controls, training and development programmes, 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 evaluation process includes consideration of adherence to the Code and the Morgan Stanley Group's core values. The Global Incentive Compensation Discretion Policy sets forth standards for managers when making annual compensation decisions and 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, which permit recovery of deferred incentive compensation, apply to a broad scope of employee conduct, including any act or omission that constitutes a breach of obligation to the Morgan Stanley Group (including failure to comply with internal compliance, ethics or risk management standards, and failure or refusal to perform duties satisfactorily, including supervisory and management duties) 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 the above 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.

DIRECTORS' REPORT

DIRECTORS

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

H. Herrmann
S. Ibanez
P.J.G. de Reus
L.P.A. Rolfes
TMF Management B.V.

The Company has taken notice of Dutch legislation effective as of 13 April 2017, as a consequence of which the Company should take into account as much as possible a balanced composition of the Board of Directors in terms of gender, when nominating or appointing Directors, to the effect that at least 30 percent of the positions should be held by women and at least 30 percent by men. Currently the composition of the Board of Directors deviates from the gender diversity objectives. When appointing a Director, the Board of Directors considers the gender diversity objectives, as appropriate.

EVENTS AFTER THE REPORTING DATE

There have been no significant events since the reporting date.

AUDIT COMMITTEE

The Company qualifies as an organisation of public interest pursuant to Dutch and EU law, and has established its own audit committee which complies with the applicable corporate governance rules and composition requirements as detailed in the Articles of Association of the Company.

AUDITOR

Deloitte Accountants B.V. have expressed their willingness to continue in office as auditor of the Company and a resolution to re-appoint them will be proposed at the forthcoming annual general meeting.

Approved by the Board and signed on its behalf by:

24 April 2017

H. Herrmann	S. Ibanez	P.J.G. de Reus
L.P.A. Rolfes	TMF Management B.V.	

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors, the names of whom are set out below, confirm to the best of their knowledge:

- the financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB") and as endorsed by the EU and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the management report represented by the Directors' report 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:

24 April 2017

H. Herrmann	S. Ibanez	P.J.G. de Reus
L.P.A. Rolfes	TMF Management B.V.	

MORGAN STANLEY B.V.

INCOME STATEMENT
Year ended 31 December 2016

	Note	2016 €'000	2015 €'000
Net gains/ (losses) on financial assets classified as held for trading		122,235	(23,083)
Net losses on financial liabilities classified as held for trading		(90,912)	(455,361)
Net gains/ (losses) on financial instruments classified as held for trading		31,323	(478,444)
Net gains on financial assets designated at fair value through profit or loss		153,000	12,176
Net (losses)/ gains on financial liabilities designated at fair value through profit or loss		(184,323)	470,708
Net (losses)/ gains on financial instruments designated at fair value through profit or loss		(31,323)	482,884
Interest income	4	14,750	23,190
Interest expense	4	(15,105)	(37,178)
Other income	5	5,916	19,863
Other expense	6	(401)	(164)
PROFIT BEFORE INCOME TAX		5,160	10,151
Income tax expense	7	(1,284)	(2,531)
PROFIT FOR THE YEAR		3,876	7,620

All operations were continuing in the current and prior year.

The notes on pages 15 to 62 form an integral part of the financial statements.

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2016

	Note	2016 €'000	2015 €'000
PROFIT FOR THE YEAR		3,876	7,620
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Items that will not be reclassified subsequently to profit or loss:			
Changes in fair value attributable to own credit risk on financial liabilities designated at fair value through profit or loss	7	(3,330)	-
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX FOR THE YEAR		(3,330)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		546	7,620

The notes on pages 15 to 62 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2016

	Share capital	Debt valuation adjustment reserve	Retained earnings	Total equity
	€'000	€'000	€'000	€'000
Balance at 1 January 2015	15,018	-	15,052	30,070
Profit and total comprehensive income for the year	-	-	7,620	7,620
Balance at 31 December 2015	15,018	-	22,672	37,690
Restated for adoption of new accounting standard	-	3,330	(3,330)	-
Profit for the year	-	-	3,876	3,876
Other comprehensive loss	-	(3,330)	-	(3,330)
Total comprehensive income	-	-	546	546
Balance at 31 December 2016	15,018	-	23,218	38,236

The notes on pages 15 to 62 form an integral part of the financial statements.

MORGAN STANLEY B.V.
Registered number: 34161590

STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Note	2016 €'000	2015 €'000
ASSETS			
Loans and receivables:			
Cash and short-term deposits		716	499
Trade receivables		58,482	293,998
Other receivables	20	1,648,424	1,166,478
		1,707,622	1,460,975
Financial assets classified as held for trading	9	590,179	495,297
Financial assets designated at fair value through profit or loss	10	7,269,070	6,813,936
Current tax assets		2,212	-
TOTAL ASSETS		9,569,083	8,770,208
LIABILITIES AND EQUITY			
Financial liabilities at amortised cost:			
Convertible preferred equity certificates	8	1,125,281	1,125,281
Trade payables		480,022	38,374
Other payables		59,216	264,324
		1,664,519	1,427,979
Financial liabilities classified as held for trading	9	514,302	939,843
Financial liabilities designated at fair value through profit or loss	10	7,352,026	6,364,543
Current tax liabilities		-	153
TOTAL LIABILITIES		9,530,847	8,732,518
EQUITY			
Share capital	11	15,018	15,018
Retained earnings		23,218	22,672
Equity attributable to owners of the Company		38,236	37,690
TOTAL EQUITY		38,236	37,690
TOTAL LIABILITIES AND EQUITY		9,569,083	8,770,208

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

Signed on behalf of the Board
24 April 2017

H. Herrmann S. Ibanez P.J.G. de Reus

L.P.A. Rolfes TMF Management B.V.

The notes on pages 15 to 62 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS
Year ended 31 December 2016

	Note	2016 €'000	2015 €'000
NET CASH FLOWS FROM OPERATING ACTIVITIES	12b	217	1,978
NET CASH FLOWS FROM INVESTING ACTIVITIES		-	72,704
NET CASH FLOWS USED IN FINANCING ACTIVITIES		-	(74,693)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		217	(11)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		499	510
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		716	499

The notes on pages 15 to 62 form an integral part of the financial statements.

1. CORPORATE INFORMATION

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

Luna Arena, Herikerbergweg 238, 1101 CM, Amsterdam, The Netherlands.

The Company is engaged in the issuance of Structured Notes and the hedging of the obligations arising pursuant to such issuances with prepaid equity securities contracts, loans designated at fair value through profit or loss and derivatives entered into with Morgan Stanley Group undertakings.

The issued Structured Notes 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 Euros, the risk of changes in rates of exchange between the Euro 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 Structured Notes.

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 Dutch law.

New standards and interpretations adopted during the year

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

An amendment to International Accounting Standard ("IAS") 1 '*Presentation of financial statements'* was issued by the IASB in December 2014, as part of the Disclosure Initiative project. The amendment is applicable in annual periods beginning on or after 1 January 2016. The amendment was endorsed by the EU in December 2015.

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. IFRS 9 was endorsed by the EU in November 2016. As permitted by IFRS 9, the Company has early adopted in isolation the requirements relating to the presentation of fair value movements due to changes in credit risk on financial liabilities designated at fair value through profit or loss and information on the effect of this is disclosed on pages 16 and 17, and in note 10. The Company has not early adopted the remaining requirements of IFRS 9 as noted in 'New standards and interpretations not yet adopted' below.

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*' ("IFRS 7") 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.

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.

2. BASIS OF PREPARATION (CONTINUED)

New standards and interpretations not yet adopted (continued)

An amendment to IAS 7 '*Statement of Cash Flows*' was issued by the IASB in January 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.

An amendment to IAS 12 '*Income taxes*' was issued by the IASB in January 2016, for application in annual periods beginning on or after 1 January 2017. Early application is permitted.

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. IFRS 9 was endorsed by the EU in November 2016. The Company has early adopted in isolation the requirements relating to the presentation of fair value movements due to changes in credit risk on financial liabilities designated at fair value through profit or loss, but has not early adopted the remaining requirements of IFRS 9.

The aspects of IFRS 9 which are expected to have the most significant impact for the Company are its requirements relating to:

- Classification and measurement of financial assets

  The classification and measurement of financial assets will depend on how these are managed (the Company's business model) and their contractual cash flow characteristics. Measurement will be at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss.

- Impairment of financial assets

  The impairment requirements are based on expected credit losses and apply to financial assets measured at amortised cost and FVOCI.

The Company is currently undertaking a project to implement IFRS 9. As part of this project the Company is evaluating its business model and reviewing the contractual terms of financial assets measured at amortised cost or FVOCI to ensure that they are compatible with such classifications. The Company is also implementing a revised approach for asset impairment, key aspects of which are identifying whether assets have experienced a significant increase in credit risk since origination and estimating expected credit losses, taking account of the probability-weighted impact of multiple future economic scenarios.

Under the transitional provisions of the Standard, the Company's opening balance sheet at the date of initial application (1 January 2018) will be restated, with no restatement of comparative periods.

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.

Change in presentation of gains and losses on financial liabilities designated at fair value through profit or loss

At 1 January 2016, the Company adopted the provisions within IFRS 9 for the presentation of gains and losses on financial liabilities designated at fair value through profit or loss, without applying the other requirements of IFRS 9, in accordance with the transition provisions therein and IAS 8 '*Accounting Policies, Changes in Accounting Estimates and Errors*'.

2. BASIS OF PREPARATION (CONTINUED)

Change in presentation of gains and losses on financial liabilities designated at fair value through profit or loss (continued)

From 1 January 2016, the Company presents in other comprehensive income the change in the fair value of financial liabilities designated at fair value through profit or loss that is attributable to changes in the credit risk of those liabilities, including the foreign exchange differences on this change in fair value (together, "DVA") other than those that create or enlarge an accounting mismatch. Such amounts are recorded within the 'Debt valuation adjustment reserve'.

Previously, all DVA had been reflected in the income statement.

Pursuant to the transitional provisions within IFRS 9, any accounting mismatches have been determined at the initial date of application, 1 January 2016, and the specific provisions of IFRS 9 relating to this area have been applied retrospectively on the basis of that determination. Prior periods have not been restated. A cumulative gain, net of tax, of €3,330,000 was recorded as of 1 January 2016 to move the cumulative net DVA gain on certain financial liabilities designated at fair value through profit or loss from retained earnings to the 'Debt valuation adjustment reserve'.

Change in presentation of gains and losses on assets and liabilities measured at fair value

Pursuant to the requirements of IAS 1 paragraph 85, the Company has presented additional line items in the income statement which are considered relevant to the understanding of its financial performance.

Net gains/ (losses) on financial instruments classified as held for trading

- Net gains/ (losses) on financial assets classified as held for trading have been presented separately from the net gains/ (losses) on financial liabilities classified as held trading.

Net gains/ (losses) on financial instruments designated at fair value through profit or loss

- Net gains/ (losses) on financial assets designated at fair value through profit or loss, and any related interest income, have been presented separately from the net gains/ (losses) on financial liabilities designated at fair value through profit or loss.

The comparative amounts have been revised to enhance comparability with the current year presentation.

This change had no impact to the Company's results either for the current or prior year.

Use of estimates and sources of uncertainty

The preparation of the Company's financial statements requires management to make judgements 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 accounting policy note 3(d) and note 17.

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 Future Outlook and Business Review sections of the Directors' report on pages 1 to 7. 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.

2. BASIS OF PREPARATION (CONTINUED)

The going concern assumption (continued)

Taking the above 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 Euros, 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 Euros.

b. Foreign currencies

All monetary assets and liabilities denominated in currencies other than Euros are translated into Euros at the rates ruling at the reporting date. Transactions and non-monetary assets and liabilities denominated in currencies other than Euros are recorded at the rates prevailing at the dates of the transactions.

From 1 January 2016, DVA includes foreign exchange differences thereon. All other translation differences are taken through the income statement. Exchange differences recognised in the income statement are presented in 'Other income' or 'Other expense', except where noted in 3(c) below.

c. Financial instruments

The Company classifies its financial assets into the following categories on initial recognition: financial assets classified as held for trading, 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 classified as held for trading; 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 classified as held for trading

Financial instruments classified as held for trading, including all derivatives, are initially recorded on trade date at fair value (see note 3(d) below). All subsequent changes in fair value, foreign exchange differences, interest and dividends are reflected in the income statement in 'Net gains/ (losses) on financial instruments classified as held for trading'.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

ii) 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 in the income statement other than DVA on financial liabilities designated at fair value through profit or loss which is recognised in the 'Debt valuation adjustment reserve' where those changes do not create or enlarge an accounting mismatch. 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 income statement in 'Net (losses) /gains on financial instruments designated at fair value through profit or loss', other than DVA on financial liabilities designated at fair value through profit or loss which is recognised in the 'Debt valuation adjustment reserve' where those changes do not create or enlarge an accounting mismatch.

See Note 2 'Changes in presentation of gains and losses on financial liabilities designated at fair value through profit or loss' above for further information on the adoption on 1 January 2016 of the provisions within IFRS 9 for the presentation of gains and losses on financial liabilities designated at fair value through profit or loss.

DVA presented within other comprehensive income is not subject to reclassification to the income statement, but is transferred to retained earnings when realised.

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

iii) Loans and receivables and financial liabilities at amortised cost

Financial assets classified as loans and receivables are recognised when the Company becomes a party to the contractual provisions of the instrument. They are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost less allowance for impairment. Interest is recognised in the income statement 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 income statement in 'Other expense'.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

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

Financial assets classified as loans and receivables are recognised when the Company becomes a party to the contractual provisions of the instrument. They are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost less allowance for impairment. Interest is recognised in the income statement 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 income statement in ‘Other expense’.

Financial assets classified as loans and receivables include cash and short-term deposits, trade receivables, and other receivables.

Financial liabilities at amortised cost are recognised when the Company becomes a party to the contractual provisions of the instrument. They are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost. Interest is recognised in the income statement 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 CPECs issued by the Company are classified as financial liabilities at amortised cost in accordance with the substance of the contractual arrangement and IAS 32 *‘Financial instruments: Presentation – offsetting financial instruments’*. The yield on the CPECs is recognised in the income statement in ‘Interest expense’ using the effective interest rate method as described below.

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.

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 that were developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect assumptions the Company believes other market participants would use in pricing the asset or liability, that are developed based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the observability of inputs as follows:

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

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

- Level 2 – Valuation techniques using observable inputs

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

- Level 3 – Valuation techniques with significant unobservable inputs

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

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 from 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

The Company incorporates Funding Valuation Adjustment ("FVA") into the fair value measurements of over-the-counter ("OTC") uncollateralised or partially collateralised derivatives, and in collateralised derivatives where the terms of the agreement do not permit the re-use of the collateral received. In general, the 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.

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) which are designated at fair value through profit or loss and to OTC derivatives. The Company considers the impact of changes in 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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

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

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

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 designed to validate the fair value of the Company's financial instruments measured at fair value including those derived from pricing models.

Model Review. VRG, in conjunction with the Model Risk Management Department ("MRM"), which reports 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 determine that 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. The Company generally subjects valuations and models to a review process initially and on a periodic basis thereafter.

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.

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.

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 designed to ensure that the highest-ranked market data source is used to validate the business unit's fair value of financial instruments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

VRG reviews the models and valuation methodology used to price new material Level 2 and 3 transactions and both FCG and MRM management must approve the fair value of the trade that is initially recognised.

Level 3 Transactions. VRG reviews the business unit's valuation techniques to assess whether these are consistent with market participant assumptions.

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 income statement 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.

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

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

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

f. Impairment of financial assets

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 income statement 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 described for the relevant categories of financial asset in note 3(c)(iii). 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Cash and cash equivalents

Cash and cash equivalents comprise cash and demand deposits with banks, net of outstanding bank overdrafts, 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. Income tax

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

The tax currently payable is calculated based on taxable profit for the year. Taxable profit may differ from profit before income tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date. Current tax is charged or credited in the income statement, except when it relates to items charged or credited directly to other comprehensive income, in which case the tax is also recorded within other comprehensive income.

Current tax assets are offset against current tax liabilities when there is a legally enforceable right to set off current tax assets against current tax liabilities and the Company intends to settle its current tax assets and current tax liabilities on a net basis or to realise the asset and settle the liability simultaneously.

i. 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.

'Interest expense' includes the yield payable on CPECs (see note 8).

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

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 income statement.

5. OTHER INCOME

	2016 €'000	2015 €'000
Management charges to other Morgan Stanley Group undertakings	5,916	5,711
Net foreign exchange gains	-	14,152
	5,916	19,863

The Company actively manages its foreign currency exposure risk arising on its assets and liabilities in currencies other than Euro. Net foreign exchange gains includes translation differences that have arisen due to foreign exchange exposure created as a result of hedging assets and liabilities recognised for Morgan Stanley Group reporting purposes.

6. OTHER EXPENSE

	2016 €'000	2015 €'000
Auditors' remuneration:		
Fees payable to the Company's auditor and its associates for the audit of the Company's financial statements	101	108
Bank charges	15	-
Net foreign exchange losses	283	-
Other	2	56
	401	164

Of the auditors' remuneration, €101,000 (2015: €108,000) was paid to Deloitte Accountants B.V. and related Deloitte member firms for audit services.

The Company employed no staff during the year (2015: none).

The Company actively manages its foreign currency exposure risk arising on its assets and liabilities in currencies other than Euro. Net foreign exchange losses includes translation differences that have arisen due to foreign exchange exposure created as a result of hedging assets and liabilities recognised for Morgan Stanley Group reporting purposes.

7. INCOME TAX EXPENSE

	2016 €'000	2015 €'000
Current tax expense		
Current year	1,290	2,538
Adjustment in respect of prior years	(6)	(7)
Income tax expense	1,284	2,531

Reconciliation of effective tax rate

The current year income tax expense is lower than (2015: lower than) that resulting from applying the average standard rate of corporation tax in The Netherlands for the year of 25% (2015: 25%). The main differences are explained below:

	2016 €'000	2015 €'000
Profit before income tax	5,160	10,151
Income tax using the average standard rate of corporation tax in The Netherlands of 25.0% (2015: 25.0%)	1,290	2,538
Impact on tax of:		
Tax over provided in prior years	(6)	(7)
Total income tax expense in the income statement	1,284	2,531

7. INCOME TAX EXPENSE (CONTINUED)

In addition to the amount charged to the income statement, the aggregate amount of current tax relating to each component of other comprehensive income was as follows:

	2016			2015		
	Before tax	Tax benefit	Net of tax	Before tax	Tax benefit	Net of tax
	€'000	€'000	€'000	€'000	€'000	€'000
Changes in fair value of liabilities designated at fair value through profit or loss due to changes in the Company's own credit risk	(4,440)	1,110	(3,330)	-	-	-

8. CONVERTIBLE PREFERRED EQUITY CERTIFICATES

On 30 March 2012, the Company issued 11,252,813 of CPECs of €100 each, classified as financial liabilities at amortised cost. The CPECs were issued to one of the Company's shareholders, Archimedes Investments Coöperatieve U.A. (a Morgan Stanley Group undertaking), in exchange for cash consideration of €1,125,281,000.

The holder of the CPECs is entitled to receive an annual yield on a date agreed by the Company and the holder. The yield for each CPEC is calculated as income deriving from the Company's activities less the necessary amounts to cover the costs of the Company divided by the number of CPECs then in issue. Other income relating to management charges received from other Morgan Stanley Group undertakings and gains or losses from financial instruments classified as held for trading or designated at fair value through profit or loss are excluded from the calculation.

An accrued yield for the year ended 31 December 2016 of €14,700,000 has been recognised in the income statement in 'Interest expense' (2015: €36,821,000). The liability to the holders of the CPECs at the end of the financial year, recognised within 'Other payables' is €46,901,000 (2015: €32,201,000).

Additional costs of €756,000 included within 'Net foreign exchange losses' in 'Other expense' are to be taken into account when calculating the annual yield payable to the holder of CPECs for 2017.

The CPECs carry no voting rights. The Company and the holder have the right to convert each issued CPEC into one ordinary share with a nominal value of €100.

The maturity date of the CPECs is 150 years from the date of issuance, however, the CPECs may be redeemed earlier at the option of the Company or on liquidation of the Company.

The CPECs rank ahead of the ordinary shares in the event of liquidation.

9. FINANCIAL ASSETS AND FINANCIAL LIABILITIES CLASSIFIED AS HELD FOR TRADING

Financial assets and financial liabilities classified as held for trading are summarised as follows:

	2016		2015	
	Assets €'000	Liabilities €'000	Assets €'000	Liabilities €'000
Derivatives	590,179	514,302	495,297	939,843

10. 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, certificates and 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-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.

Prepaid equity securities contracts: These contracts involve derivatives for which an initial payment is paid at inception. The contracts, along with the loans designated at fair value through profit or loss and the derivative contracts classified as held for trading, 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.

Loans: These are loans to other Morgan Stanley Group undertakings that, along with the prepaid equity securities contracts and the derivative contracts classified as held for trading, are part of the hedging strategy for the obligations arising pursuant to the issuance of the Structured Notes. These loans 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.

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

	2016		2015	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	€'000	**€'000**	**€'000**	**€'000**
Issued Structured Notes	-	7,352,026	-	6,364,543
Prepaid equity securities contracts	367,160	-	154,095	-
Loans	6,901,910	-	6,659,841	-
	7,269,070	7,352,026	6,813,936	6,364,543

At 1 January 2016, and subsequently at initial recognition of a specific Structured Note issuance program, the Company's issuance process, and any planned hedging structure relating to the issuance of those Structured Notes, has been considered, to determine whether the presentation of fair value changes attributable to credit risk of those Structured Notes through other comprehensive income would create or enlarge an accounting mismatch in the income statement. If financial instruments, such as prepaid equity securities contracts, derivatives classified as held for trading and loans, measured at fair value for which changes in fair value incorporating counterparty credit risk are reflected within the income statement, are traded to economically hedge the Structured Note issuances in full, the fair value incorporating any counterparty credit risk arising on the hedging instruments may materially offset the fair value incorporating any DVA applied to Structured Notes, where the counterparties of the hedging instruments are part of the Morgan Stanley Group. In such cases, the DVA of those Structured Notes is not reflected within other comprehensive income, and instead is presented in the income statement.

As detailed in note 2 'Changes in presentation of gains and losses on financial liabilities designated at fair value through profit or loss', a cumulative gain, gross of tax, of €4,440,000 was recorded as of 1 January 2016 to move the cumulative net DVA gain from 'Retained earnings' to the 'Debt valuation adjustment reserve'. This cumulative net DVA gain related to certain Structured Notes hedged by collateralised prepaid equity securities contracts during the year ended 31 December 2015. As a result of these collateral arrangements, no change in fair value attributable to counterparty credit risk was recognised on the prepaid equity securities contracts to offset DVA on the issued Structured Notes.

From 1 January 2016 to derecognition of these Structured Notes hedged by collateralised prepaid equity securities contracts, the DVA recognised through other comprehensive income was a loss, gross of tax, of €4,440,000. The cumulative DVA on these Structured Notes was €nil, as such no realised gain or loss was transferred from the 'Debt valuation adjustment reserve' to 'Retained earnings'.

All other DVA on Structured Notes are reflected in the income statement.

The DVA recognised through the income statement for Structured Notes during the year is a loss of €37,977,000 (2015: gain of €57,220,000) and cumulatively is a loss of €72,404,000 (2015: cumulative loss of €29,987,000). This includes a gain of €799,000 for which there is a material offset in the fair value of the related hedging instrument. As such, the DVA of those Structured Notes is presented in the income statement, as presenting in other comprehensive income would create an accounting mismatch.

The change in fair value recognised through the income statement attributable to counterparty credit risk for loans is a gain of €38,776,000 (2015: loss of €52,780,000) and cumulatively is a gain of €73,203,000 (2015: cumulative gain of €34,427,000).

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

The Company determines the amount of changes in fair value attributable to changes in counterparty credit risk or own credit risk, as relating to loans and issued Structured Notes, by first determining the fair value including the impact of counterparty credit risk or own credit risk, and then deducting those changes in fair value representing managed market risk. In determining fair value, the Company considers the impact of changes in own credit spreads based upon observations of the secondary bond market spreads when measuring the fair value for issued Structured Notes. The Company considers that this approach most faithfully represents the amount of change in fair value due to both counterparty credit risk and the Company's own credit risk.

The carrying amount of financial liabilities designated at fair value for which all changes in fair value are presented through the income statement was €73,042,000 lower than the contractual amount due at maturity (2015: €110,908,000 lower).

The following tables present the carrying value of the Company's financial liabilities designated at fair value through the profit or loss account, classified according to underlying security type, including, single name equities, equity indices and equity portfolio.

31 December 2016	Single name equities	Equity indices	Equity portfolio	Other	Total
	€'000	€'000	€'000	€'000	€'000
Certificates and warrants	2,037,362	20,864	362,869	-	2,421,095
Notes	780,602	2,783,850	506,807	859,672	4,930,931
Total financial liabilities designated at fair value through profit or loss	2,817,964	2,804,714	869,676	859,672	7,352,026

31 December 2015	Single name equities	Equity indices	Equity portfolio	Other	Total
	€'000	€'000	€'000	€'000	€'000
Certificates and warrants	1,550,856	201,768	637,510	-	2,390,134
Notes	278,798	2,578,742	603,741	513,128	3,974,409
Total financial liabilities designated at fair value through profit or loss	1,829,654	2,780,510	1,241,251	513,128	6,364,543

The majority of the Company's financial liabilities designated at fair value through the profit or loss provide exposure to an underlying single name equity, an equity index or portfolio of equities. The prepaid equity securities contracts, derivative contracts classified as held for trading and loans that the Company enters into in order to hedge the Structured Notes are valued as detailed in note 3(d) and note 17(a), and have similar valuation inputs to the liabilities they hedge.

11. EQUITY

Ordinary share capital

	Ordinary shares of €100 each €'000
Issued and fully paid	
At 1 January 2015, 31 December 2015 and 31 December 2016	15,018

On 9 December 2013 the Articles of Association of the Company were amended whereby the concept of authorised share capital was abolished. Each share confers the right to cast one vote, provided that subject to mandatory law, all resolutions of the General Meeting shall be adopted by unanimous vote in a meeting in which the entire share capital is present or represented.

The holders of ordinary shares are entitled to receive dividends as declared from time to time.

Reserves

The Company uses the contracts that it purchases from other Morgan Stanley Group undertakings to hedge the market price, interest rate, foreign currency and other market risks associated with the issuance of the Structured Notes, consistent with the Company's risk management strategy. Both the contracts and the Structured Note issuances are valued at fair value through profit or loss and no net cumulative gain or loss is expected to be realised over the life of the financial instrument contracts. Therefore, a legal revaluation reserve under Part 9, Book 2 of the Dutch Civil Code (BW2, article 390(1)) is not necessary.

Debt valuation adjustment reserve

The 'Debt valuation adjustment reserve' of €nil (2015: €nil) reflects the DVA which is presented in other comprehensive income (refer to note 2 for further information on the New standards and interpretations adopted during the year), less amounts subsequently transferred to retained earnings on derecognition of the relevant liabilities.

Appropriation of the net result for the year

The statement of financial position is presented after the proposed appropriation of net result for the year ended 31 December 2016. The Directors propose to add profit to the statement of comprehensive income as part of the equity shareholders' funds.

12. ADDITIONAL CASH FLOW INFORMATION

a. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances, which have less than three months maturity from the date of acquisition:

	2016 €'000	2015 €'000
Cash and short-term deposits	716	499

12. ADDITIONAL CASH FLOW INFORMATION (CONTINUED)

b. Reconciliation of cash flows from operating activities

	2016 €'000	2015 €'000
Profit for the year	3,876	7,620
Adjustments for:		
Interest income	(14,750)	(23,190)
Interest expense	15,105	37,178
Income tax expense	1,284	2,531
Operating cash flows before changes in operating assets and liabilities	5,515	24,139
Changes in operating assets		
(Increase)/ decrease in loans and receivables, excluding cash and short-term deposits	(231,733)	854
(Increase)/ decrease in financial assets classified as held for trading	(94,882)	32,559
Increase in financial assets designated at fair value through profit or loss	(455,134)	(771,451)
	(781,749)	(738,038)
Changes in operating liabilities		
Increase/ (decrease) in financial liabilities at amortised cost, excluding bank loans and overdrafts	221,533	(36,452)
(Decrease)/ increase in financial liabilities classified as held for trading	(425,541)	436,356
Increase in financial liabilities designated at fair value through profit or loss	983,043	318,283
	779,035	718,187
Interest received	53	34
Interest paid	(98)	(39)
Income taxes paid	(2,539)	(2,305)
	(2,584)	(2,310)
Net cash flows from operating activities	217	1,978

13. EXPECTED MATURITY OF ASSETS AND LIABILITIES

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

At 31 December 2016	**Less than or equal to twelve months €'000**	**More than twelve months €'000**	**Total €'000**
ASSETS			
Loans and receivables:			
Cash and short-term deposits	716	-	716
Trade receivables	58,482		58,482
Other receivables	523,143	1,125,281	1,648,424
	582,341	1,125,281	1,707,622
Financial assets classified as held for trading	206,675	383,504	590,179
Financial assets designated at fair value through profit or loss	2,569,893	4,699,177	7,269,070
Current tax assets	2,212	-	2,212
	3,361,121	6,207,962	9,569,083
LIABILITIES			
Financial liabilities at amortised cost:			
Convertible preferred equity certificates	-	1,125,281	1,125,281
Trade payables	480,022	-	480,022
Other payables	59,216	-	59,216
	539,238	1,125,281	1,664,519
Financial liabilities classified as held for trading	285,325	228,977	514,302
Financial liabilities designated at fair value through profit or loss	2,498,322	4,853,704	7,352,026
	3,322,885	6,207,962	9,530,847

13. EXPECTED MATURITY OF ASSETS AND LIABILITIES (CONTINUED)

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	499	-	499
Trade receivables	293,998	-	293,998
Other receivables	41,197	1,125,281	1,166,478
	335,694	1,125,281	1,460,975
Financial assets classified as held for trading	220,198	275,099	495,297
Financial assets designated at fair value through profit or loss	2,192,681	4,621,255	6,813,936
	2,748,573	6,021,635	8,770,208
LIABILITIES			
Financial liabilities at amortised cost:			
Convertible preferred equity certificates	-	1,125,281	1,125,281
Trade payables	38,374	-	38,374
Other payables	264,324	-	264,324
	302,698	1,125,281	1,427,979
Financial liabilities classified as held for trading	468,106	471,737	939,843
Financial liabilities designated at fair value through profit or loss	1,939,926	4,424,617	6,364,543
Current tax liabilities	153	-	153
	2,710,883	6,021,635	8,732,518

14. 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.

The Company operates in three geographic regions as listed below:

- Europe, Middle East and Africa ("EMEA")
- Americas
- Asia

14. SEGMENT REPORTING (CONTINUED)

The following table presents selected income statement and statement of financial position information of the Company's operations by geographic area. The external revenues (net of interest expense) and total assets disclosed in the following table reflect the regional view of the Company's operations, on a managed basis. The basis for attributing external revenues (net of interest expense) and total assets is determined by trading desk location.

	EMEA		Americas		Asia		Total	
	2016 €'000	2015 €'000	2016 €'000	2015 €'000	2016 €'000	2015 €'000	2016 €'000	2015 €'000
External revenues net of interest	4,466	9,639	384	400	711	276	5,561	10,315
Profit before income tax	4,065	9,475	384	400	711	276	5,160	10,151
Total assets	6,495,700	6,703,218	1,778,658	1,742,891	1,294,725	324,099	9,569,083	8,770,208

Of the Company's external revenue, 100% (2015: 100%) arises from transactions with other Morgan Stanley Group undertakings. Further details of such transactions are disclosed in the related party disclosures note 20.

15. 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 the Company's Board of Directors and to appropriate senior management personnel of the Company.

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.

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Collateral and other credit enhancements

The Company has entered into collateral arrangements with other Morgan Stanley Group undertakings. Collateral held is managed in accordance with the Morgan Stanley Group's guidelines and the relevant underlying agreements.

Exposure to credit risk

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. Where the Company enters into credit enhancements to manage the credit exposure on these financial instruments, including receiving cash as collateral and master netting agreements, the financial effect of the credit enhancements is also disclosed below. The net credit exposure represents the credit exposure remaining after the effect of the credit enhancements.

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

Exposure to credit risk by class

Class	**2016**			**2015**		
	Gross credit exposure (1)	**Credit enhancements**	**Net credit exposure** (2)	**Gross credit exposure** (1)	**Credit enhancements**	**Net credit exposure** (2)
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Loans and receivables:						
Cash and short-term deposits	716	-	716	499	-	499
Trade receivables (3)	58,482	-	58,482	293,998	-	293,998
Other receivables	1,648,424	-	1,648,424	1,166,478	-	1,166,478
Financial assets classified as held for trading:						
Derivatives	590,179	(499,624)	90,555	495,297	(489,354)	5,943
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	367,160	(344,760)	22,400	154,095	(95,655)	58,440
Loans	6,901,910	-	6,901,910	6,659,841	-	6,659,841
	9,566,871	(844,384)	8,722,487	8,770,208	(585,009)	8,185,199

(1) The carrying amount recognised in the statement of financial position best represents the Company's maximum exposure to credit risk.
(2) Of the residual net credit exposure, intercompany cross product netting arrangements are in place which would allow for an additional €80,841,000 (2015: €28,204,000) to be offset in the event of default by certain Morgan Stanley counterparties.
(3) In the prior year, trade receivables included cash collateral pledged of €256,024,000. In 2016, cash collateral received of €427,903,000 was recognised in trade payables in the 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 16.

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Maximum exposure to credit risk by credit rating[(1)]

Credit rating	**2016**	**2015**
	€'000	**€'000**
External financial institutions		
AA	185	-
A	531	499
Other Morgan Stanley Group Undertakings		
A	7,907,134	5,767,234
BBB	1,659,021	295,047
	9,566,871	8,770,208

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

At 31 December 2016 there were no financial assets past due but not impaired or individually impaired (2015: €nil).

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 encompasses the risk that the Company's financial condition or overall soundness is adversely affected by an inability or perceived inability to meet its financial obligations in a timely manner. It also includes the associated funding risks triggered by the market or idiosyncratic stress events that may cause unexpected changes in funding needs or an inability to raise new funding. Generally, the Company incurs liquidity and funding risk as a result of its trading, lending, investing and client facilitation activities.

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. The Liquidity Risk Department is a distinct area in Risk Management responsible for the oversight and monitoring of 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 for maintaining 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.

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

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 and time horizons. 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 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.

The core components of the Morgan Stanley Group's liquidity risk 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 Company 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 external and intercompany liquidity flows across multiple scenarios and 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.

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

The scenarios or assumptions used by the Morgan Stanley Group in its 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 for 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 Morgan Stanley Group takes into consideration the settlement risk related to intra-day settlement and clearing of securities and financial activities.

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.

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 considering the following components: 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.

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

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

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, investor and 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 borrowing, securities sold under agreements to repurchase ("repurchase agreements"), securities lending, deposits, 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 sales and trading activities in the Institutional Securities business. The liquid nature of these assets provides the Morgan Stanley Group and the Company with flexibility in managing the composition and size of its balance sheet.

Maturity analysis

In the following maturity analysis of financial assets and financial liabilities, derivative contracts, 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 2016 and 31 December 2015. 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.

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

31 December 2016	On demand €'000	Less than one year €'000	Equal to or more than one year but less than two years €'000	Equal to or more than two years but less than five years €'000	Equal to or more than five years €'000	Total €'000
Financial assets						
Loans and receivables:						
Cash and short-term deposits	716	-	-	-	-	716
Trade receivables	58,482	-	-	-	-	58,482
Other receivables	1,648,424	-	-	-	-	1,648,424
Financial assets classified as held for trading:						
Derivatives	349,470	28,366	33,811	125,652	52,880	590,179
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	228,062	47,124	91,974	-	-	367,160
Loans	2,172,686	1,036,855	732,811	1,834,298	1,125,260	6,901,910
Total financial assets	4,457,840	1,112,345	858,596	1,959,950	1,178,140	9,566,871
Financial liabilities						
Financial liabilities at amortised cost:						
Convertible preferred equity certificates	1,125,281	-	-	-	-	1,125,281
Trade payables	480,022	-	-	-	-	480,022
Other payables	59,216	-	-	-	-	59,216
Financial liabilities classified as held for trading:						
Derivatives	290,306	39,607	49,313	76,113	58,963	514,302
Financial liabilities designated at fair value through profit or loss:						
Issued Structured Notes	2,466,991	1,072,738	809,283	1,883,837	1,119,177	7,352,026
Total financial liabilities	4,421,816	1,112,345	858,596	1,959,950	1,178,140	9,530,847

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

31 December 2015	On demand €'000	Less than one year €'000	Equal to or more than one year but less than two years €'000	Equal to or more than two years but less than five years €'000	Equal to or more than five years €'000	Total €'000
Financial assets						
Loans and receivables:						
Cash and short-term deposits	499	-	-	-	-	499
Trade receivables	293,998	-	-	-	-	293,998
Other receivables	1,166,478	-	-	-	-	1,166,478
Financial assets classified as held for trading:						
Derivatives	274,563	25,384	34,096	94,991	66,263	495,297
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	39,059	65,741	35,511	409	13,375	154,095
Loans	2,137,040	932,411	785,954	2,196,663	607,773	6,659,841
Total financial assets	3,911,637	1,023,536	855,561	2,292,063	687,411	8,770,208
Financial liabilities						
Financial liabilities at amortised cost:						
Convertible preferred equity certificates	1,125,281	-	-	-	-	1,125,281
Trade payables	38,374	-	-	-	-	38,374
Other payables	264,324	-	-	-	-	264,324
Financial liabilities classified as held for trading:						
Derivatives	395,769	168,724	102,727	245,015	27,608	939,843
Financial liabilities designated at fair value through profit or loss:						
Issued Structured Notes	2,054,486	850,372	752,834	2,047,048	659,803	6,364,543
Total financial liabilities	3,878,234	1,019,096	855,561	2,292,063	687,411	8,732,365

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.

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (continued)

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.

Equity price sensitivity analysis

The sensitivity analysis below is determined based on the exposure to equity price risk at 31 December 2016 and 31 December 2015 respectively.

The market risk related to such equity price risk is measured by estimating the potential reduction in total comprehensive income associated with a 10% decline in the underlying equity price as shown in the table below.

	Impact on Total Comprehensive Income Gains/(losses)	
	31 December 2016 €'000	**31 December 2015 €'000**
Financial instruments classified as held for trading	(698,486)	(621,044)
Financial assets designated at fair value through profit or loss	(36,716)	(15,410)
Financial liabilities designated at fair value through profit or loss	735,202	636,454
	-	-

The Company's equity risk price risk is mainly concentrated on equity securities in EMEA.

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.

The issued Structured Notes 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 Euros, the risk of changes in rates of exchange between the Euro 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 Structured Notes, consistent with the Company's risk management strategy. As such, the Company is not exposed to any net market risk on these financial instruments.

The net foreign exchange gains recognised in 'Other income' have arisen as a result of exposure to hedging on assets and liabilities recognised for Morgan Stanley Group purposes, under the Morgan Stanley Group's local reporting requirements.

16. 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 15 for further details. Primarily in connection with derivative contracts, prepaid equity securities contracts and issued Structured Notes, the Company enters into master netting arrangements and collateral 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 and, in the event of counterparty default, set off collateral held by the Company against the net amount owed by the counterparty. 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 tabular 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. In the absence of such conditions, financial assets and financial liabilities are presented on a gross basis.

The following tables present information about the offsetting of financial instruments and related collateral amounts. The effect of master netting arrangements, collateral agreements and other credit enhancements, on the Company's exposure to credit risk is disclosed in note 15.

16. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING (CONTINUED)

				Amounts not offset in the statement of financial position (3)(5)(6)		
	Gross amounts (1) €'000	Amounts offset in the statement of financial position (2) €'000	Net amounts presented in the statement of financial position €'000	Financial instruments €'000	Cash collateral (4) €'000	Net exposure (7) €'000
31 December 2016						
Assets						
Financial assets classified as held for trading:						
Derivatives	590,179	-	590,179	(290,847)	(208,777)	90,555
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	367,160	-	367,160	-	(344,760)	22,400
TOTAL	957,339	-	957,339	(290,847)	(553,537)	112,955
Liabilities						
Financial liabilities classified as held for trading:						
Derivatives	514,302	-	514,302	(290,847)	(149,870)	73,585
Financial liabilities designated at fair value through profit or loss:						
Issued Structured Notes	7,352,026	-	7,352,026	-	-	7,352,026
TOTAL	7,866,328	-	7,866,328	(290,847)	(149,870)	7,425,611

(1) Amounts include €90,555,000 of financial assets classified as held for trading - derivatives, €22,400,000 of financial assets designated at fair value through profit or loss - prepaid equity securities contracts, €73,585,000 of financial liabilities classified as held for trading - derivatives and €6,288,204,000 of financial liabilities classified as designated at fair value through profit or loss - Issued Structured Notes which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.

(2) Amounts are reported on a net basis in the statement of financial position when there is a legally enforceable master netting arrangement that provides for the current right of offset and there is an intention to either settle on a net basis or to realise the asset and liability simultaneously.

(3) Amounts relate to master netting arrangements and collateral arrangements which have been determined by the Company to be legally enforceable, but do not meet all criteria required for net presentation within the statement of financial position.

(4) Cash collateral used to mitigate credit risk on exposures arising under derivative contracts and prepaid equity securities contracts is determined and settled on a net basis and has been recognised in the statement of financial position within trade receivables.

(5) In addition to the balances disclosed in the table, certain trade receivables and payables of €53,104,000 not presented net within the statement of financial position have legally enforceable master netting agreements in place and can be offset in the ordinary course of business and/or in the event of default.

(6) Amounts relate to intercompany cross-product master netting arrangements, which include those amounts where Morgan Stanley Group undertaking from which the Company purchased the prepaid equity securities contracts is also the holder of the Issued Structured Notes. These arrangements have been determined by the Company to be legally enforceable but do not meet all the criteria required for net presentation within the statement of financial position.

(7) Of the residual net exposure, intercompany cross-product legally enforceable netting arrangements are in place which would allow for an additional €80,841,000 to be offset in the ordinary course of business and/ or in the event of default.

16. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING (CONTINUED)

	Gross amounts (1) €'000	Amounts offset in the statement of financial position (2) €'000	Net amounts presented in the statement of financial position €'000	Amounts not offset in the statement of financial position (3)(5)(6) Financial instruments €'000	Cash collateral (4) €'000	Net exposure (7) €'000
31 December 2015						
Assets						
Financial assets classified as held for trading:						
Derivatives	495,297	-	495,297	(59,736)	(429,618)	5,943
Financial assets designated at fair value through profit or loss:						
Prepaid equity securities contracts	231,854	(77,759)	154,095	-	(95,655)	58,440
TOTAL	727,151	(77,759)	649,392	(59,736)	(525,273)	64,383
Liabilities						
Financial liabilities classified as held for trading:						
Derivatives	939,843	-	939,843	(59,736)	(779,710)	100,397
Financial liabilities designated at fair value through profit or loss:						
Issued Structured Notes	6,442,302	(77,759)	6,364,543	-	-	6,364,543
TOTAL	7,382,145	(77,759)	7,304,386	(59,736)	(779,710)	6,464,940

(1) Amounts include €5,943,000 of financial assets classified as held for trading - derivatives, €58,440,000 of financial assets designated at fair value through profit or loss - prepaid equity securities contracts, €19,961,000 of financial liabilities classified as held for trading - derivatives and €5,200,875,000 of financial liabilities classified as designated at fair value through profit or loss - Issued Structured Notes which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.

(2) Amounts are reported on a net basis in the statement of financial position when there is a legally enforceable master netting arrangement that provides for the current right of offset and there is an intention to either settle on a net basis or to realise the asset and liability simultaneously.

(3) Amounts relate to master netting arrangements and collateral arrangements which have been determined by the Company to be legally enforceable, but do not meet all criteria required for net presentation within the statement of financial position.

(4) Cash collateral used to mitigate credit risk on exposures arising under derivative contracts and prepaid equity securities contracts is determined and settled on a net basis and has been recognised in the statement of financial position within trade receivables.

(5) In addition to the balances disclosed in the table, certain trade receivables and payables of €36,606,000 not presented net within the statement of financial position have legally enforceable master netting agreements in place and can be offset in the ordinary course of business and/or in the event of default.

(6) Amounts relate to intercompany cross-product master netting arrangements, which include those amounts where Morgan Stanley Group undertaking from which the Company purchased the prepaid equity securities contracts is also the holder of the Issued Structured Notes. These arrangements have been determined by the Company to be legally enforceable but do not meet all the criteria required for net presentation within the statement of financial position.

(7) Of the residual net exposure, intercompany cross-product legally enforceable netting arrangements are in place which would allow for an additional €28,204,000 to be offset in the ordinary course of business and/ or in the event of default.

17. 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.

2016	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 classified as held for trading:				
Derivatives	-	541,671	48,508	590,179
Financial assets designated at fair value through profit or loss:				
Prepaid equity security contracts	-	367,160	-	367,160
Loans	-	6,901,910	-	6,901,910
Total financial assets measured at fair value	-	7,810,741	48,508	7,859,249
Financial liabilities classified as held for trading:				
Derivatives	-	482,007	32,295	514,302
Financial liabilities designated at fair value through profit or loss:				
Certificates and warrants	-	2,421,095	-	2,421,095
Notes	-	4,632,056	298,875	4,930,931
Total financial liabilities measured at fair value	-	7,535,158	331,170	7,866,328

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

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

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 classified as held for trading:				
Derivatives	-	434,008	61,289	495,297
Financial assets designated at fair value through profit or loss:				
Prepaid equity security contracts	-	133,825	20,270	154,095
Loans	-	6,659,841	-	6,659,841
Total financial assets measured at fair value	-	7,227,674	81,559	7,309,233
Financial liabilities classified as held for trading:				
Derivatives	-	850,099	89,744	939,843
Financial liabilities designated at fair value through profit or loss:				
Certificates and warrants	-	2,390,134	-	2,390,134
Notes	-	3,654,352	320,057	3,974,409
Total financial liabilities measured at fair value	-	6,894,585	409,801	7,304,386

17. 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:

Asset and Liability / Valuation Technique	Valuation Hierarchy Classification
Financial assets and financial liabilities classified as held for trading	
Derivatives	
OTC Derivative Contracts • OTC derivative contracts include forward, swap and option contracts related to interest rates, foreign currencies, credit standing of reference entities, equity prices or commodity prices. • Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be modeled using a series of techniques, including closed-form analytic formulas, such as the Black-Scholes option-pricing model, simulation models or a combination thereof. Many pricing models do not entail material subjectivity as the methodologies employed do not necessitate significant judgment, since model inputs may be observed from actively quoted markets, as is the case for generic interest rate swaps, many equity, commodity and foreign currency option contracts, and certain CDS. In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry. • More complex OTC derivative products are typically less liquid and require more judgment in the implementation of the valuation technique since direct trading activity or quotes are unobservable. This includes certain types of interest rate derivatives with both volatility and correlation exposure, equity, commodity or foreign currency derivatives which are either longer-dated or include exposure to multiple underlyings, and credit derivatives, including CDS on certain mortgage- or asset-backed securities and basket CDS. Where these inputs are unobservable, relationships to observable data points, based on historic and/or implied observations, may be employed as a technique to estimate the model input values.	• Generally Level 2—OTC derivative products valued using observable inputs, or where the unobservable input is not deemed significant. • Level 3—OTC derivative products for which the unobservable input is deemed significant
Financial assets and financial liabilities designated at fair value through profit and loss	
Prepaid equity securities contracts and issued Structured Notes designated at fair value through profit or loss • The Company issues Structured Notes and trades prepaid equity securities contracts that have coupon or repayment terms linked to the performance of debt or equity securities, indices, currencies or commodities. • Fair value of Structured Notes and traded prepaid equity securities contracts is determined using valuation models for the derivative and debt portions of the Structured Notes and traded prepaid equity securities contracts. 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 rates, 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 Level 2 • Level 3—in instances where the unobservable inputs are deemed significant

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

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

Financial assets and financial liabilities designated at fair value through profit and loss	
Notes • Notes give a risk exposure tailored to market views and risk appetite and mainly provide exposure to the underlying single name equity, equity index or portfolio of equities. Typically, the redemption payment of the note is significantly dependent on the value of embedded equity derivatives. In general, call and put options, digital options, straddles and callability features are combined to create a bespoke coupon rate or redemption payoff for each note issuance, with risk exposure to one or more equity underlyings or indices. The Company values the embedded derivatives using market standard models, which are assessed for appropriateness at least annually. Model inputs, such as equity forward rates, equity implied volatility and equity correlations, are marked such that the fair value of the derivatives match prices observable in the inter-dealer markets. In arriving at fair value, the Company uses discount rates appropriate to the funding rates specific to the instrument. In general, this results in overnight rates being used to discount the Company assets and liabilities. In addition, since the notes bear Morgan Stanley's credit risk, the Company considers this when assessing the fair value of the notes, by adjusting the discount rates to reflect the prevailing credit spread at the reporting date. • The Company has a small number of notes where the cash flows due on the notes is dependent on embedded derivatives linked to the interest rate, foreign exchange or commodity markets. The Company values these notes in the same way as for equity-linked notes, by using market standard models and marking the inputs to match prices observed in the inter-dealer OTC markets. Similarly to equity-linked notes, these issuances bear Morgan Stanley's credit risk, and the valuation is assessed accordingly.	• Generally Level 2 • Level 3—Notes with significant unobservable inputs
Certificates and warrants • Certificates and warrants provide exposure to the underlying single name equity, equity index or portfolio of equities. They therefore provide risk exposure to the value of the underlying position and to the dividends paid or received. The Company values the underlying position using observable data where available (for instance, exchange closing prices), or alternatively using information from third parties (for example net asset values obtained from fund administrators) or using Morgan Stanley's own valuation assumptions if required. The Company estimates future dividend payments using a variety of available data, including market prices for forwards and futures, analytical review and estimates of future tax rates, incorporating the Company's own assumptions where required. The certificates and warrants can typically be redeemed at short notice and so the certificates and warrants provide minimal exposure to the credit risk of Morgan Stanley.	• Level 2
Loans • The fair value of loans to other Morgan Stanley Group undertakings is estimated based on the present value of expected future cash flows using its best estimate of interest rate yield curves.	• Level 2

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

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 2016 and 31 December 2015. Level 3 instruments may be hedged with instruments classified in Level 1 and Level 2. As a result, the realised and unrealised gains/ (losses) for assets and liabilities within the Level 3 category presented in the following tables do not reflect the related realised and unrealised gains/ (losses) on hedging instruments that have been classified by the Company within Level 2 category.

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 following tables herein may include changes in fair value during the period that were attributable to both observable and unobservable 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.

17. 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)

2016	Balance at 1 January 2016 €'000	Total gains or (losses) recognised in income statement (1) €'000	Purchases €'000	Issuances €'000	Settlements €'000	Net transfers in and/or out of Level 3 (2) €'000	Balance at 31 December 2016 €'000	Unrealised gains / (losses) for Level 3 assets /liabilities outstanding as at 31 December 2016 (3) €'000
Financial assets designated at fair value through profit or loss:								
Prepaid equity securities contracts	20,270	2,820	-	-	(20,098)	(2,992)	-	-
Total financial assets measured at fair value	**20,270**	**2,820**	**-**	**-**	**(20,098)**	**(2,992)**	**-**	**-**
Financial liabilities classified as held for trading:								
Net derivative contracts:(4)								
Equity	(28,455)	12,248	-	-	(3,950)	36,370	16,213	17,374
Total financial liabilities designated at fair value through profit or loss:								
Notes	(320,057)	(50,907)	-	(127,887)	118,882	81,094	(298,875)	(42,689)
Total financial liabilities measured at fair value	**(348,512)**	**(38,659)**	**-**	**(127,887)**	**114,932**	**117,464**	**(282,662)**	**(25,315)**

(1) The total gains or (losses) are recognised in the income statement 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 2016 related to assets and liabilities still outstanding at 31 December 2016. The unrealised gains or (losses) are recognised in the income statement as detailed in the financial instruments accounting policy (note 3c)

(4) Net derivative contracts represent Financial assets classified as held for trading – derivative contracts net of Financial liabilities classified as held for trading – derivative contracts.

During the year, the Company reclassified approximately €1,795,000 of net derivative contracts and €47,550,000 of issued Structured Notes from Level 2 to Level 3. The reclassifications were due to a reduction in the volume of recently executed transactions or a lack of available broker quotes for these instruments, such that certain significant inputs became unobservable.

During the year, the Company reclassified approximately €38,165,000 of net derivative contracts, €2,992,000 of prepaid equity securities contracts and €128,644,000 of issued Structured Notes from Level 3 to Level 2. The reclassifications were due to the availability of market quotations for these or comparable instruments, or available broker quotes, or consensus data such that certain significant inputs became observable.

17. 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)

The reclassifications were due to the availability of market quotations for these or comparable instruments, or available broker quotes, or consensus data such that certain significant inputs became observable.

2015	Balance at 1 January 2015 €'000	Total gains or (losses) recognised in income statement (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 classified as held for trading:								
Net derivative contracts:(4)								
Equity	31,005	(62,309)	-	-	(9,458)	12,307	(28,455)	(57,851)
Financial assets designated at fair value through profit or loss:								
Prepaid equity securities contracts	1,972	(3,283)	23,951	-	(1,581)	(789)	20,270	(4,187)
Total financial assets measured at fair value	**32,977**	**(65,592)**	**23,951**	**-**	**(11,039)**	**11,518**	**(8,185)**	**(62,038)**
Total financial liabilities designated at fair value through profit or loss:								
Notes	(411,034)	56,374	-	(131,714)	98,608	67,709	(320,057)	43,393
Total financial liabilities measured at fair value	**(411,034)**	**56,374**	**-**	**(131,714)**	**98,608**	**67,709**	**(320,057)**	**43,393**

(1) The total gains or (losses) are recognised in the income statement 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 the income statement as detailed in the financial instruments accounting policy (note 3c)
(4) Net derivative contracts represent Financial assets classified as held for trading – derivative contracts net of Financial liabilities classified as held for trading – derivative contracts.

During the prior year, the Company reclassified approximately €823,000 of net derivative contracts and €22,722,000 of issued Structured Notes from Level 2 to Level 3. The reclassifications were due to a reduction in the volume of recently executed transactions or a lack of available broker quotes for these instruments, such that certain significant inputs became unobservable.

17. 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)

During the prior year, the Company reclassified approximately €13,130,000 of net derivative contracts, €789,000 of prepaid equity securities contracts and €90,431,000 of issued Structured Notes from Level 3 to Level 2. The reclassifications were due to the availability of market quotations for these or comparable instruments, or available broker quotes, or consensus data such that certain significant inputs became observable.

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

The following disclosures 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 following table provides 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. There are no predictable relationships between multiple significant unobservable inputs attributable to a given valuation technique. A single amount is disclosed when there is no significant difference between the minimum, maximum and average (weighted average or similar average / median).

17. 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)

2016	**Fair value €'000**	**Predominant valuation techniques/ Significant unobservable inputs**	**Range [2] (Averages)[3]**
ASSETS			
Financial assets classified as held for trading:			
- Net derivative contracts: [1]			
- Equity [4]	16,213	Option model	
		At the money volatility	7% to 42% (21%)
		Volatility skew	-2% to 0% (-1%)
		Equity – Equity correlation	35% to 95% (60%)
		Equity – Foreign exchange correlation	-85% to 40% (-26%)
		Net asset value ("NAV")	
		NAV	100% (100%)
LIABILITIES			
Financial liabilities designated at fair value through profit or loss:			
- Notes	(298,875)	Option model	
		At the money volatility	7% to 42% (25%)
		Volatility skew	-2% to 0% (-1%)
		Equity – Equity correlation	35% to 95% (58%)
		Equity – Foreign exchange correlation	-85% to 25% (-30%)
		NAV	
		NAV	100% (100%)

(1) Net derivative contracts represent financial assets classified as held for trading – derivative contracts net of financial liabilities classified as held for trading – derivative contracts.

(2) The ranges of significant unobservable inputs are represented in percentages.

(3) Amounts represent weighted averages which are calculated by weighting each input by the fair value of the respective financial instruments except for derivative instruments where inputs are weighted by risk.

(4) Includes derivative contracts with multiple risks (i.e. hybrid products).

17. 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)

2015	Fair value €'000	Predominant valuation techniques/ Significant unobservable inputs	Range [2] (Averages)[3]
ASSETS			
Financial assets designated at fair value through profit or loss:			
- Prepaid equity securities contracts	20,270	Option model	
		Gap charge	0% to 1% (1%)
LIABILITIES			
Financial liabilities classified as held for trading:			
- Net derivative contracts: [1]			
- Equity [4]	(28,455)	Option model	
		At the money volatility	20% to 50% (36%)
		Volatility skew	-1% to 0% (0%)
		Equity – Equity correlation	33% to 97% (65%)
		Equity – Foreign exchange correlation	-85% to 50% (-40%)
		NAV	
		NAV	100% (100%)
Financial liabilities designated at fair value through profit or loss:			
- Notes	(320,057)	Option model	
		At the money volatility	6% to 50% (35%)
		Volatility skew	-1% to 0% (-0%)
		Equity – Equity correlation	35% to 97% (65%)
		Equity – Foreign exchange correlation	-85% to 30% (-39%)
		NAV	
		NAV	100% (100%)

(1) Net derivative contracts represent financial assets classified as held for trading – derivative contracts net of financial liabilities classified as held for trading – derivative contracts.

(2) The ranges of significant unobservable inputs are represented in percentages.

(3) Amounts represent weighted averages which are calculated by weighting each input by the fair value of the respective financial instruments except for derivative instruments where inputs are weighted by risk.

(4) Includes derivative contracts with multiple risks (i.e. hybrid products).

17. 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)

Significant Unobservable Inputs — Description	Sensitivity
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). Credit correlation, for example, is the factor that describes the relationship between the probability of individual entities to default on obligations and the joint probability of multiple entities to default on obligations.	In general, an increase (decrease) to the correlation would result in an impact to the fair value, but the magnitude and direction of the impact would depend on whether the Company is long or short the exposure.
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.	In general, an increase (decrease) to the volatility would result in an impact to the fair value, but the magnitude and direction of the impact would depend on whether the Company is long or short the exposure.
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.	In general, an increase (decrease) to the volatility skew would result in an impact to the fair value, but the magnitude and direction of the impact would depend on whether the Company is long or short the exposure.
Gap charge—A pricing input used to value the risk of significant unexpected movements in the underlying equity components of the security. The input captures the risk that these unexpected movements occur prior to the re-hedging or adjustment of a portfolio to account for such unexpected movements.	In general, an increase (decrease) to the gap charge for an asset would result in a lower (higher) fair value.
NAV—A pricing input that is the value of an entity's assets minus the value of its liabilities, often in relation to open-end or mutual funds, since shares of such funds registered with the U.S. Securities and Exchange Commission are redeemed at their net asset value. Shares and interests in such funds are not traded between investors, but are issued by the fund to each new investor and redeemed by the fund when an investor withdraws. A fund will issue and redeem shares and interests at a price calculated by reference to the NAV of the fund, with the intention that new investors receive a fair proportion of the fund and redeeming investors receive a fair proportion of the fund's value in cash.	In general, an increase (decrease) to the NAV would result in a higher (lower) fair value, but the magnitude and direction of the impact would depend on whether the Company is long or short the exposure.

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.

17. 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)

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.

2016	Fair value €'000	Effect of reasonably possible alternative assumptions: Increase in fair value €'000	Effect of reasonably possible alternative assumptions: Decrease in fair value €'000
Financial assets classified as held for trading:			
Net derivatives contracts:[(1)]			
Equity	16,213	1,294	(1,294)
Financial liabilities designated at fair value through profit or loss:			
Notes	(298,875)	(1,294)	1,294

(1) Net derivative contracts represent financial assets classified as held for trading – derivative contracts net of financial liabilities classified as held for trading – derivative contracts.

2015	Fair value €'000	Effect of reasonably possible alternative assumptions: Increase in fair value €'000	Effect of reasonably possible alternative assumptions: Decrease in fair value €'000
Financial assets designated at fair value through profit or loss:			
Prepaid equity securities contracts	20,270	397	(397)
Financial liabilities classified as held for trading:			
Net derivatives contracts:[(1)]			
Equity	(28,455)	4,245	(3,990)
Financial liabilities designated at fair value through profit or loss:			
Notes	(320,057)	(4,642)	4,387

(1) Net derivative contracts represent financial assets classified as held for trading – derivative contracts net of financial liabilities classified as held for trading – derivative contracts.

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

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.

18. 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.

Regarding the CPECs, its carrying value including the accrued yield in 'Other payable', as detailed in note 8, is considered in aggregate as an approximation of its fair value.

19. 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 stress events where applicable, at a point in time. The Morgan Stanley Group defines the difference between its total average common equity and the sum of the average common equity amounts allocated to our business segments as Parent Company equity. We generally hold Parent Company equity for prospective regulatory requirements, organic growth, acquisitions and other capital needs.

The Required Capital Framework is expected to evolve over time in response to changes in the business and regulatory environment, for example, to incorporate stress testing or 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.

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:

	2016	**2015**
	€'000	**€'000**
Share capital	15,018	15,018
Reserves	23,218	22,672
	38,236	37,690

20. RELATED PARTY DISCLOSURES

Parent and subsidiary relationship

Parent and ultimate controlling entity

The Company's immediate parent undertaking is Archimedes Investments Coöperatieve U.A. which is registered in The Netherlands.

The ultimate parent undertaking and controlling entity and the largest group of which the Company is a member and for which group financial statements are prepared is Morgan Stanley. Morgan Stanley 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 plus key business unit management.

Key management personnel compensation comprised the following:

	2016 €'000	2015 €'000
Short-term employee benefits	24	29
Post-employment benefits	1	2
Share-based payments	1	1
Other long-term employee benefits	1	-
TMF management fees	393	337
	420	369

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 years.

In addition to the above, TMF Management B.V., not in the Morgan Stanley Group, provided key management personnel services to the Company for which a fee of €13,000 was charged for the year (2015: €13,000) and of which €nil was accrued as at 31 December 2016 (2015: €nil).

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. All the amounts outstanding as disclosed below are unsecured and will be settled 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 (2015: €nil).

20. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions with related parties (continued)

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 2016, a net gain of €13,146,000 was recognised in the income statement arising from such policies (2015: net loss of €2,445,000).

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.

Other funding

Other funding includes CPECs issued to the Company's direct parent undertaking, Archimedes Investments Coöperatieve U.A.. The specific terms of the related yield are detailed in note 8.

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

	2016		2015	
	Interest €'000	Balance €'000	Interest €'000	Balance €'000
Amounts due from the Company's indirect parent undertaking	12,751	1,152,528	19,049	1,139,744
Amounts due from other Morgan Stanley Group undertakings	1,946	495,896	4,107	26,734
	14,697	1,648,424	23,156	1,166,478
Amounts due to the Company's direct and indirect parent undertakings	14,823	1,181,304	36,884	1,159,890
Amounts due to other Morgan Stanley Group undertakings	184	3,193	255	229,715
	15,007	1,184,497	37,139	1,389,605

20. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions with related parties (continued)

Trading and risk management

The Company issues Structured Notes and hedges the obligations arising from the issuance by entering into prepaid equity securities contracts, derivative contracts and loans designated at fair value through profit or loss with other Morgan Stanley Group undertakings. All such transactions are entered into on an arm's length basis. The total amounts receivable and payable on issued Structured Notes, prepaid equity securities contracts, derivative contracts and loans designated at fair value through profit or loss were as follows:

	2016 €'000	2015 €'000
Amounts due from other Morgan Stanley Group undertakings	7,917,731	7,603,231
Amounts due to the Company's indirect parent undertakings on unsettled securities and derivative transactions	-	271
Amounts due to other Morgan Stanley Group undertakings	2,307,590	2,178,513
	2,307,590	2,178,784

The Company has pledged collateral of €427,903,000 (2015: €256,024,000) to other Morgan Stanley Group undertakings to mitigate credit risk on exposures arising under derivatives contracts and prepaid equity securities contracts between the Company and other Morgan Stanley Group undertakings.

Infrastructure services

The Company uses infrastructure services including the provision of office facilities, operated by other Morgan Stanley Group undertakings at no charge.

ADDITIONAL INFORMATION
Year ended 31 December 2016

Independent auditor's report

The independent auditor's report is recorded on the next page.

Statutory rules concerning appropriation of the net result

The Articles of Association of the Company provide that the net result for the year is at the disposition of the General Meeting of Shareholders.

Distribution can only be made to the extent that the Shareholder's equity exceeds the reserves provided for by the Articles of Association. The Board of Directors must grant its approval which it can only withhold in the event that it knows or reasonably should have known that, following the distribution, the Company will not be able to continue with the payments of its debts becoming due and payable in the foreseeable future.

Subsequent events

There have been no significant events since the reporting date.

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Independent auditor's report

To the shareholders of Morgan Stanley B.V.

REPORT ON THE FINANCIAL STATEMENTS 2016 INCLUDED IN THE ANNUAL REPORT

Our Opinion

We have audited the financial statements 2016 of Morgan Stanley B.V., based in Amsterdam.

In our opinion the financial statements included in these annual accounts give a true and fair view of the financial position of Morgan Stanley B.V. as at December 31, 2016, and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

1. The statement of financial position as at December 31, 2016.

2. The following statements for 2016: the income statement, the statements of comprehensive income, changes in equity and cash flows.

3. The notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing.
Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Morgan Stanley B.V. in accordance with the Verordening inzake de onafhankelijkheid van accountant's bij assurance-opdrachten (ViO) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 95.690.000. The materiality is based on 1% of Total Assets. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

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We agreed with management that misstatements in excess of EUR 1.913.800, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to management. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Financial Instruments, including valuation and accounting

Key Audit Matter
The risk associated with the valuation assertion relates to the valuation of fair value hierarchy level 3 issuances because this can require significant management judgement. We note that although the entity does not apply hedge accounting, it reduces profit and loss volatility through economic hedging and recording the financial instruments held on the balance at fair value. Valuation of level 3 financial instruments often requires the usage of bespoke valuation models and unobservable inputs to determine the fair value which can be highly subjective. The valuations of these instruments are typically more complex and may not be readily observable due to illiquid markets or low trading volumes, and accordingly, are more difficult to estimate. The subjectivity involved in the valuation of level 3 inventory means there is an inherently greater risk of material misstatement.

Reference is made to note 3.d and note 17 of the financial statements of Morgan Stanley B.V. as at December 31, 2016

Response
Our testing over the valuation assertion has included procedures in relation to the controls over positions carried at fair value, procedures in relation to model controls and the performance of substantive testing through independent revaluations, methodology reviews and testing of key inputs for a sample of positions. As part of these procedures we challenged management assumptions in the determination of the valuation models with the support of internal financial instrument valuation experts.

Based on the work performed we observed that the hedge of the financial assets and financial liabilities does not net to nil as December 31, 2016 or December 31, 2015. This is due to the holding of cash and short-term deposits, and also pending trades which are included within trade receivables and trade payables. When these balances are included the trading balance sheet nets flat. We have performed a reconciliation to confirm this.

REPORT ON THE OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

In addition to the financial statements and our auditor's report, the annual accounts contain other information that consists of:

- Directors' Report
- Directors' Responsibility Statement
- Other Information, including but not limited to the topics prescribed by Dutch Civil Code 2:392

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Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements.
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of other information, including the Directors Board's Report in accordance with Part 9 of Book 2 of the Dutch Civil Code, and the other information as required by Part 9 of Book 2 of the Dutch Civil Code and the Directors Responsibility Statement.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Engagement

We were engaged by the Board of Directors as auditor for the year 2016 and we have been the auditor of Morgan Stanley B.V. as of the year 2001.

DESCRIPTION OF RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

Management is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

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Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.

- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

Amsterdam, April 25, 2017

Deloitte Accountants B.V.

Initials for identification purposes:

M. van Luijk