

BASE PROSPECTUS

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

(Incorporated with limited liability in the Cayman Islands)

UP TO U.S.\$50,000,000,000

### OPTIMISED PORTFOLIOS AS LISTED SECURITIES ("OPALS"<sup>®</sup>) PROGRAMME

due from one year  
after the date on which OPALS of the relevant Series are first issued to any date on or before  
5 April 2023

This base prospectus (the "**Base Prospectus**") has been approved by the Luxembourg Commission de Surveillance du Secteur Financier (the "**CSSF**") in its capacity as Luxembourg competent authority for the purposes of Regulation (EU) 2017/1129, as amended (the "**Prospectus Regulation**") for the purpose of giving information with regard to the OPALS Programme and admission of the OPALS to trading on any regulated market for the purposes of Directive 2014/65/EU, as amended ("**MiFID II**"). The CSSF only approves this Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of Morgan Stanley Capital (Cayman Islands) Limited (the "**Issuer**") or the quality of the OPALS that are the subject of this Base Prospectus and investors should make their own assessment as to the suitability of investing in the OPALS. Pursuant to Article 6(4) of the Luxembourg Law on Prospectuses, by approving this Base Prospectus, the CSSF gives no undertaking as to, and assumes no responsibility for, the economic and financial characteristics of OPALS or the quality and solvency of the Issuer.

This Base Prospectus will be valid for offers to the public or admissions to trading on a regulated market by or with the consent of the Issuer for 12 months from its date, ending 17 July 2021. The obligation to supplement it in the event of significant new factors, material mistakes or material inaccuracies will not apply after the earlier of the date 12 months from the date of this Base Prospectus and the closing of the offer period for the OPALS being admitted to trading on a regulated market, whichever occurs later.

Under the OPALS Programme (the "**Programme**") the Issuer, subject to compliance with all relevant laws, regulations and directives, may from time to time issue OPALS which are non-equity securities for the purposes of the Prospectus Regulation denominated in U.S. dollars or in such other currencies and in such denominations as the Issuer may from time to time determine, to investors who are not U.S. persons. OPALS will have maturities from one year from the date of initial issue of OPALS of the relevant Series (as defined below) to any date on or before 5 April 2023 and their maximum aggregate principal amount outstanding will not at any time exceed U.S.\$50,000,000,000 (or the equivalent in any other currency at the date of initial issue of any Series of OPALS) unless otherwise agreed by the Issuer and the Dealer (as defined in the "General Description of the Programme" below). OPALS will be issued on a continuous basis in series (each a "**Series**"). OPALS comprising a Series will have the same maturity date and be issued on identical terms save for the issue or offering price, which varies from time to time. OPALS in a Series may be issued on different issue dates as and when sold by the Dealer or may all be issued on the initial issue date specified in the Final Terms (as defined below) issued in relation to the relevant Series or on any other date selected by the Issuer (and OPALS not sold by the Dealer at the time of issue will be held by the Issuer or the Dealer or an affiliate or affiliates of the Issuer or the Dealer and may be retained or may be sold by the Dealer, in such amounts, to such purchasers and at such times and prices as the Dealer may determine). The minimum investment in OPALS of a particular Series will be specified in the Final Terms issued in relation to that Series.

The terms and conditions applicable to a Series of OPALS will be the "Terms and Conditions of OPALS" below. In the case of each Series of OPALS, the relevant Terms and Conditions are subject to the provisions of the Final Terms issued in relation to that Series.

The Issuer seeks to provide holders of a Series of OPALS with investment performance that corresponds generally to that of a Benchmark Index (as defined in the relevant Terms and Conditions below) identified in the Final Terms relating to that Series by an indirect investment in a basket of shares (a "**Basket of Shares**"). The Basket of Shares will be purchased by Morgan Stanley Capital (Luxembourg) S.A., or another entity within the Morgan Stanley group of companies identified in the Final Terms issued in relation to that Series (the purchasing entity being referred to as the "**Counterparty**") (or by a custodian on its behalf). The Counterparty may be Morgan Stanley & Co. International plc ("**MSI plc**"). The shares comprised in a Basket of Shares (the "**Shares**") are selected either to replicate fully the relevant Benchmark Index or, based on portfolio optimisation techniques, with a view to tracking the investment performance of the relevant Benchmark Index. The Issuer may, in its sole discretion, from time to time adjust the composition of a Basket of Shares, in accordance with the relevant Terms and Conditions, to reflect changes in the relevant Benchmark Index, with a view to tracking more closely the investment performance of the relevant Benchmark Index and in certain other circumstances. However, there can be no assurance that the performance of any Series of OPALS will track the investment performance of the relevant Benchmark Index to the extent indicated by the Expected Annual Tracking Risk for that Series. A Basket of Shares may include depositary receipts representing shares. References to shares shall be construed to include references to any such depositary receipts.

Holders of a Series of OPALS holding the Minimum Redeemable Amount (as defined in the relevant Terms and Conditions) of such OPALS or an integral multiple thereof shall be entitled to have such OPALS redeemed at their option on specified dates during the term of such OPALS and on the maturity date thereof by calling for delivery of the Basket of Shares relating to such OPALS, and holders of a Series of OPALS holding less than the Minimum Redeemable Amount of such OPALS shall be entitled, subject to certain conditions, to have such OPALS redeemed on the maturity date thereof by calling for delivery of a due proportion of the Shares forming part of the Basket of Shares, in each case as more particularly described in the relevant Terms and Conditions. Holders of a Series of OPALS holding the Minimum Redeemable Amount of those OPALS or an integral multiple thereof shall also be entitled to have their OPALS redeemed at any time during the term of the OPALS by calling for delivery of the Basket of Shares relating to such OPALS **provided that** such holders may, at the option of the Issuer, be required to pay an administration charge and certain other charges and expenses, all as more particularly described in the relevant Terms and Conditions. Where so specified in the relevant Terms and Conditions, the Issuer may in certain circumstances require redemption of a Series of OPALS prior to the maturity date thereof. In every case redemption is subject to compliance with any procedures prescribed by the Issuer pursuant to, and subject in certain circumstances to postponement in accordance with, the relevant Terms and Conditions.

An investment in OPALS involves certain special considerations and risks. See "Risk Factors" below.

The assets of the Issuer (consisting materially of obligations owed to it by one or more Counterparties) are the sole source of payments in respect of OPALS. OPALS are obligations of the Issuer and do not represent an interest in or an obligation of, and are not insured or guaranteed by, Morgan Stanley (formerly Morgan Stanley Dean Witter & Co.) or any of its other affiliates. The Dealer intends to make a secondary market in each Series of OPALS but is under no legal obligation to do so or to continue to do so.

Application may be made for OPALS issued under the Programme described in this Base Prospectus during the period of twelve months after the date hereof (such period ending on 17 July 2021) to be admitted to listing on the Official List and traded on the Regulated Market of the Luxembourg Stock Exchange; any such application to admit any such Series of OPALS to trading will be referred to in the Final Terms relating to such Series. No assurance can be given as to whether and if so when any such application will be granted. The Issuer may from time to time agree with the Dealer to issue OPALS which are not intended to be admitted to listing on the Official List and traded on the Regulated Market of the Luxembourg Stock Exchange (which is a regulated market for the purpose of MiFID II) or admitted to listing in any jurisdiction or to trading on any other stock exchange or to issue OPALS which are to be listed on such other stock exchange (as well as or instead of the Luxembourg Stock Exchange) in a member country of the European Union or elsewhere as the Issuer and the Dealer may agree.

OPALS have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or the securities laws of any State or other jurisdiction of the United States (as defined herein), nor has the Issuer registered under the United States Investment Company Act of 1940, as amended (the "**Investment Company Act**"). OPALS may not at any time be offered, sold, pledged, assigned, transferred, redeemed or, in the case of OPALS in bearer form ("**Bearer OPALS**"), delivered, directly or indirectly, within the United States or to, or for the account or benefit of, any U. S. Person (as defined herein). Any sale or transfer in violation of this restriction will be void and of no effect and will not be binding upon or be recognised by the Issuer and, under certain circumstances, may subject such OPALS to forfeiture. Upon redemption, holders of OPALS will be required to make a certification in respect of non-U.S. beneficial ownership. For the purposes hereof, the term "United States" means the United States of America (including the States and District of Columbia), its territories, its possessions and other areas subject to its jurisdiction and the term "**U.S. Person**" means (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organised under the laws of the United States or any political subdivision thereof, (iii) a trust or estate the income of which is subject to United States federal income taxation, regardless of its source or (iv) from time to time, any person, corporation, partnership, trust, estate or other entity which then is treated or constructed to be a U.S. Person for the purposes of the Investment Company Act.

No invitation may be made to the public in the Cayman Islands to subscribe for OPALS.

Each Series will be represented by a global security (the "**Global Security**") which will be deposited with a common depositary (the "**Common Depositary**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Bankings, S.A. ("**Clearstream, Luxembourg**"). Definitive OPALS will not be issued. The purchase and transfer of OPALS may only be effected through an account at Euroclear or Clearstream, Luxembourg.

In the case of Series of OPALS Basket OPALS, additional provisions appear at Appendix B hereto. In the case of Series of OPALS in respect of which the relevant Final Terms indicates that cash redemption at the option of the Issuer is to apply, additional provisions appear at Appendix C hereto.

OPALS is a registered trademark of Morgan Stanley.

Arranged by:  
MORGAN STANLEY

17 July 2020

The Issuer accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information for which it accepts responsibility as aforesaid is in accordance with the facts and does not omit anything likely to affect its import.

The Issuer confirms that the information contained in the section "Statements Regarding Certain Index Providers" has been accurately reproduced from information provided by the relevant Index provider. So far as the Issuer is aware and is able to ascertain from information published by the relevant Index provider, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The aggregate amount of each Series, and the companies whose shares are initially included in the Basket of Shares relating to that Series, will be set forth in final terms issued in relation to that Series (the "Final Terms") which, with respect to each Series to be admitted to listing on the Official List and traded on the Regulated Market of the Luxembourg Stock Exchange or any other stock exchange, will be delivered to the Luxembourg Stock Exchange or that other stock exchange.

The Issuer will have the benefit of certain obligations assumed by the relevant Counterparty as more particularly described under "*Programme Documents – Arrangements with the Counterparty and Custody Provisions*". The Counterparty may purchase or sell shares of companies in a Basket of Shares from or to any reputable broker or dealer, including the Dealer or any of its affiliated companies. Where the Counterparty is MSI plc, it may itself effect purchases or sales of shares relating to the Basket of Shares.

The distribution of this Base Prospectus (and any Supplements hereto) and the offering of OPALS in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus (and any Supplements hereto) comes are required by the Issuer and the Dealer to inform themselves about, and to observe, any such restrictions. For a further description of certain restrictions on offering and sales of OPALS and on distribution of this Base Prospectus, see "*Selling Restrictions*". See also "*Investor Suitability*".

OPALS may not at any time be offered, sold, transferred or delivered, directly or indirectly, within the United States (as defined herein) or to, or for the account or benefit of, any U.S. Person (as defined herein). Any sale or transfer in violation of this restriction will be void and of no effect and will not be binding upon or be recognised by the Issuer and, under certain circumstances, may subject such OPALS to forfeiture.

**PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS** – OPALS are not intended to be offered, sold or otherwise made available to and, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA") or in the United Kingdom ("UK"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended ("MiFID II"); (ii) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently, no key information document required by Regulation (EU) No 1286/2014, as amended (the "PRIIPs Regulation") for offering or selling OPALS or otherwise making them available to retail investors in the EEA or in the UK has been or will be prepared and therefore offering or selling OPALS or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

For a further description of certain restrictions on offering and sales of OPALS, see "*Selling Restrictions*".

OPALS will not be rated.

In connection with the issue, offer and sale of OPALS, no person is authorised to give any information or to make any representation not contained in this Base Prospectus (or any Supplements hereto) and neither the Issuer nor MSI plc in its capacity as the Dealer under the Programme accepts responsibility for any information or representation not contained herein (or in any such Supplements). Neither the delivery of this Base Prospectus (or any Supplements hereto) nor any sale

made hereunder shall, in any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date of this Base Prospectus (or any Supplements hereto). This Base Prospectus does not constitute, and may not be used for the purposes of, an offer or solicitation by any person in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation and no action is being taken to permit an offering of OPALS or the distribution of this Base Prospectus (or any Supplements hereto) in any jurisdiction where such action is required.

MSI plc and any of its affiliates may acquire and/or maintain positions otherwise than in connection with OPALS in shares of companies whose shares form part of a Basket of Shares or options or futures contracts thereon or other contracts relating thereto and may at any time or from time to time be engaged in or be interested in financial and other transactions with, and may act as custodian, depository, trustee or agent for, or provide investment banking services to, companies whose shares form part of a Basket of Shares or any of them. MSI plc and any of its affiliates may maintain positions in OPALS.

The Issuer has given an undertaking in connection with the admission of OPALS to the Official List and trading on the Regulated Market of the Luxembourg Stock Exchange to the effect that, so long as any OPALS will be offered under the Programme, in the event of any material adverse change in its financial condition which is not reflected in this Base Prospectus, as supplemented, it will prepare a Supplement to this Base Prospectus or publish a new base prospectus for use in connection with any subsequent issue of OPALS to be admitted to listing on the Official List and trading on the Regulated Market of the Luxembourg Stock Exchange.

Each Series of OPALS may be calculated by reference to certain reference rates. Any such reference rate may constitute a benchmark for the purposes of Regulation (EU) 2016/1011 (the "Benchmarks Regulation"). If any such reference rate does constitute such a benchmark, the Final Terms will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("ESMA") pursuant to Article 36 (Register of administrators and benchmarks) of the Benchmarks Regulation. Transitional provisions in the Benchmarks Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the Final Terms. The registration status of any administrator under the Benchmarks Regulation is a matter of public record and, save where required by applicable law, the Issuer does not intend to update the Final Terms to reflect any change in the registration status of the administrator.

#### **INVESTOR SUITABILITY**

Prospective investors in a Series of OPALS should determine whether an investment in such Series is appropriate in their particular circumstances and should consult with their legal, business and tax advisers to determine the consequences of an investment in such Series and to arrive at their own evaluations of the investment.

Investment in OPALS is only suitable for financially sophisticated investors who:

- (1) have the requisite knowledge and experience in financial and business matters to evaluate the merits and risks of an investment in OPALS issued by the Issuer and the rights attaching to such OPALS;
- (2) are capable of bearing the economic risk of an investment in OPALS issued by the Issuer until redemption of such OPALS; and
- (3) are acquiring the OPALS for their own account for investment, not with a view to resale, distribution or other disposition of the OPALS (subject to any applicable law requiring that the disposition of the investor's property be within its control),

and who recognise that it may not be possible to make any transfer of the OPALS for a substantial period of time, if at all.

The Issuer is not acting as any investor's financial advisor or in a fiduciary capacity in relation to OPALS. No communication (written or oral) by the Issuer which is received by a potential investor in, or holder of,

OPALS constitutes an assurance or guarantee as to the expected results or likely return under any Series of OPALS.

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## GENERAL DESCRIPTION OF THE PROGRAMME

*The following description of principal features does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Series of OPALS, the applicable Final Terms.*

*The terms and conditions applicable to a Series of OPALS will be the relevant Terms and Conditions, being the "Terms and Conditions of OPALS" as completed by the Final Terms issued in relation to that Series.*

*Words and expressions defined in the relevant Terms and Conditions shall have the same meaning in this description of the Programme.*

The Issuer seeks to provide holders of a Series of OPALS with investment results that correspond generally to those of the specified Benchmark Index by an indirect investment in a Basket of Shares. In order to hedge its position in relation to each Series of OPALS, the Issuer will enter into arrangements with a Counterparty pursuant to a Counterparty Agreement (as defined in "*Programme Documents*" below) whereby the Issuer will pay to the Counterparty the proceeds of issue of the OPALS and the Counterparty will, in the case of a Series in respect of which Morgan Stanley Capital (Luxembourg) S.A. is the Counterparty, purchase the Basket of Shares to which the OPALS relate and, the Counterparty may, in the case of a Series in respect of which MSI plc is the Counterparty, purchase the Basket of Shares to which such OPALS relate, but under the Counterparty Agreement will in any event make payments and deliveries by reference to a basket of shares based on such Basket of Shares.

The Shares in each Basket of Shares are selected either to replicate fully the relevant Benchmark Index or, based on portfolio optimisation techniques, with a view to tracking the investment performance of the relevant Benchmark Index. The Basket of Shares underlying a Series of OPALS may not contain all the shares that comprise the relevant Benchmark Index and may, in some cases, contain securities that are not included in the relevant Benchmark Index. The Issuer may, in its sole discretion, from time to time adjust the composition of the Basket of Shares, in accordance with the relevant Terms and Conditions, to reflect changes in the relevant Benchmark Index, with a view to tracking more closely the performance of the relevant Benchmark Index and in certain other circumstances. In the case of Series of OPALS in respect of which MSI plc is the Counterparty, MSI plc may adjust the composition of the basket of shares by reference to which its obligations under the Counterparty Agreement in respect of such Series are determined. In the case of such Series of OPALS, the Issuer may treat the making of an adjustment by MSI plc as evidence of the existence of circumstances warranting an adjustment in respect of the relevant Basket of Shares and the Issuer may make a corresponding adjustment.

The Final Terms for each Series of OPALS states the "Expected Annual Tracking Risk" for that Series as of the date of the Final Terms. The Expected Annual Tracking Risk is, for any Series of OPALS, the Issuer's assessment, based on both quantitative and qualitative analysis, of the likely range of variation, after a one year period, between the annual investment performance of that Series of OPALS and the annual investment performance of the Benchmark Index under normal market conditions (see "*Programme Documents – Expected Annual Tracking Risk*" below). The Issuer expects to make available on a regular basis its current assessment of the Expected Annual Tracking Risk for each Series of OPALS. However, there can be no assurance that the performance of a Series of OPALS will track the performance of the relevant Benchmark Index within the range indicated by the Expected Annual Tracking Risk.

|                      |   |
|----------------------|---|
| <b>Issuer:</b>       | Morgan Stanley Capital (Cayman Islands) Limited.  |
| <b>Dealer:</b>       | Morgan Stanley & Co. International plc (" <b>MSI plc</b> ")   |
| <b>Counterparty:</b> | Morgan Stanley Capital (Luxembourg) S.A., MSI plc or such other counterparty as may be specified in the relevant Final Terms and any successor or replacement counterparty appointed pursuant to the relevant Counterparty Agreement. Under the Terms and Conditions of OPALS the Issuer may replace or substitute the person for the time being appointed Counterparty from time to time in respect of any outstanding Series. |
| <b>Currencies:</b>   | Subject to compliance with all relevant laws, regulations and directives and to all relevant consents being obtained, OPALS may   |

be issued in U.S. dollars and any other currency agreed by the Issuer and the Dealer.

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|--|--|
| <b>Amount:</b>                                     | Up to U.S.\$50,000,000,000 (or the equivalent in any other currency at the date of initial issue of each Series of OPALS) aggregate amount of OPALS outstanding at any one time unless otherwise agreed by the Issuer and the Dealer. In the event that the Maximum Amount of the Series specified in the applicable Final Terms is not issued on the Initial Issue Date and the relevant Series of OPALS is, or is to be, admitted to listing on the Official List and traded on the Regulated Market of the Luxembourg Stock Exchange, further OPALS of such Series shall only be issued at a time when there is in existence a base prospectus or other prospectus which is current for the purpose of admission to the Official List and admission to trading on the Regulated Market of the Luxembourg Stock Exchange of such further OPALS.  |
| <b>Issue Price:</b>                                | OPALS may be issued at par or at a discount to or premium over par.  |
| <b>Denominations:</b>                              | OPALS may be issued in such denominations as may be agreed between the Issuer and the Dealer and as specified in the relevant Final Terms.   |
| <b>Public offers of OPALS and use of proceeds:</b> | <p>Any offer of OPALS in any Member State of the European Economic Area or the UK (each, a "<b>Relevant State</b>") will be made pursuant to an exemption under the Prospectus Regulation, from the requirement to publish a prospectus for offers of securities. This Base Prospectus has been prepared for the purpose of admission of OPALS to trading on the Regulated Market of the Luxembourg Stock Exchange or any other regulated market for the purposes of the Prospectus Regulation.</p> <p>The Issuer will pay the proceeds of issue of the OPALS to the Counterparty.</p>   |
| <b>Selling Restrictions</b>                        | EEA, United Kingdom, United States and People's Republic of China and any other jurisdiction relevant to any Series. See " <i>Selling Restrictions</i> ".  |
| <b>Form of OPALS:</b>                              | <p>OPALS will be issued in Series with no minimum issue size save where any laws, regulations or directives applicable to the OPALS of such Series or to the Issuer require a minimum issue size. OPALS issued in the same currency, with the same maturity date and relating to a Basket of Shares comprised of the same number of shares in the same companies will constitute a Series.</p> <p>The specific terms of each Series will be set forth in the Final Terms relating to that Series. Each Series shall be for a number of OPALS up to the aggregate amount specified in the relevant Final Terms. OPALS in a Series may be issued on one issue date or on different issue dates. The Issuer may, without the consent of the relevant holders create and issue further OPALS. Following the creation of such further OPALS, the maximum amount of the relevant Series shall be the aggregate of the maximum amount(s) specified in the Final Terms(s) relating to such Series then in existence.</p> <p>OPALS may be issued in bearer form (the "<b>Bearer OPALS</b>") or registered form (the "<b>Registered OPALS</b>"). Bearer OPALS may only be issued if it has been determined that they are in registered</p> |

form, or are not "registration required obligations", for U.S. federal income tax purposes. Each Series will be represented by a Global Security which may be, in the case of Bearer OPALS, a Global Bearer Security or, in the case of Registered OPALS, a Global Registered Security, deposited with a common depositary for Euroclear and Clearstream, Luxembourg and/or any other relevant clearing system and Registered OPALS shall be registered in the name of a nominee for such depositary. **Definitive OPALS will not be issued.** Interests in a Global Security will be transferable in accordance with the rules and procedures for the time being of the Euroclear and Clearstream, Luxembourg systems.

**Maturities:**

Subject to compliance with all relevant laws, regulations and directives, OPALS will have maturity dates between one year from the date on which OPALS of the relevant Series are first issued and 5 April 2023, subject to extension or postponement in accordance with the relevant Terms and Conditions.

**Basket of Shares:**

Each OPALS in a Series will relate to a Basket of Shares selected to track a Benchmark Index specified in the Final Terms relating to that Series. Any such Benchmark Index shall not be provided by the Issuer or a legal entity or a natural person acting in association with, or on behalf of, the Issuer.

In certain circumstances, a Basket of Shares may include depositary receipts in respect of shares (see "*Depository Receipts*" below).

The Basket of Shares underlying a Series of OPALS may not contain all the shares that comprise the relevant Benchmark Index and may, in some cases, contain securities that are not included in the relevant Benchmark Index.

**Redemption by a Holder of the Minimum Redeemable Amount of OPALS (or integral multiples thereof):**

Holders of the specified Minimum Redeemable Amount of a Series of OPALS or an integral multiple thereof shall be entitled on a specified date or dates during the term of the OPALS and on the Maturity Date of the OPALS to require their OPALS to be redeemed by calling for delivery to them of the Basket of Shares to which those OPALS relate **provided that** such holders may, at the option of the Issuer, be required to pay to the Issuer all charges and expenses incurred or liable to be incurred by or on behalf of the Issuer in relation to the delivery of the relevant Basket of Shares. A holder of the Minimum Redeemable Amount of a Series of OPALS (or an integral multiple thereof) will also be entitled to have his OPALS redeemed at any time during the term of the OPALS by calling for delivery of the Basket of Shares to which those OPALS relate **provided that** such holder may, at the option of the Issuer, be required to pay to the Issuer an administration charge of 0.50 per cent. (calculated on the market value of the OPALS to be redeemed) plus all charges and expenses incurred or liable to be incurred by or on behalf of the Issuer in relation to the delivery of the relevant Basket of Shares. Redemption is subject to compliance with any procedures prescribed by the Issuer pursuant to, and is subject in certain circumstances to postponement in accordance with, the relevant Terms and Conditions.

**Redemption by a Holder of less than the Minimum Redeemable Amount of OPALS:**

A holder of less than the Minimum Redeemable Amount of a Series of OPALS shall be entitled to have his OPALS redeemed on the Maturity Date thereof by delivery of a due proportion of the Shares forming part of the Basket of Shares to which his OPALS



relate, **provided that** where the due proportion results in a fraction of Shares or a number of Shares which is not deliverable in accordance with the rules of the stock exchange or other trading market on which such Shares are principally traded or settlement system through which deliveries of such Shares are principally settled (an "**Undeliverable Share Quantity**"), additional Shares may be delivered to the holder so as to make the Undeliverable Share Quantity into a deliverable quantity of Shares against payment by the holder of an amount equal to the cost incurred or liable to be incurred by or on behalf of the Issuer in purchasing such additional Shares together with all charges and expenses incurred or liable to be incurred by or on behalf of the Issuer in relation to the delivery of such Shares to the holder. Redemption is subject to compliance with any procedures prescribed by the Issuer pursuant to, and is subject in certain circumstances to postponement in accordance with, the relevant Terms and Conditions.

**Redemption at the option of the Issuer:**

If, in relation to a Series of OPALS, at any time the Issuer in its absolute discretion determines that:

- (a) the then current market value of the outstanding amount of such Series is less than U.S.\$2,000,000;
- (b) the then outstanding number of OPALS in such Series is less than 20,000; or
- (c) there has been or may be any change in law, regulation, accounting or tax which, in the opinion of the Issuer, adversely, or may adversely, affect the Issuer's or the Counterparty's respective interests in respect of such Series,

the Issuer may, in its absolute discretion, redeem all of the OPALS in such Series by delivering the Basket of Shares to which those OPALS relate, **provided that** where the number of Shares to which the holder is entitled on such redemption is an Undeliverable Share Quantity, additional Shares may be delivered to the holder so as to make the Undeliverable Share Quantity into a deliverable quantity of Shares against payment by the holder of an Additional Amount together with all charges and expenses incurred or liable to be incurred by or on behalf of the Issuer in relation to the delivery of such Shares to the holder.

**No Cash Redemption:**

Except in the case of a Series of OPALS in respect of which the relevant Final Terms indicates that cash redemption at the option of the Issuer is to apply, **holders of OPALS will not be entitled to have their OPALS redeemed for cash.**

**Optional redemption for tax reasons:**

If at any time after the issue of any OPALS (i) the Issuer is, or will be, required to make (or to increase the amount of) any withholding or deduction from, or is, or will be, obliged to account (or to account for an increased amount) in respect of, any payment of income on such OPALS for or on account of any present or future tax, duty or charge of whatsoever nature incurred or levied by or on behalf of the Cayman Islands, any jurisdiction in which the Issuer is treated as resident for taxation purposes or any jurisdiction through which payments are made or Shares are delivered (or, in each case, any political sub-division thereof or therein or any authority thereof or therein) or (ii) the Counterparty is, or will be, required to make (or to increase the amount of) any withholding or

deduction from, or is, or will be, obliged to account (or to account for an increased amount) in respect of, any payment under the arrangements between the Issuer and the Counterparty for or on account of any present or future tax, duty or charge of whatsoever nature incurred or levied by or on behalf of the jurisdiction of incorporation of the Counterparty, any jurisdiction in which the Counterparty is treated as resident for taxation purposes or any jurisdiction through which payments are made or Shares are delivered (or, in each case, any political subdivision thereof or therein or any authority thereof or therein), the Issuer shall be entitled (but not bound) by not more than 60 and not less than 30 days' notice to redeem such OPALS by delivering to the holders of the relevant OPALS the Shares to which the OPALS relate.

**Stocklending and other transactions:**

The Counterparty Agreement (as defined in "*Programme Documents*" below) permits the Counterparty to engage in stocklending or other transactions in relation to the Shares comprised in the Basket of Shares held by the Counterparty in connection with its obligations under the Counterparty Agreement on the basis that the net income (if any) deriving from such transactions is to be shared equally between the Counterparty and the Issuer.

**Income:**

Income on OPALS in a Series will be paid by the Issuer (after deduction of costs, expenses and other sums as more particularly described below) out of payments made to the Issuer by the Counterparty under the arrangements between the Issuer and the Counterparty.

Income on OPALS will be calculated by the Issuer on each date specified in the relevant Final Terms for determination of the amount of accrued income to be paid to holders of such OPALS ("**Income Determination Date**") (subject to adjustment as referred to below). The amount so calculated will be notified by the Issuer to those holders who were holders of record of such OPALS on the relevant record date ("**Record Date**").

Such income will be calculated by reference to dividends and other amounts payable by the Counterparty in respect of the Shares comprising the Basket of Shares to which such OPALS relate and interest and other amounts by reference to the Shares comprising the Basket of Shares or in respect of cash or any other amounts deriving from such Shares, in each case on or prior to the relevant Income Determination Date, and not previously taken into account by the Issuer in calculating the income on such OPALS, in each case after deduction of all fees, taxes, charges, duties, costs and expenses which the Issuer or Counterparty is entitled to deduct. For this purpose, dividends and other amounts shall be treated as payable on or prior to the relevant Income Determination Date if the Share Record Date for the payment of such dividends and other amounts in respect of such Shares falls on or prior to the Income Determination Date. Dividends and other amounts payable after the relevant Income Determination Date shall fall to be taken into account on subsequent Income Determination Dates.

Amounts payable by the Counterparty in respect of Shares will include amounts received as a result of corporate actions in respect of such Shares including stock dividends, renounceable and non-renounceable rights, warrants, spin-off shares, tenders and offers, redemption and where the Counterparty sells any shares, securities or rights received as a result of such corporate actions

for cash; the cash so received; and fees in respect of stocklending and other transactions received by the Counterparty in respect of transactions involving shares held by the Counterparty in connection with its obligations under the Counterparty Agreement (the fees or other income in respect of which, net of expenses, will be apportioned equally between the Counterparty and the Issuer).

Subject as provided below, income on OPALS will be paid, on the payment date (the "**Payment Date**") specified in the applicable Final Terms falling immediately after the relevant Record Date, to those holders of the relevant OPALS who were holders of such OPALS on the relevant Record Date. Income on OPALS may be adjusted following notification thereof but prior to payment in the absolute discretion of the Issuer to take account of (i) non-payments of dividends or other amounts on or in respect of Shares comprised in the Basket of Shares to which the OPALS relate or (ii) circumstances whereby dividends actually declared and paid on the Shares or other amounts received on or in respect of the Shares are greater than or less than the amount taken into account in calculating the income on the relevant OPALS.

Income on OPALS may also be reduced in connection with adjustments to the composition of a Basket of Shares. When an adjustment is effected to the composition of the Basket of Shares, the Counterparty normally sells and buys Shares virtually simultaneously. To the extent the net proceeds of the sales of Shares from the Basket of Shares are insufficient to pay for the Shares purchased, the shortfall will be reflected in a reduction of the income accrued in respect of the relevant Series. If such costs exceed the income accrued on such Series, the composition of the relevant Basket of Shares may be adjusted to reflect the sale of additional Shares sufficient to raise the required cash or the Issuer, or any affiliate of the Issuer, may also advance to the Counterparty the amount of the remaining shortfall, such advance together with borrowing costs shall be reflected in future income attributable to the relevant Basket of Shares.

The fees, taxes, charges, duties costs and expenses which the Issuer is entitled or required to deduct from or take into account in determining the amounts payable as income on a Series are those incurred by the Issuer or the Counterparty to third parties (including entities within the Morgan Stanley group of companies) as well as those charged by the Counterparty and those incurred in making adjustments to the composition of the Basket of Shares to which the Series relates.

In the case of a Series of OPALS in respect of which MSI plc is the Counterparty, but in respect of which MSI plc does not, in connection with its obligations under the Counterparty Agreement, hold all of the Shares comprised in the Basket of Shares to which such Series of OPALS relates, references in this part of the section "*General Description of the Programme*" to the Counterparty paying (or receiving) income and the amount thereof and deducting costs (of whatever nature) and the amount thereof in relation to the Basket of Shares to which such Series relates shall be construed as references to (and to the amount of) the income that the Counterparty could reasonably have been expected to have paid (or received) and the costs (of whatever nature) that the Counterparty could reasonably have been expected to incur or charge in respect of the Basket of Shares to which such Series

relates had it held all of the Shares comprised in the Basket of Shares.

**Adjustments and other Events:**

The composition of a Basket of Shares may be adjusted at any time during the term of the relevant OPALS in the following circumstances relating to the relevant OPALS:

- (a) changes to the composition or calculation of the relevant Benchmark Index;
- (b) where the Issuer considers that an adjustment should be made either (i) to reduce the likelihood of the performance of the relevant OPALS ceasing to track the performance of the relevant Benchmark Index by a percentage specified in the Final Terms for the relevant OPALS or (ii) to increase the likelihood that the performance of the OPALS will track the performance of the Benchmark Index more closely than would otherwise be the case;
- (c) certain corporate events relating to Shares included in the Basket of Shares;
- (d) merger or consolidation of a company the Shares of which are included in the Basket of Shares, sale or transfer of all or substantially all of its assets by a company the Shares of which are included in the Basket of Shares, or liquidation of a company the Shares of which are included in the Basket of Shares;
- (e) upon the occurrence of any event relating to the economic and monetary union of the European Community;
- (f) where a Benchmark Index ceases to exist (see below);
- (g) upon the occurrence of a Market Disruption Event; or
- (h) such other circumstances as the Issuer believes should give rise to an adjustment, **provided that** the Issuer considers such adjustment to be fair and desirable for holders of the relevant OPALS generally.

Under the Counterparty Agreement to which MSI plc is a party, MSI plc may adjust the Basket of Shares by reference to which its obligations under the Counterparty Agreement in respect of a particular Series of OPALS are determined in circumstances which correspond to those indicated in paragraphs (a) to (h) above (in the case of paragraph (h) treating references to the Issuer as if they were references to MSI plc in its capacity as Counterparty). In the case of such Series of OPALS, the Issuer may treat the making of an adjustment by MSI plc as evidence of the existence of circumstances warranting an adjustment in respect of the relevant Basket of Shares and the Issuer may make a corresponding adjustment.

In the event that the Benchmark Index relating to a Series of OPALS ceases to exist (each a "**Disbanded Index**") or experiences an Administrator/Benchmark Event (each a "**Non-Compliant Index**"), the Issuer shall have the discretion to:

- (a) alter the composition of the relevant Basket of Shares with a view to replicating fully, or based on portfolio optimisation techniques, tracking the performance of a

different Benchmark Index which, in the opinion of the Issuer, closely corresponds to the Disbanded Index or Non-Compliant Index, as applicable, provides an investment performance which corresponds to that of the Disbanded Index or Non-Compliant Index, as applicable, immediately before it ceased to exist or supersedes the Disbanded Index or Non-Compliant Index, as applicable;

- (b) in relation to a Disbanded Index, maintain or adjust, as it considers appropriate, the existing composition of the relevant Basket of Shares with a view, during the remainder of the term of such Series, to replicating fully, or, based on portfolio optimisation techniques, tracking the performance of the Disbanded Index as if it continued to exist in the form it had immediately prior to it ceasing to exist; or
- (c) in relation to a Non-Compliant Index, maintain or adjust, as it considers appropriate, the existing composition of the relevant Basket of Shares with a view, during the remainder of the term of such Series, to replicating fully, or, based on portfolio optimisation techniques, tracking the performance of the Non-Compliant Index as if the Administrator/Benchmark Event had not occurred, without using such Benchmark Index to determine amounts due in relation to the relevant Series of OPALS in a way that is not permitted under applicable laws and regulations.

Under the Counterparty Agreement to which MSI plc is a party, MSI plc may, in the event that the Benchmark Index relating to a particular Series of OPALS ceases to exist or experiences an Administrator/Benchmark Event, adjust the Basket of Shares by reference to which its obligations under the Counterparty Agreement in respect of a particular Series of OPALS are determined. In the case of such Series of OPALS, the Issuer may treat the making of an adjustment by MSI plc as evidence of the existence of circumstances warranting an adjustment in respect of the relevant Basket of Shares and the Issuer may make a corresponding adjustment.

Where there has been an adjustment to the composition of a Basket of Shares and the net costs of the Shares purchased exceeds the net proceeds of the sale of the Shares removed in order to reflect the relevant adjustment, the Issuer may reflect the shortfall in a reduction of the income accrued in respect of the relevant Series. If such costs exceed income accrued on such Series, the composition of the relevant Basket of Shares may be adjusted to reflect a sale of additional shares sufficient to raise the required cash, or the Issuer, or any affiliate, may advance to the Counterparty the amount of the remaining shortfall and such advance, together with borrowing costs, shall be reflected in future income attributable to the relevant Basket of Shares. Where there has been an adjustment to the composition of a Basket of Shares and the net proceeds of the sale of the Shares removed from the Basket of Shares exceeds the net cost of the Shares purchased in order to effect the relevant adjustments, the composition of the Basket of Shares may be further adjusted to reflect an application of that excess in the purchase of additional Shares or such excess may be treated as income on the relevant Series. Where MSI plc is the Counterparty and it does not hold all of the Shares in the

Basket of Shares, these provisions shall be applied by reference to the position that would have applied had it held all of such Shares.

**Depository Receipts:**

The Basket of Shares to which a Series of OPALS relates may include depository receipts. In relation to any such Series, references to "**shares**" shall include a reference to depository receipts. Upon redemption of any such Series, the Issuer may elect to deliver the shares underlying the depository receipts instead of delivering the depository receipts.

Where the Basket of Shares includes depository receipts, the composition of the Basket of Shares may also be adjusted where the events specified in (c) and (d) under "*Adjustments and other Events*" above occur in relation to the issuer of the shares underlying the depository receipts or on a variation of the terms of the depository receipts or if the agreement or instrument governing the depository receipts is terminated.

**Status of OPALS:**

OPALS will be direct and unsecured obligations of the Issuer ranking *pari passu* and without preference among themselves and with all other unsecured and unsubordinated obligations of the Issuer, subject to any statutory exceptions.

**Withholding Tax:**

All payments of income on OPALS by the Issuer will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer is required by applicable law or agreement with a taxing authority to make any payment of income on OPALS subject to any withholding or deduction for, or on account of, any such taxes, duties or charges. In that event, the Issuer shall make such payment after such withholding or deduction has been made. All payments to the Issuer by the Counterparty under the arrangements between the Issuer and the Counterparty will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Counterparty is required by applicable law or agreement with a taxing authority to make any payment subject to any withholding or deduction for, or on account of, any such taxes, duties or charges. In that event, the Counterparty shall make such payment after such withholding or deduction has been made.

**Governing Law:**

OPALS shall be governed by, and construed in accordance with, English law.

**Listing and admission to trading:**

In respect of each Series of OPALS, application may be made to admit such Series to listing on the Official List and trading on the Regulated Market of the Luxembourg Stock Exchange (and/or such other stock exchange as the Issuer and the Dealer may agree, as specified in the relevant Final Terms) or such application may not be made in relation to the relevant Series, as specified in the relevant Final Terms.

**Agent:**

Morgan Stanley & Co. International plc and/or such other agent as may be specified in the relevant Final Terms and any successor or replacement calculation agent appointed pursuant to the Agency Agreement (as defined in Condition 2 of the relevant Terms and Conditions).

**Principal Paying Agent:**

Citibank, N.A., London Branch and/or such other principal paying agent as may be specified in the relevant Final Terms and any successor or replacement paying agent appointed pursuant to the

Agency Agreement (as defined in Condition 2 of the relevant Terms and Conditions).

**Additional Paying Agent:**

Citibank Europe plc and/or such other paying agent or paying agents as may be specified in the relevant Final Terms and any successor or replacement paying agent appointed pursuant to the Agency Agreement (as defined in Condition 2 of the relevant Terms and Conditions).

**Dealer:**

Morgan Stanley & Co. International plc and/or such other dealer or dealers as may be specified in the relevant Final Terms and any successor or replacement dealer appointed pursuant to the Programme Agreement (as defined in Condition 2 of the relevant Terms and Conditions).

## RISK FACTORS

*Any investment in OPALS is subject to a number of risks. Prior to investing in OPALS, prospective investors should carefully consider risk factors associated with any investment in OPALS, the business of the Issuer and the industry in which it operates together with all other information contained in this Base Prospectus, including, in particular the risk factors described below. Words and expressions defined in the "Terms and Conditions of OPALS" below or elsewhere in this Base Prospectus have the same meanings in this section.*

*Additional risks and uncertainties relating to the Issuer that are not currently known to the Issuer, or that the Issuer currently deems immaterial, may individually or cumulatively have a material adverse effect on the business, prospects, results of operations and/or financial position of the Issuer and, if any such risk should occur, the price of the OPALS may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the OPALS is suitable for them in light of the information in this Base Prospectus and their personal circumstances.*

**Prospective investors in OPALS should be aware that the risks relating to an investment in OPALS are such that they could suffer a total or partial loss of their investment.**

### ***1. Risks relating to an investment in OPALS being an indirect investment in an international equity portfolio***

As an investment in OPALS is an indirect investment in a Basket of Shares, it involves risks similar to those of investing in a portfolio of equity securities.

#### *1.1 Holders of OPALS are exposed to risks related to regional economic conditions and sovereign risks*

Investments related to securities of certain issuers of such securities may involve certain special risks related to regional economic conditions and sovereign risks, including: (1) risks associated with political and economic uncertainty, including the risk of nationalisation or expropriation of assets and the risk of war and revolution; (2) fluctuations of currency exchange rates (*i.e.*, the cost of converting foreign currency into an investor's base currency); (3) lower levels of disclosure and regulation in certain securities markets than in others; (4) confiscatory taxation, taxation of income in some countries or other taxes or restrictions imposed with respect to investments in some countries; (5) foreign exchange controls (which may include suspension of the ability to transfer currency from a given country and repatriation of investments); (6) uncertainties as to the status, interpretation and application of laws; and (7) risks relating to the custody, regulation of ownership and pledge of securities.

Such risks may result in unfavourable market fluctuations in the value of the Shares underlying each subject Series and could therefore have a negative impact on the value of the OPALS.

#### *1.2 Holders of OPALS may not be able to redeem their OPALS in the manner anticipated or in some cases at all*

Present or future local laws, regulations or practices may make it difficult or impossible for a holder to accept delivery of the Shares (including in circumstances where delivery may be effected only via execution of transactions on a stock exchange or other trading system or where delivery may only be effected in specified numbers) or to register Shares delivered by the Issuer upon redemption or maturity of a Series of OPALS. As a result, holders of OPALS may not be able to redeem their OPALS in the manner anticipated and, in certain circumstances, may not be able to redeem their OPALS at all. In some cases, the occurrence of a Market Disruption Event may mean that delivery of shares may only be effected via execution of transactions on a stock exchange and as a consequence, it may be difficult or impossible for holders of OPALS in a Series affected by such a Market Disruption Event to redeem their OPALS.

#### *1.3 The Basket of Shares is subject to foreign currency fluctuations*

Because the Basket of Shares to which a Series of OPALS relates may include equity securities issued in currencies of different countries, and because a substantial portion of the revenues and income of each Series may be received in a currency other than U.S. dollars, while some Series' distributions may be paid in U.S. dollars, the U.S. dollar value of the net proceeds of a Series will be adversely affected by reductions in the value of the subject foreign currency relative to the U.S. dollar and will be positively affected by increases in the value of such currency relative to the U.S. dollar. Also, government or monetary authorities



have imposed and may in the future impose exchange controls that could adversely affect exchange rates. Any such currency fluctuations will affect the value of OPALS of the affected Series (in U.S. dollar terms) irrespective of the performance of its underlying Basket of Shares in local currency terms. The Issuer does not expect to engage in currency transactions for the purpose of hedging against the decline in value of any foreign currencies.

Investors in OPALS will therefore be subject to foreign exchange risk in respect of all conversions from local currency to U.S. dollars. Investors should make their own assessment of the volatility of the relevant local currency on the foreign exchange markets prior to investing in OPALS.

Similar considerations may apply in relation to a Series of OPALS on which payments are made in a currency other than U.S. dollars or if the base currency of an investor in OPALS is a currency other than U.S. dollars.

#### *1.4 Holders of OPALS are exposed to risks associated with certain equity markets*

A Basket of Shares may comprise of emerging country securities. There are specific risks associated with investing in emerging country securities, which could affect the value of OPALS:

*Volatility.* The performance of certain equity markets, particularly emerging markets, can be substantially more volatile than that of more developed markets. The value of a Series of OPALS can be expected to generally reflect the volatility of the underlying Benchmark Index, which may be affected by more volatile markets.

*Trading Volumes, Liquidity and Commissions.* Trading volume in emerging country securities markets may be substantially less than that in more developed country securities markets. Further, securities of some emerging country companies may be less liquid and more volatile than securities of comparable companies in more developed countries. Commissions for trading on emerging country stock exchanges may be higher than commissions for trading on more developed exchanges.

*Disclosure and Regulation.* Companies in emerging countries may not be subject to uniform accounting, auditing and financial reporting standards, practices and disclosure requirements comparable to those applicable to companies in more developed countries. Consequently, there may be less publicly available information about an emerging country company than about a company in a more developed country. Further, there may be less government supervision and regulation of emerging market stock exchanges, brokers, listed companies and traders than would be the case in many developed countries. For example, front running and insider trading may not be illegal in some countries, while laws prohibiting such conduct are not effectively enforced in others.

*Shareholder Protection.* Shareholders of companies which are incorporated in certain jurisdictions or of companies whose shares are traded in certain markets may not be subject to the same level of shareholder protection provisions as those which are applicable in other jurisdictions such as the United Kingdom or the United States of America.

#### *1.5 Investors in OPALS are exposed to risks relating to the economies of individual countries*

The economies of individual countries may differ favourably or unfavourably from an investor's home economy in such respects as growth of gross domestic product, rate of inflation, volatility of currency exchange rates, currency depreciation, capital reinvestment, resource self-sufficiency and balance of payments position, and may be based on a substantially less diversified industrial base.

Governments of many countries have exercised and may in the future exercise substantial influence over many aspects of the private sector and may change regulatory policies affecting the private sector without prior notice. In some cases, the government owns or controls many companies, including some of the largest in the country. Accordingly, government actions could have a significant effect on economic conditions in various countries and on market conditions, prices and yields of any Series of OPALS that relate to securities in the affected markets. Moreover, the economies of developing countries generally are heavily dependent upon international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been and may continue to be adversely affected by economic conditions in the countries with which they trade.

By indirectly investing in companies that differ from an investor's home country, investors of OPALS are exposed to risks relating to the economic condition of such countries. Such risks may result in unfavourable market fluctuations in the value of the Shares underlying each subject Series and, thereby, the return of an investment in OPALS.

#### *1.6 There are special risks relating to emerging markets and other less established markets*

Prior governmental approval for foreign investments may be required under certain circumstances in some emerging countries, and the extent of foreign investment in domestic companies may be subject to limitation in other emerging countries. Foreign ownership limitations also may be imposed by the charters of individual companies in emerging countries to prevent, among other concerns, violation of foreign investment limitations.

Repatriation of investment income, capital and the proceeds of sales by foreign investors may require governmental registration and/or approval in some emerging countries. Shares could be adversely affected by delays in or a refusal to grant any required governmental registration or approval for such repatriation or by withholding taxes imposed by emerging market countries on interest or dividends paid on Shares or gains from the disposition of such Shares. Restrictions on transfers of Shares could be imposed that could adversely affect the ability of foreign investors to take delivery of such Shares upon redemption or maturity of their OPALS (see Condition 8 of the relevant Terms and Conditions).

## **2. Risks relating to tracking the Benchmark Index**

### *2.1 The performance of a Series of OPALS may diverge materially from the performance of the relevant Benchmark Index*

The Shares comprised in a Basket of Shares are selected either to replicate fully the relevant Benchmark Index or, based on portfolio optimisation techniques, with a view to tracking the investment performance of the relevant Benchmark Index. However the Basket of Shares underlying a Series of OPALS may not contain all the shares that comprise the relevant Benchmark Index and may, in some cases, contain securities that are not included in the relevant Benchmark Index. In particular, it may not be possible, for legal, regulatory or potential conflict reasons for the Counterparty to purchase, sell or deliver certain securities that form part of the relevant Benchmark Index. These and a number of other factors may cause the actual performance of a Series of OPALS to diverge, and diverge materially, from the performance of the relevant Benchmark Index.

The Final Terms for each Series of OPALS states the "Expected Annual Tracking Risk" for that Series as of the date of the Final Terms. The amount so stated will be replaced by the percentage amount notified from time to time by the Issuer to reflect the Issuer's assessment of the Expected Annual Tracking Risk for the relevant Series. The Expected Annual Tracking Risk is, for any Series of OPALS, the Issuer's assessment, based on both quantitative and qualitative analysis, of the likely range of variation, after a one year period, between the annual investment performance of that Series of OPALS and the annual investment performance of the Benchmark Index under normal market conditions (see "*Programme Documents – Expected Annual Tracking Risk*" below). The Issuer expects to make available on a regular basis its current assessment of the Expected Annual Tracking Risk for each Series of OPALS. However, there can be no assurance that the performance of a Series of OPALS will track the performance of the relevant Benchmark Index within the range indicated by the Expected Annual Tracking Risk.

The Issuer may from time to time adjust the composition of a Basket of Shares to reflect changes in the Benchmark Index, with a view to tracking more closely the performance of the Benchmark Index and in certain other circumstances. However, the Issuer is under no obligation to adjust the composition of a Basket of Shares with a view to tracking the performance of the Benchmark Index or for any other reason. In addition, the analysis used to select the Basket of Shares and to make adjustments to its composition involves both quantitative and qualitative analysis, based on historical information and experience that may not be indicative of future price relationships. Accordingly, there can be no assurance that the performance of a Series of OPALS will, over any one year (or other) period, track the performance of the relevant Benchmark Index to the extent indicated by the Expected Annual Tracking Risk stated in the Final Terms for that Series or published by the Issuer from time to time.

### *2.2 Holders of OPALS are exposed to risks associated with the reform and regulation of "benchmarks"*

Indices which are deemed to be "benchmarks" are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented.

These reforms or the general increased regulatory scrutiny of "benchmarks" could cause such "benchmarks" to perform differently than in the past and could cause an increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or participate in certain "benchmarks", trigger changes in the rules or methodologies used in certain "benchmarks" or lead to the disappearance of certain "benchmarks". The disappearance of a "benchmark" or changes in the manner of administration of a "benchmark" could have materially adverse consequences in relation to securities linked to such "benchmark". Under certain base rates, the final alternative method sets the interest rate for an interest period at the same rate as the immediately preceding reset period, or, if there was no interest reset period, the rate of the interest payable will be the initial interest rate. Any such consequence could have a material adverse effect on the value of and return on any such securities.

The administrator or sponsor of a Benchmark Index may be required to be authorised, registered, recognised, endorsed or otherwise included in an official register in order for the Issuer or the Calculation Agent to be permitted to use the Benchmark Index and perform their respective obligations under the OPALS. In the case where the Calculation Agent determines that any authorisation, registration, recognition, endorsement, equivalence decision, approval or inclusion in any official register of the Benchmark Index or its administrator or sponsor has not been obtained with the effect that any of the Issuer or the Calculation Agent is not or will not be permitted to use the Benchmark Index in respect of the OPALS, an "Administrator/ Benchmark Event" will occur. In such a case the Calculation Agent will apply certain fallbacks. This may include altering the composition of the relevant Basket of Shares with a view to tracking the performance of a different Benchmark Index which closely corresponds to the Benchmark Index which experienced an Administrator/Benchmark Event or maintaining or adjusting the existing composition of the relevant Basket of Shares with a view, during the remainder of the term of such Series, to track the performance of the Benchmark Index which experienced the Administrator/Benchmark Event as if the Administrator/Benchmark Event had not occurred, without using such Benchmark Index to determine amounts due in relation to the relevant Series of OPALS in a way that is not permitted under applicable laws and regulations.

### *2.3 Concentration and lack of diversification of certain series*

The stocks of particular issuers, or issuers in particular industries, may dominate the Benchmark Index of certain Series of OPALS, and this may adversely affect the performance of such Series or subject such Series to greater price volatility than that experienced by more diversified investments. OPALS relating to a narrowly based Benchmark Index may also be more susceptible to any single economic, political or regulatory occurrence than an investment in a portfolio that is more broadly invested in the equity securities of the relevant market or a portfolio that is invested in equity securities of more than one relevant market.

## **3. Risks relating to the Counterparty Agreement**

### *3.1 There are risks associated with lending of securities and other transactions*

The Counterparty Agreement permits the Counterparty to engage in stocklending or other transactions in relation to the Shares comprised in a Basket of Shares which it holds in connection with its obligations under the Counterparty Agreement upon the basis that the net income (if any) deriving from such transactions is to be shared equally between the Counterparty and the Issuer.

In the case of a Series of OPALS in respect of which Morgan Stanley Capital (Luxembourg) S.A. is the Counterparty, such stockloans or other transactions are required to be collateralised by or effected against cash, letters of credit, securities (which may include unrated and long-term debt securities and equity securities) or other collateral in an amount at least equal to the market value of the loaned or subject Shares, determined daily. This requirement does not apply to Series of OPALS in respect of which MSI plc is the Counterparty and may not apply where the Counterparty is another entity set out in the relevant Final Terms.

Whether or not a stocklending (or other) transaction is collateralised, such transactions involve a number of risks. The borrower (or other counterparty) might fail to perform its obligation to return the loaned or

equivalent Shares or otherwise fail to perform its obligations, whether because of insolvency or otherwise. The Counterparty could experience delays and costs in obtaining performance and in extreme circumstances the Counterparty could be restricted from enforcing its rights or remedies under the relevant agreement(s). The Counterparty could suffer a loss to the extent that the amount recoverable from the borrower or other counterparty is less than the amount required to purchase the Shares in the open market. These matters could affect the Counterparty's ability to perform its obligations to the Issuer under the Counterparty Agreement, thereby exposing holders of the affected Series of OPALS to a risk of loss. In extreme circumstances, the loaned or subject Shares may be unavailable at any price.

In circumstances where a stocklending (or other) transaction is collateralised and the borrower (or other counterparty) fails to perform (for whatever reason), the Counterparty could experience delays and costs in utilising collateral or equivalent assets posted by the borrower or other counterparty, and in extreme circumstances the Counterparty may experience a loss of rights in the collateral taken. It should be noted that collateral or equivalent assets may be held by affiliates of the borrowers or counterparties and that the borrowers or counterparties may be responsible for marking such collateral or equivalent assets to market. See also "*Potential Conflicts of Interest*" and "*Risks relating to Exposure to Morgan Stanley*".

The Counterparty could also suffer a loss to the extent that the value of the collateral or equivalent assets received from the borrower or other counterparty is less than the amount required to purchase the Shares in the open market. This shortfall could be due, among other things, to delay or default in posting additional collateral, an increase in the price of the Shares subsequent to a default, discrepancies between the mark-to-market and actual transaction prices for the loaned or subject Shares arising from limited liquidity or availability of the loaned or subject Shares or fluctuations in the value of the collateral and out-of-pocket costs incurred in purchasing replacement securities. These matters could affect the Counterparty's ability to perform its obligations to the Issuer under the Counterparty Agreement, thereby exposing the affected Series to a risk of loss. In extreme circumstances, the loaned or subject Shares may be unavailable at any price.

### *3.2 There is Counterparty risk in the case of Series of OPALS in respect of which MSI plc is the Counterparty*

Where it is the Counterparty, it is expected that MSI plc will use the proceeds from the issuance of a Series of OPALS (which will be paid over to it under the terms of the Counterparty Agreement to which it is party) to purchase Shares comprised in the Basket of Shares or the Basket of OPALS to which such Series relates. MSI plc expects to satisfy its obligations in respect of each Series out of the income it receives from these baskets and the baskets themselves. MSI plc will not be required, however, to purchase or hold such baskets and it may satisfy its obligations under the Counterparty Agreement out of income derived from other assets and activities. As a general matter, baskets held by MSI plc and income received in respect of those baskets hedge MSI plc's obligations in respect of the Counterparty Agreement but there can be no assurance that they will hedge such obligations perfectly or that other claims will not be made on these assets.

In the event of the insolvency of MSI plc, any assets that MSI plc holds in relation to its obligations under the Counterparty Agreement would form part of MSI plc's assets available to its creditors generally. The Issuer will rank as a general creditor of MSI plc and will therefore rank behind secured or preferred creditors of MSI plc. If the MSI plc is not able to satisfy its obligations to the Issuer under the Counterparty Agreement, this may negatively affect the return on an investment in OPALS.

### *3.3 There is Counterparty risk in the case of Series of OPALS in respect of which Morgan Stanley Capital (Luxembourg) S.A. is the Counterparty*

Where it is the Counterparty, Morgan Stanley Capital (Luxembourg) S.A. uses the proceeds from the issuance of a Series of OPALS (which are paid over to it under the terms of the Counterparty Agreement to which it is party) to purchase the Basket of Shares or the Basket of OPALS to which such Series relates and may engage in stocklending (or other) transactions with respect to those Shares, as described above. As a general matter, the baskets and the income received in respect of the baskets hedge Morgan Stanley Capital (Luxembourg) S.A.'s obligations in respect of the Counterparty Agreement but there can be no assurance that they will hedge such obligations perfectly or that other claims will not be made on these assets.

Morgan Stanley Capital (Luxembourg) S.A. does substantially all of its trading in securities through MSI plc and its affiliates. In the event of the insolvency of MSI plc and certain of its affiliates prior to the settlement of such trades, Morgan Stanley Capital (Luxembourg) S.A. could incur losses that would impair its ability to fulfil its obligations in respect of the Counterparty Agreement, thereby exposing holders of OPALS to a risk of loss.

### *3.4 Potential conflicts of interest*

The members of the Board of Directors of the Issuer are employees of companies within the Morgan Stanley group of companies. The Counterparty and most of the service providers to the Issuer and the Counterparty (including the entities having custody of most of the Counterparty's assets) are wholly-owned indirect subsidiaries of Morgan Stanley.

It is expected that companies within the Morgan Stanley group of companies will, in relation to any Series of OPALS, provide advisory and other services to the Issuer in respect of the initial selection of the Basket of Shares for such Series, any adjustment to be made to the Basket of Shares for such Series, and the initial determination of, and any subsequent changes to, the Expected Annual Tracking Risk for such Series.

Under the Counterparty Agreement to which MSI plc is a party, MSI plc may adjust the basket of shares by reference to which its obligations under the Counterparty Agreement in respect of a particular Series of OPALS are determined on the same basis as the Issuer is entitled to adjust the Basket of Shares to which such Series relates under the Terms and Conditions of OPALS. In the case of such Series of OPALS, the Issuer may treat the making of an adjustment by MSI plc as evidence of the existence of circumstances warranting an adjustment in respect of the relevant Basket of Shares and the Issuer may make a corresponding adjustment. It is possible that MSI plc may elect to make an adjustment in circumstances where the Issuer would not, but for MSI plc having done so, elect to do so.

In addition, in the case of Series of OPALS in respect of which Morgan Stanley Capital (Luxembourg) S.A. is the Counterparty, virtually all of the stocklending and other transactions entered into by the Counterparty will be with MSI plc and its affiliates, generally acting as principal, and it is expected that MSI plc and affiliates of MSI plc will be the principal borrowers of securities from, and transaction counterparties to, the Counterparty in such circumstances.

In the case of Series of OPALS in respect of which MSI plc is the Counterparty, in some cases the stocklending and other transactions entered into by the Counterparty will be with affiliates of MSI plc, generally acting as principal, and it is expected that affiliates of MSI plc will be borrowers of securities from and transaction counterparties to, the Counterparty in such circumstances.

## **4. Custody Risk**

### *4.1 Risk in the case of any assets held on behalf of the Counterparty by Morgan Stanley & Co. LLC ("MS&Co.").*

MS&Co. is a U.S. broker-dealer, regulated by the U.S. Securities and Exchange Commission ("SEC"). Because a trustee in bankruptcy for a U.S. broker-dealer may liquidate securities held by the broker-dealer, the Counterparty, in the event of the insolvency of MS&Co., may receive less in value than it would otherwise have received if the actual share holdings were delivered to it, because of timing differences and liquidation prices. The insurance purchased by Morgan Stanley to cover shortfalls for MS&Co. customers not otherwise covered under the statutory consumer protection scheme in place in the U.S. under the Securities Investors Protection Act, is not likely to cover shortfalls suffered by the Counterparty due to the cash proceeds realised in liquidation being less than the value the Counterparty would have received if it had received the actual share holdings held through MS&Co.

In the event of an insolvency of MS&Co., the segregation of customer assets, plus the existence of government mandated insurance (and voluntarily provided excess insurance to cover certain shortfalls), will assist in enabling the Counterparty to recover assets for the purpose of satisfying its obligations to the Issuer. However, notwithstanding these matters, upon a bankruptcy of MS&Co., holders of a Series of OPALS may receive fewer than the number of Shares or less than the value they would otherwise have been due.

*4.2 Risk in the case of assets held with other custodians other than MS&Co. (including other affiliates of MSI plc) on behalf of the Counterparty*

The Counterparty may from time to time hold assets with affiliates of MSI plc other than MS&Co., as to which see above) or with other third party custodians. The claim that the Counterparty may have in the insolvency of any such custodian may differ from that described in relation to MS&Co. or MSI plc (as to which see below).

Therefore, in the event of the insolvency of a custodian, the Counterparty could incur losses that would impair its ability to fulfil its obligations in respect of the Counterparty Agreement, thereby exposing holders of OPALS to a risk of loss.

*4.3 Risk in the case of Series in respect of which Morgan Stanley Capital (Luxembourg) S.A. is the Counterparty and assets are held on its behalf by MSI plc as custodian*

If, in the event of insolvency in England of MSI plc, there were to be a shortfall between the number of securities that MSI plc has recorded as being held with a sub-custodian in a segregated omnibus client account and the number of securities that MSI plc has recorded as holding for the benefit of clients, then, although the position is unclear under English law, a likely outcome is that the rights of Morgan Stanley Capital (Luxembourg) S.A. would be reduced *pro tanto* and Morgan Stanley Capital (Luxembourg) S.A. would have a monetary claim in the insolvency of MSI plc equal to the shortfall.

In the event of the insolvency of a custodian or a sub-custodian, Morgan Stanley Capital (Luxembourg) S.A. could incur losses that would impair its ability to fulfil its obligations in respect of the Counterparty Agreement, thereby exposing holders of OPALS to a risk of loss.

*4.4 Sub-custodian risk*

Custodians may hold assets of the Counterparty through sub-custodians. The protection that the Counterparty may have in the insolvency of any such sub-custodian may differ from that described above in relation to MS&Co. or MSI plc (as to which see above). The Counterparty may not have direct rights against any sub-custodian and may need to rely on the rights that it has with respect to the custodian. As a result, in the event of the insolvency of a sub-custodian, the Counterparty could incur losses that would impair its ability to fulfil its obligations in respect of the Counterparty Agreement, thereby exposing holders of OPALS to a risk of loss.

**5. Risks relating to taxation**

*5.1 Withholding on payments contingent upon or determined by reference to U.S. source dividends.*

In the event that any payment in respect of OPALS is determined by reference to a Basket of Shares or Benchmark Index, in each case, the components of which include one or more U.S. shares, regulations under Section 871(m) of the Code could adversely affect the tax consequences of owning and disposing of OPALS. These regulations would in certain circumstances impose a withholding tax at a rate of 30 per cent. (subject to reduction under an applicable treaty) on amounts, attributable to U.S. source dividends, that are paid or "deemed paid" on certain financial instruments ("**dividend equivalents**"). The regulations provide for certain exceptions to the withholding requirements, in particular for instruments linked to certain broad-based indices (a "**qualified index**") that meet standards set forth in the regulations, as well as certain securities that track a qualified index. However, significant aspects of the application of these rules to the OPALS are uncertain, and the Issuer (or other withholding agents) might determine that payments in respect of OPALS are subject to withholding tax with respect to dividend equivalents or that information must be provided to establish that withholding is not required.

Payments to or from the Counterparty may also be subject to this withholding in addition to any withholding imposed directly on payments in respect of OPALS. Neither the Issuer nor any other person will be under any obligation under the Programme Documents to pay additional amounts or otherwise indemnify a Holder with respect to any such withholding. If this withholding is imposed either once or multiple times in respect of OPALS, it could have a material adverse effect on a Holder's return.

*5.2 Cayman Islands – Automatic Exchange of Financial Account Information*

The Cayman Islands has signed an inter-governmental agreement to improve international tax compliance and the exchange of information with the United States (the "US IGA"). The Cayman Islands has also signed, along with over 100 other countries, a multilateral competent authority agreement to implement the OECD Standard for Automatic Exchange of Financial Account Information – Common Reporting Standard ("CRS" and together with the US IGA, "AEOI").

Cayman Islands regulations have been issued to give effect to the US IGA and CRS (collectively, the "AEOI Regulations"). Pursuant to the AEOI Regulations, the Cayman Islands Tax Information Authority (the "TIA") has published guidance notes on the application of the US IGA and CRS.

All Cayman Islands "Financial Institutions" are required to comply with the registration, due diligence and reporting requirements of the AEOI Regulations, unless they are able to rely on an exemption that allows them to become a "Non-Reporting Financial Institution" (as defined in the relevant AEOI Regulations) with respect to one or more of the AEOI regimes, in which case only the registration requirement would apply under CRS. The Issuer does not propose to rely on any Non-Reporting Financial Institution exemption and therefore intends to comply with all of the requirements of the AEOI Regulations.

The AEOI Regulations require the Issuer to, amongst other things (i) register with the Internal Revenue Service ("IRS") to obtain a Global Intermediary Identification Number (in the context of the US IGA only), (ii) register with the TIA, and thereby notify the TIA of its status as a "Reporting Financial Institution", (iii) adopt and implement written policies and procedures setting out how it will address its obligations under CRS, (iv) conduct due diligence on its accounts to identify whether any such accounts are considered "Reportable Accounts", and (v) report information on such Reportable Accounts to the TIA. The TIA will transmit the information to the applicable overseas fiscal authorities.

Under the terms of the US IGA, withholding will not be imposed on payments made to the Issuer unless the IRS has specifically listed the Issuer as a non-participating financial institution, or on payments made by the Issuer to the Noteholders unless the Issuer has otherwise assumed responsibility for withholding under United States tax law.

### *5.3 Transposition of the anti-tax avoidance EU Directive in Luxembourg law*

On 21 December 2018, Luxembourg transposed the EU anti-tax avoidance rules laid down in the Council Directive (EU) 2016/1164 of 12 July 2016. This law may have an impact on the tax position of the Issuer (including on its performance) in certain limited circumstances. On 23 December 2019, Luxembourg transposed the EU Council Directive 2017/952 of 29 May 2017 amending Directive (EU) 2016/1164 as regards hybrid mismatches with third countries which may further impact the tax position of the Issuer (although no draft bill has been released in Luxembourg at the date of this Base Prospectus).

## **6. Other risks relating to the OPALS**

### *6.1 Limited liquidity*

MSI plc, in its capacity as Dealer, expects to make a market in each Series of OPALS but is under no legal obligation to do so and may discontinue such activities at any time. Although a holder of the Minimum Redeemable Amount of a Series of OPALS (or an integral multiple thereof) may (subject, in the case of certain Series of OPALS, to postponement or procedures specified by the Issuer) redeem such OPALS during any Redemption Period, it may be required, at the discretion of the Issuer, to pay an Administration Charge (as defined herein) if it elects to do so outside of a Redemption Period. A holder of less than the Minimum Redeemable Amount of a Series of OPALS will be unable to redeem such OPALS until the Maturity Date (see Condition 5 of the relevant Terms and Conditions). In addition, the Issuer may suspend the redemption of OPALS, or certain Series of OPALS, during Market Disruption Events (as defined herein) in accordance with the provisions set forth herein. In such event, the right of holders to redeem affected OPALS would be suspended for an indefinite period (see Condition 8 of the relevant Terms and Conditions.)

### *6.2 Voting and similar rights*

Investors in OPALS do not have any right to direct the manner in which voting or similar rights are exercised in relation to the Shares in a Basket of Shares. Nor does the Issuer have any such right under the Counterparty Agreements with the Counterparties. The Counterparty or the person with whom it has entered into a stocklending transaction (or other transaction) with respect to Shares may exercise the voting

or other similar rights in relation to the Shares comprised in a Basket of Shares in a manner that is adverse to the interests of investors in OPALS or the Issuer. Similarly, to the extent that at any time the Issuer holds any such Shares directly it may exercise such rights in a manner adverse to the interests of holders of OPALS.

## **7. Risks relating to the Issuer**

### *7.1 Risks relating to the Emergence of COVID-19*

The coronavirus disease ("**COVID-19**") pandemic has, and will likely continue to, severely impact global economic conditions, resulting in substantial volatility in the global financial markets, increased unemployment, and operational challenges such as the temporary closure of businesses, sheltering-in-place directives and increased remote work protocols. Governments and central banks around the world have reacted to the economic crisis caused by the pandemic by implementing stimulus and liquidity programs and cutting interest rates, though it is unclear whether these or future actions will be successful in countering the economic disruption. If the pandemic is prolonged or the actions of governments and central banks are unsuccessful, the adverse impact on the global economy will deepen, and the future results of operations and financial condition of the Issuer, Morgan Stanley Capital (Luxembourg) S.A. and MSI plc will be adversely affected.

Since the emergence of the pandemic, each business segment of the Issuer, Morgan Stanley Capital (Luxembourg) S.A. and MSI plc has been impacted and such impact will likely be greater in the future if conditions persist (e.g., decline and volatility of asset prices, reduction in interest rates, widening of credit spreads, credit deterioration, market volatility and reduced investment banking advisory activity). Operationally, although each of the Issuer, Morgan Stanley Capital (Luxembourg) S.A. and MSI plc have initiated a work remotely protocol and restricted business travel and have not experienced any significant loss of operational capability, if significant portions of their workforces, including key personnel, are unable to work effectively because of illness, government actions, or other restrictions in connection with the pandemic, the business impact of the pandemic could be exacerbated.

While the emergence of the COVID-19 (coronavirus) pandemic has negatively impacted the results of the Issuer, Morgan Stanley Capital (Luxembourg) S.A. and MSI plc, the extent to which it, and the related global economic crisis, affects the businesses, the results of operations and financial condition, as well as the regulatory capital and liquidity ratios of these entities, will depend on future developments that are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and any recovery period, future actions taken by governmental authorities, central banks and other third parties in response to the pandemic, and the effects on our customers, counterparties, employees and third-party service providers. The Issuer, Morgan Stanley Capital (Luxembourg) S.A. and MSI plc continue to use their risk management frameworks, including stress testing, to understand the attendant uncertainties and their potential impact on our operations, liquidity and capital. The Issuer, Morgan Stanley Capital (Luxembourg) S.A. and MSI plc are maintaining active dialogue with all of their relevant global regulators during this period.

### *7.2 Risks relating to exposure to Morgan Stanley*

The Board of Directors of the Issuer is composed of employees of Morgan Stanley group companies.

The Issuer has no material assets other than the obligations owed by one or more Counterparties under the relevant Counterparty Agreement.

Most entities providing services to the Issuer and the Counterparty are affiliates of Morgan Stanley.

OPALS are obligations of the Issuer and do not represent an interest in or obligation of, and are not insured or guaranteed by, Morgan Stanley or any of its other affiliates.

*In the case of Series of OPALS in respect of which Morgan Stanley Capital (Luxembourg) S.A. is the Counterparty.*

Morgan Stanley Capital (Luxembourg) S.A. is a special purpose company that is a wholly-owned indirect subsidiary of Morgan Stanley. Morgan Stanley Capital (Luxembourg) S.A. has a minimal amount of equity capital and most of its assets will be held in accounts carried by Morgan Stanley affiliates rather than with a bank custodian.



If Morgan Stanley Capital (Luxembourg) S.A. incurs losses with respect to any of its activities its ability to fulfil its obligations in respect of the relevant Counterparty Agreement could be impaired, thereby exposing holders of OPALS to a risk of loss.

*In the case of Series of OPALS in respect of which MSI plc is the Counterparty.*

MSI plc is incorporated in England and Wales. MSI plc's ultimate U.K. parent undertaking is Morgan Stanley International Limited and MSI plc's ultimate parent undertaking and controlling entity is Morgan Stanley. MSI plc forms part of a group of companies including MSI plc and all of its subsidiary and associated undertakings ("**MSI plc Group**"). The principal activity of the MSI plc Group is the provision of financial services to corporations, governments and financial institutions. The MSI plc Group provides investment banking, sales and trading, lending and other services to corporations, governments, financial institutions and high to ultra-high net worth clients. Investment banking services consist of capital raising and financial advisory services, including services relating to the underwriting of debt, equity and other securities, as well as advice on mergers and acquisitions, restructurings, real estate and project finance. Sales and trading services include sales, financing and market-making activities in equity and fixed income securities and related products, including prime brokerage services, global macro, credit and commodities products. Lending services include originating and/or purchasing corporate loans, commercial and residential mortgage loans, asset-backed loans, and financing extended to clients. Other services include research activities.

If MSI plc incurs losses with respect to any of its activities (irrespective of whether those activities relate to OPALS or not) its ability to fulfil its obligations in respect of the relevant Counterparty Agreement could be impaired, thereby exposing holders of OPALS to a risk of loss.

### *7.3 Risks relating to Cayman Islands Anti-Money Laundering Legislation*

The Issuer is subject to the Anti-Money Laundering Regulations (2020 Revision) of the Cayman Islands (together with The Guidance Notes on the Prevention and Detection of Money Laundering and Terrorist Financing in the Cayman Islands (or equivalent legislation and guidance, as applicable), and each as amended and revised from time to time, "**Cayman AML Regulations**"). The Cayman AML Regulations apply to anyone conducting "relevant financial business" in or from the Cayman Islands who intends to form a business relationship or carry out a one-off transaction. The Cayman AML Regulations require a financial service provider to maintain certain anti-money laundering procedures including those for the purposes of verifying the identity and source of funds of an "applicant for business"; e.g. an investor, as well as the identity of the beneficial owner/controller of the investor, where applicable. Except in certain circumstances, including where an investor is regulated by a recognised overseas regulatory authority and/or listed on a recognised stock exchange in an approved jurisdiction, the Issuer or its agents will likely be required to verify each investor's identity and may be required to verify the source of the payment used by such investor in a manner similar to the obligations imposed under the laws of other major financial centres. The application of an identity verification exemption at the time of purchase of the OPALS may nevertheless require verification of identity prior to payment of proceeds from the OPALS. In addition, if any person in the Cayman Islands knows or suspects, or has reasonable grounds for knowing or suspecting, that another person is engaged in criminal conduct or money laundering, or is involved with terrorism or terrorist financing and property, and the information for that knowledge or suspicion came to their attention in the course of business in the regulated sector, or other trade, profession, business or employment, the person will be required to report such knowledge or suspicion to (i) the Financial Reporting Authority of the Cayman Islands ("**FRA**") pursuant to the Proceeds of Crime Law (2020 Revision) of the Cayman Islands ("**PCL**"), if the disclosure relates to criminal conduct or money laundering, or (ii) a police officer of the rank of constable or higher, or the FRA, pursuant to the Terrorism Law (2018 Revision) of the Cayman Islands ("**Terrorism Law**"), if the disclosure relates to involvement with terrorism or terrorist financing and property. If the Issuer were determined by the Cayman Islands authorities to be in violation of the PCL, the Terrorism Law or the Cayman AML Regulations, the Issuer could be subject to substantial criminal penalties and/or administrative fines. The Issuer may be subject to similar restrictions in other jurisdictions. Such a violation could materially adversely affect the timing and amount of payments by the Issuer to the holders of the OPALS.

**The Issuer disclaims any responsibility to advise prospective purchasers of any matters arising under the laws of the country in which they reside that may affect the purchase of, or holding of, or the receipt of payments on the OPALS. These persons should consult their own legal and financial advisors concerning these matters. The foregoing risk factors describe the most material risks of**

**investing in OPALS and do not purport to be a complete explanation of all the risks and significant considerations involved in this offering. Each investor should carefully consider whether OPALS, as described herein and in the applicable Final Terms, are suited to its particular circumstances before deciding to purchase any OPALS.**

## FORM OF FINAL TERMS

**PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS** – [OPALS] / [OPALS Basket OPALS or OB OPALS] are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") or in the United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended ("**MiFID II**"); (ii) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). Consequently no key information document required by Regulation (EU) No 1286/2014, as amended (the "**PRIIPs Regulation**") for offering or selling [OPALS] / [OPALS Basket OPALS or OB OPALS] or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling [OPALS] / [OPALS Basket OPALS or OB OPALS] or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

### FINAL TERMS

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

*(Incorporated with limited liability in the Cayman Islands)*

### OPTIMISED PORTFOLIOS AS LISTED SECURITIES (OPALS®)

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*Programme for the issue of OPALS due from one year  
after the date on which OPALS of the relevant Series are first issued to any date on or before  
5 April 2023*

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**SERIES NO:** [ ]<sup>1</sup>

[ ]<sup>2</sup> **OPALS®**

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**MORGAN STANLEY**

*The date of these Final Terms is [ ]<sup>3</sup>.  
OPALS is a registered trademark of Morgan Stanley  
U.S. PATENT NO. 5,946,667*

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<sup>1</sup> Specify Series Number.

<sup>2</sup> Specify currency, denomination and amount – the currency specified and the figure should be the same as that specified at item 3 "Maximum Amount".

<sup>3</sup> Specify date of the Final Terms.

[This document constitutes the Final Terms relating to the issue of the [OPALS] / [OPALS Basket OPALS or OB OPALS] described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 17 July 2020 (including only those Appendices to the Base Prospectus as are indicated herein)<sup>4 5[6</sup> in relation to the above Programme] [and the Base Prospectus Supplement dated [•]] which [together] constitute[s] a base prospectus ("**Base Prospectus**") for the purposes of Article 8 of the Prospectus Regulation (Regulation (EU) 2017/1129) (the "**Prospectus Regulation**"). This document constitutes the Final Terms of the [OPALS] / [OPALS Basket OPALS or OB OPALS] described herein for the purposes of the Prospectus Regulation and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the [OPALS] / [OPALS Basket OPALS or OB OPALS] is only available on the basis of the combination of these Final Terms and the Base Prospectus. However a summary of the issue is annexed to these Final Terms. [The Base Prospectus[, the Base Prospectus Supplement] and the Final Terms are available for viewing at [www.bourse.lu](http://www.bourse.lu) and copies of such Base Prospectus[,Base Prospectus Supplement] and Final Terms may be obtained from [address][the Listing Agent at Banque Internationale à Luxembourg S.A., 69, Route d'Esch, L-2953 Luxembourg.]]]

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Base Prospectus dated [19 June 2012 and the Base Prospectus Supplement dated 4 September 2012]/[24 July 2013]/[23 July 2014]/[23 July 2015]/[27 July 2016]/ [27 July 2017]/[26 July 2018]/[17 July 2019]]. This document constitutes the Final Terms of the [OPALS] / [OPALS Basket OPALS or OB OPALS] described herein for the purposes of the Prospectus Regulation (Regulation (EU) 2017/1129) (the "**Prospectus Regulation**") and must be read in conjunction with the Base Prospectus dated 17 July 2020 [and the Base Prospectus Supplement dated [•]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Regulation, save in respect of the Conditions which are extracted from the Base Prospectus dated [[19 June 2012 and the Base Prospectus Supplement dated 4 September 2012]/[24 July 2013]/[23 July 2014]/[23 July 2015]/[27 July 2016]/[27 July 2017]/[26 July 2018]/[17 July 2019]], which are incorporated by reference in the Base Prospectus dated 17 July 2020. Full information on the Issuer and the offer of the [OPALS] / [OPALS Basket OPALS or OB OPALS] is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated [[19 June 2012 and the Base Prospectus Supplement dated 4 September 2012]/[24 July 2013]/[23 July 2014]/[23 July 2015]/[27 July 2016]/[27 July 2017]/[26 July 2018]/[17 July 2019]/ [17 July 2020 [and the Base Prospectus Supplement dated [•]]]]. However a summary of the issue is annexed to these Final Terms. [The Base Prospectus[, the Base Prospectus Supplement] and the Final Terms are available for viewing at [www.bourse.lu](http://www.bourse.lu) and copies of such Base Prospectus[, Base Prospectus Supplement] and Final Terms may be obtained from [address][the Listing Agent at Banque Internationale à Luxembourg S.A., 69, Route d'Esch, L-2953 Luxembourg.]]]

|     |   |  |
|-----|---|--|
|     | <b>[(ii) Tranche No:]</b>   | [•]  |
|     |   | [Fungible with the [currency] [•] [Title of the Notes] issued by [•], bearing ISIN [•]]  |
| 2.  | <b>Currency:</b>  | [•]  |
| 3.  | <b>Maximum Amount:</b>  | [Up to] [•] <sup>7</sup>   |
| 4.  | <b>[(i) Issue Date of this tranche:</b>   | [•]  |
|     | <b>(ii) Amount issued on Issue Date:</b>  | [•] OPALS  |
|     | <b>(iii) Issue Price:</b>   | [•]]   |
| 5.  | <b>Denomination(s):</b>   | [•]  |
| 6.  | <b>Currency of payment of Income:</b>   | [•]  |
| 7.  | <b>Initial Issue Date:</b>  | [•]  |
| 8.  | <b>Maturity Date:</b>   | [•]  |
| 9.  | <b>Benchmark Index:</b>   | [•] <sup>8</sup>   |
| 10. | <b>Benchmark Index Bloomberg ticker:</b>  | [•] <sup>9</sup>   |
| 11. | <b>Basket of Shares:</b> <sup>10</sup>  | As set out in Annex A  |
| 12. | <b>Redemption Periods:</b>  | [•]  |
| 13. | <b>Income Determination Dates for payment of income on the OPALS:</b>                               | [•]  |
| 14. | <b>Record Dates:</b>  | [•]  |
| 15. | <b>Payment Dates:</b>   | [•]  |
| 16. | <b>Minimum Redeemable Amount:</b>   | [•] OPALS  |
| 17. | <b>Minimum investment in OPALS:</b>   | [•] OPALS  |
| 18. | <b>Expected Annual Tracking Risk:</b>   | [•] per cent. (as replaced by the percentage amount notified replaced from time to time by the Issuer to reflect the Issuer's assessment of the Expected Annual Tracking Risk for this Series) |
| 19. | <b>Any special settlement arrangements (including delivery of Global Security free of payment):</b> | [None][Delivery [against/free of] payment]   |
| 20. | <b>Cash Redemption at Option of Issuer:</b>   | [Yes/No] <sup>11</sup>   |

<sup>7</sup> Currency should be same as specified at item 2.

<sup>8</sup> The stock index by reference to which the composition of the basket of Shares has been determined.

<sup>9</sup> Include for indices published on Bloomberg.

<sup>10</sup> The term Basket of Shares should be used even in the case of OB (or Super) OPALS.

<sup>11</sup> "Yes" if the Issuer is to have the option of cash redemption, "No" in all other cases.

- |     |   |  |
|-----|---|--|
| 21. | <b>Common Code:</b>                           | [•]  |
| 22. | <b>ISIN No.:</b>                              | [•]  |
| 23. | <b>Additional Calculation or other Agent:</b> | [None] / [•]   |
| 24. | <b>Additional or other Paying Agent(s):</b>   | [None] / [•]   |
| 25. | <b>Additional or other Dealer(s):</b>         | [None] / [•]   |
| 26. | <b>Counterparty:</b>                          | [Morgan Stanley Capital (Luxembourg) S.A.]<br>[Morgan Stanley & Co. International plc] <i>[insert other details if applicable]</i> <sup>12</sup> |
| 27. | <b>Form of OPALS:</b>                         | [Bearer/Registered] <sup>13</sup>  |

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<sup>12</sup> Where the Counterparty is not Morgan Stanley & Co. International plc or Morgan Stanley Capital (Luxembourg) S.A., the identity of the Counterparty and the nature of the arrangements entered into between the Issuer and the Counterparty, and where the Counterparty is Morgan Stanley Capital (Luxembourg) S.A. or Morgan Stanley & Co. International plc but the arrangements entered into between the Issuer and the Counterparty are not governed by the Master Equity Linked Obligation Agreement, the nature of the arrangements entered into between the Issuer and MSI or Morgan Stanley Capital (Luxembourg) S.A. (as applicable).

<sup>13</sup> Bearer OPALS may only be issued if it has been determined that they are in registered form, or are not "registration required obligations", for U.S. federal income tax purposes.

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING APPLICATION

- (i) Listing: [Application has been made for the OPALS to be admitted to listing on [the Official List of the Luxembourg Stock Exchange]/[•]. The Issuer provides no assurances that such listing will be granted or that such listing will be effective as of the Issue Date.][Not applicable.]
- (ii) Admission to trading: [Application has been made to admit the OPALS to trading on [the Regulated Market of the Luxembourg Stock Exchange]/[•]. The Issuer provides no assurances that such admission to trading will be granted or that such admission to trading will be effective as of the Issue Date.] [Not applicable.]

### 2. [THIRD PARTY INFORMATION]

The information set out [in paragraph [•]] above has been extracted from [•]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [•], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

### 3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER

[•] (insert description of any interest, including conflicting ones, that is material to the issue/offer, if different from that set out in the sections of the Base Prospectus entitled "*Potential Conflicts of Interest*", in the "*Risk Factors*" section, and "*Potential Conflicts of Interest*")

[A description of the conflicts of interest material to the issue is included in the sections of the Base Prospectus entitled "*Potential Conflicts of Interest*", in the "*Risk Factors*" section, and "*Potential Conflicts of Interest*".](insert if applicable)

### 4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- (i) Reasons for the offer: [•]  
(If reasons for offer different from making a profit or hedging certain risks)
- (ii) Estimated net proceeds: [•]  
(For each intended use and in order of priority of such uses)
- (iii) Estimated total expenses: [•]  
(For each intended use and in order of priority of such uses)

### 5. BENCHMARKS REGULATION

The Benchmark Index is provided by [•] (the "**Index Sponsor**"). As at the date hereof, the Index Sponsor [appears]/[does not appear] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 of the Benchmarks Regulation. [As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmarks Regulation apply, such

that the Index Sponsor is not currently required to obtain authorisation/registration (or, if located outside the European Union and the United Kingdom, recognition, endorsement or equivalence).]  
/[Not Applicable]

**THE ISSUER**

**MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

By: .....

Date: [       ]



## **ISSUE-SPECIFIC SUMMARY OF THE SECURITIES**

*[Insert]*

## **ANNEX A**

*[Insert]*

## ANNEX B

### Schedule of Amounts Outstanding

| <u>Issue date</u> | <u>Number of OPALS issued<br/>or retired</u> | <u>Issued amount (in [•]<sup>14</sup>, at<br/>Par)</u> | <u>Total amount outstanding<br/>as of last Issue Date (in<br/>[•]<sup>14</sup>, at Par)</u> |
|-------------------|--|--|---|
|-------------------|--|--|---|

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<sup>14</sup> Reflect currency specified in item 2 "Currency".

## INCORPORATION BY REFERENCE

The following documents and/or information shall be deemed to be incorporated by reference in, and to form part of, this Base Prospectus:

|    | <b>Document filed</b>  | <b>Information incorporated by reference</b> | <b>Pages</b>   |
|----|--|--|----------------|
| 1. | Base prospectus dated 17 July 2019<br><a href="https://dl.bourse.lu/BaseProspectus17July2019">https://dl.bourse.lu/BaseProspectus17July2019</a>                        | Terms and Conditions of OPALS                | 41-61          |
| 2. | Base prospectus dated 26 July 2018<br><a href="https://dl.bourse.lu/BaseProspectus26July2018">https://dl.bourse.lu/BaseProspectus26July2018</a>                        | Terms and Conditions of OPALS                | 41-60          |
| 3. | Base prospectus dated 27 July 2017<br><a href="https://dl.bourse.lu/BaseProspectus27July2017">https://dl.bourse.lu/BaseProspectus27July2017</a>                        | Terms and Conditions of OPALS                | 41-61          |
| 4. | Base Prospectus dated 27 July 2016<br><a href="https://dl.bourse.lu/BaseProspectus27July2016">https://dl.bourse.lu/BaseProspectus27July2016</a>                        | Terms and Conditions of OPALS                | 39-59          |
| 5. | Base Prospectus dated 23 July 2015<br><a href="https://dl.bourse.lu/BaseProspectus23July2015">https://dl.bourse.lu/BaseProspectus23July2015</a>                        | Terms and Conditions of OPALS                | 38-58          |
| 6. | Base Prospectus dated 23 July 2014<br><a href="https://dl.bourse.lu/BaseProspectus24July2014">https://dl.bourse.lu/BaseProspectus24July2014</a>                        | Terms and Conditions of OPALS                | 38-58          |
| 7. | Base Prospectus dated 24 July 2013<br><a href="https://dl.bourse.lu/BaseProspectus24July2013">https://dl.bourse.lu/BaseProspectus24July2013</a>                        | Terms and Conditions of OPALS                | 39-59          |
| 8. | Base Prospectus dated 19 June 2012<br><a href="https://dl.bourse.lu/BaseProspectus19June2012">https://dl.bourse.lu/BaseProspectus19June2012</a>                        | Terms and Conditions of OPALS; and           | 51-77          |
|    |  | Terms and Conditions of Pre-Existing OPALS   | 78-98          |
| 9. | Base Prospectus Supplement dated 4 September 2012<br><a href="https://dl.bourse.lu/BaseProspectusSupplement2012">https://dl.bourse.lu/BaseProspectusSupplement2012</a> |  | Whole document |

The Base Prospectuses and the Base Prospectus Supplement set out above are available, and shall remain so for at least ten years after the publication of this Base Prospectus, for viewing by the hyperlinks above and at <https://www.bourse.lu/issuer/MorgStanCYM/28056>. The information on any websites referred to herein does not form part of this Base Prospectus unless that information is incorporated by reference into the Base Prospectus and has not been scrutinised or approved by the competent authority.

Any statement contained in this Base Prospectus or any documents incorporated by reference herein, shall be deemed to be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained in any document subsequently incorporated by reference and in respect of which a supplement to this Base Prospectus is prepared modifies or supersedes such statement.

Following the publication of this Base Prospectus, a supplement may be prepared by the Issuer and approved by the CSSF in accordance with Article 23 of the Prospectus Regulation. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements

contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

Any documents incorporated by reference into the documents listed above do not form part of this Base Prospectus. Such documents are either deemed not relevant for an investor or are otherwise covered elsewhere in this Base Prospectus.

## TERMS AND CONDITIONS OF OPALS

*The following are the Terms and Conditions of OPALS that, subject to completion in accordance with the provisions of the applicable Final Terms (the "**Final Terms**") attached to the Global Security representing the relevant Series, shall be applicable to a Series of OPALS. In the case of any OPALS which are being (a) offered to the public in a Member State or the United Kingdom (other than pursuant to one or more of the exemptions set out in Article 1.4 of the Prospectus Regulation) or (b) admitted to trading on a regulated market in a Member State or in the United Kingdom, the relevant Final Terms shall not amend or replace any information in this Base Prospectus. All capitalised terms that are not defined in these Terms and Conditions will have the meanings given to them in the applicable Final Terms. References in the Terms and Conditions to "the OPALSs" are to the OPALS of one Series only.*

### 1. Definitions

In these Terms and Conditions the following expressions shall have the following meanings (unless the context requires otherwise):

|  |  |
|--|--|
| <b>"Administrator/Benchmark Event"</b> | means, in respect of any Series of OPALS, delivery of a notice by the Calculation Agent to the Issuer specifying that any authorisation, registration, recognition, endorsement, equivalence decision, approval or inclusion in any official register in respect of the Benchmark Index or the administrator or sponsor of the Benchmark Index has not been, or will not be, obtained or has been, or will be, rejected, refused, suspended or withdrawn by the relevant competent authority or other relevant official body, in each case with the effect that any of the Issuer or the Calculation Agent is not, or will not be, permitted under any applicable law or regulation to use the Benchmark Index to perform its of their respective obligations in respect of the Series of OPALS; |
| <b>"Basket of Shares"</b>              | means the basket of Shares to which a Series of OPALS relates;   |
| <b>"Bearer OPALS"</b>                  | means a Series of OPALS issued in bearer form;   |
| <b>"Benchmark Index"</b>               | means, in respect of a Series of OPALS, the stock index specified in the Final Terms relating to that Series as the stock index by reference to which the composition of the relevant Basket of Shares has been determined;  |
| <b>"Business Day"</b>                  | means a day (other than a Saturday or Sunday) on which (i) banks are open for business in London and New York and, in respect of a Series of OPALS, in each city in which any Related Stock Exchange is situated, and (ii) Euroclear and Clearstream, Luxembourg are open for business;  |
| <b>"Clearing System Business Day"</b>  | means a day on which each clearing system for which the Registered OPALS is being held is open for business;   |
| <b>"EMU Event"</b>                     | means an event associated with economic and monetary union in the European Community including, without limitation, each (and any combination) of the following: <ul style="list-style-type: none"><li>(i) the introduction of, changeover to or operation of a single or unified European currency (whether known as the "<b>euro</b>" or otherwise);</li><li>(ii) the fixing of conversion rates between a member state's currency and the new currency or between currencies of member states;</li></ul>  |

- (iii) the introduction of that new currency as lawful currency in a member state;
- (iv) the withdrawal from legal tender of any currency that, before the introduction of the new currency, was lawful currency in one of the member states; or
- (v) the disappearance or replacement of a relevant rate option or other price source for the national currency of any member state, or the failure of the agreed sponsor (or a successor sponsor) to publish or display a relevant rate, index, price, page or screen;

**"Income Determination Date"**

means, in respect of each Series of OPALS, the last day on which income on such OPALS shall accrue for the purpose of determining the amount of income to be paid to holders of such OPALS, on the next succeeding Payment Date, each such day being specified in the Final Terms for that Series **provided that**, if any such day is not a Business Day, the Income Determination Date in that case shall be the next following Business Day;

**"Payment Business Day"**

means, in respect of a Series of OPALS, (1) in relation to any sum payable in a Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Currency (if other than the place of presentation, London and which if the Currency is Australian dollars or New Zealand dollars shall be Melbourne and Wellington, respectively) or (2) in relation to any sum payable in euro, any day on which TARGET2 is open for the settlement of payments in euro;

**"Payment Date"**

means, in respect of a Series of OPALS, each day specified as such in the Final Terms for that Series, **provided that**, if any such day is not a Payment Business Day, the Payment Date in that case shall be the next following Payment Business Day;

**"Record Date"**

means, subject to Condition 3(10), in respect of any Bearer OPALS and any income payable on such Bearer OPALS, the close of business (in the relevant clearing system) on the Clearing System Business Day prior to the Payment Date, by reference to which the entitlement to that income is determined; and in respect of any Registered OPALS and any income payable on such Registered OPALS, the close of business (in the relevant clearing system) on the Clearing System Business Day prior to the Payment Date, by reference to which the entitlement to that income is determined (the person entitled being the person shown as the holder in the Register at the opening of business in the place of the Registrar's specified office on such day). Where payment in respect of Registered OPALS is to be made by cheque, the cheque will be mailed to the address shown as the address of the holder in the Register at the opening of business on the relevant Record Date;

**"Redemption Date"**

means, in respect of any OPALS, a Business Day on which a Redemption Instruction in relation to such OPALS is received by Euroclear or Clearstream, Luxembourg, as the case may be, **provided that** if such Redemption Instruction is received on a day which is not a Business Day or after 10.00 a.m. (Brussels or

|                           |   |
|---------------------------|---|
|                           | Luxembourg time) on any Business Day, the Redemption Date shall be the next following Business Day;   |
| "Redemption Instruction"  | has the meaning specified in Condition 5(2);  |
| "Redemption Period"       | means, in respect of a Series of OPALS, each period of three Business Days specified in the Final Terms relating to that Series as the period during which a holder of the Minimum Redeemable Amount (as defined in Condition 5), or an integral multiple thereof, of OPALS of that Series may, in accordance with Condition 5(5), require the OPALS held by him to be redeemed by calling for the Basket of Shares to which the OPALS held by him relate to be delivered in accordance with the delivery procedures set out in Conditions 5 and 6; |
| "Registered OPALS"        | means a Series of OPALS issued in registered form;  |
| "Relevant Stock Exchange" | means, in respect of any Shares, the principal securities exchange or trading system on which such Shares are listed or traded;   |
| "Series"                  | means OPALS issued in the same currency, with the same maturity date and relating to a Basket of Shares comprised of the same number of Shares in the same companies, constituting a single series of OPALS;  |
| "Share Delivery Date"     | means, in respect of any OPALS, the day for delivery of Shares to the holder of such OPALS who has delivered a Redemption Instruction, being such day which is as soon as practicable, in the opinion of the Issuer, after the Redemption Date in respect of such OPALS;  |
| "Share Record Date"       | means, in respect of any Share and any dividend or other amount payable on or in respect of, or other right relating to, that Share, the date by reference to which the entitlement to that dividend or other amount or right or right to participate in the event giving rise to such dividend, other amount or right, is determined, the date on which a Share generally starts trading on the basis that excludes such dividend or other amount (i.e. on an "ex-dividend" basis) being such a date;  |
| "Shares"                  | means, in relation to a Series of OPALS, shares or other securities, as the case may be, or any of them; and  |
| "TARGET2"                 | means the Trans European Automated Real time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007.   |

References in these Terms and Conditions of OPALS to any person shall include reference to its successors.

## 2. Issue and Form

- (1) OPALS will be issued pursuant to (i) the provisions of a programme agreement dated 7 April 1993 (as most recently amended and restated by an Amendment and Restatement Agreement dated 17 July 2020) between the Issuer and Morgan Stanley & Co. International plc ("**MSI plc**") as dealer (in such capacity, the "**Dealer**", which expression shall include any other entity appointed as a dealer pursuant to the terms of such Programme Agreement), as the same may from time to time be further amended, (such agreement as from time to time amended being the "**Programme Agreement**") and (ii) the provisions of an agency agreement dated 7 April 1993 (as most recently amended and restated by an Amendment and Restatement Agreement 17 July 2020) between the

Issuer, MSI plc as calculation agent (in such capacity, the "**Calculation Agent**", which expression shall include any other entity appointed as calculation agent pursuant to the terms of such Agency Agreement), Citibank, N.A., London Branch as principal paying agent (in such capacity the "**Principal Paying Agent**" which expression shall include any other entity appointed as principal paying agent pursuant to the terms of such Agency Agreement) and Citibank Europe plc as additional paying agent (the "**Additional Paying Agent**", together with the Principal Paying Agent, the "**Paying Agents**" and each a "**Paying Agent**", which expression shall include any other entity appointed as a paying agent pursuant to the terms of such Agency Agreement), Citigroup Global Markets Europe AG as registrar (the "**Registrar**", which expression shall include any other entity appointed as a registrar pursuant to the terms of such Agency Agreement) and Citibank Europe plc as transfer agent (the "**Transfer Agent**", which expression shall include any other entity appointed as a transfer agent pursuant to the terms of such Agency Agreement) as the same may from time to time be further amended, (such agreement as from time to time amended being the "**Agency Agreement**"). The terms of each Series of OPALS will be these Terms and Conditions of OPALS as completed by the Final Terms for that Series. Any minimum investment in OPALS forming part of a Series will be specified in the Final Terms relating to that Series.

- (2) Each OPALS in a Series will relate to a Basket of Shares in companies selected to track the Benchmark Index for that Series. Unless otherwise provided in respect of a particular Series in the Final Terms for that Series, the Issuer will enter into arrangements with whichever of Morgan Stanley Capital (Luxembourg) S.A., MSI plc or another company within the Morgan Stanley group of companies as is identified in the Final Terms for the relevant Series (the "**Counterparty**" which expression shall, in relation to each Series, include such other of MSI plc, Morgan Stanley Capital (Luxembourg) S.A. or any other Morgan Stanley group company as the Issuer may, pursuant to these Terms and Conditions of OPALS, appoint as counterparty in respect of such Series in place of or in addition to the company which was Counterparty immediately prior to such new appointment) pursuant to which the Issuer will pay to the Counterparty the net proceeds of issue of such OPALS. In the case of Series in respect of which Morgan Stanley Capital (Luxembourg) S.A. is the Counterparty it will use such net proceeds to purchase the Basket of Shares to which such OPALS relate. In the case of Series in respect of which MSI plc is the Counterparty, it may use such net proceeds of issue to purchase Shares comprised in the Basket of Shares to which such OPALS relate. Where all OPALS of a Series are issued on the initial issue date specified in the relevant Final Terms or on some other date selected by the Issuer but are not all sold by the Dealer at the time of issue, the net proceeds of issue of OPALS not sold by the Dealer at the time of their issue will be paid upon their sale by the Dealer. In the case of a Series in respect of which Morgan Stanley Capital (Luxembourg) S.A. is the Counterparty, it will purchase the Basket of Shares to which such OPALS relate upon receipt of such net proceeds and, in the case of a Series in respect of which MSI plc is the Counterparty, it may purchase Shares comprised in the Basket of Shares to which such OPALS relate upon receipt of such net proceeds, but will become subject to obligations to the Issuer with respect to the Basket of Shares under the Counterparty Agreement.
- (3) Each Series of OPALS will at all times be represented by a global security (the "**Global Security**") which may be for a Series of OPALS in bearer form (the "**Global Bearer Security**") or for a Series of OPALS in registered form (the "**Global Registered Security**") which will be held by a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**"). Bearer OPALS may only be issued if it has been determined that they are in registered form, or are not "registration required obligations", for U.S. federal income tax purposes. Interests in the Global Security will be transferable in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg. All transactions in (including transfers of) OPALS, in the open market or otherwise, must be effected through an account at Euroclear or Clearstream, Luxembourg.

#### ***Bearer OPALS***

Each person who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as being entitled to a particular number of Bearer OPALS, by way of an interest (to the extent of such number) in the Global Bearer Security (a "**holder**"), shall be treated by the Issuer and the Principal Paying Agent as the holder of such number of OPALS for all purposes.



### ***Registered OPALS***

- (a) The Registrar will maintain outside of the UK a register (the "**Register**") in respect of each Series of Registered OPALS in accordance with the provisions of the Agency Agreement. Title to Registered OPALS passes by registration in the Register in accordance with the provisions of the Agency Agreement. A certificate (each, a "**Registered OPALS Certificate**") will be issued to each holder in respect of its registered holding. Each Registered OPALS Certificate will be numbered serially with an identifying number which will be recorded in the Register.
- (b) A "**holder**" in the case of Registered OPALS means the person in whose name such Global Registered Security is for the time being registered in the Register which, for so long as the Global Registered Security is held by or on behalf of a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or a nominee for that depositary or common depositary. The holder of any Registered OPALS shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or on the Registered OPALS Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the OPALS under the Contracts (Rights of Third Parties) Act 1999.
- (c) Subject to paragraphs (f) and (g) below, Registered OPALS may be transferred upon surrender of the relevant Registered OPALS Certificate, with the endorsed form of transfer duly completed, at the specified office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that** Registered OPALS may not be transferred unless the principal amount of the Registered OPALS transferred and (where not all of the Registered OPALS held by a holder are being transferred) the principal amount of the balance of Registered OPALS not transferred are Minimum Redeemable Amount. Where not all the Registered OPALS represented by the surrendered Registered OPALS Certificate are the subject of the transfer, a new Registered OPALS Certificate in respect of the balance of the Registered OPALS will be issued to the transferor.
- (d) Within five business days of the surrender of a Registered OPALS Certificate in accordance with paragraph (c) above, the Registrar will register the transfer in question and deliver a new Registered OPALS Certificate of a like principal amount to the Registered OPALS transferred to each relevant holder at its specified office or (as the case may be) the specified office of the Transfer Agent or (at the request and risk of any such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the Transfer Agent has its specified office.
- (e) The transfer of Registered OPALS will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) the Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- (f) Holders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of any amounts in respect of the Registered OPALS.
- (g) All transfers of Registered OPALS and entries on the Register are subject to the detailed regulations concerning the transfer of Registered OPALS scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval

of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any holder who requests in writing a copy of such regulations."

- (4) The OPALS in a Series may be issued on one issue date or on different issue dates. Where OPALS in a Series are issued on different issue dates, the Global Security representing the Series will be completed by or on behalf of the Issuer to show the number of OPALS issued and the Global Security will upon the issue of further OPALS of the Series be marked up by or on behalf of the Issuer to record such further issue. Without prejudice to Condition 12(6), the aggregate number of a Series of OPALS issued shall not exceed the maximum amount of that Series specified in the relevant Final Terms.

### 3. **Income on OPALS**

- (1) Unless otherwise provided in respect of a particular Series in the Final Terms for that Series, income on each Series of OPALS will be paid by the Issuer out of payments made by the Counterparty to the Issuer under the arrangements between the Issuer and the Counterparty. Such arrangements provide, in the case of a Series in respect of which Morgan Stanley Capital (Luxembourg) S.A. is the Counterparty and in the case of a Series in respect of which MSI plc is the Counterparty and it holds, in relation to its obligations under the Counterparty Agreement, all of the Shares comprised in the Basket of Shares to which that Series of OPALS relates, that the payments to be made by the Counterparty to the Issuer in respect of such Series of OPALS shall not exceed the income received by the Counterparty in respect of the Basket of Shares to which that Series of OPALS relates after the deduction of all fees, taxes, charges, duties, costs and expenses which the Counterparty is entitled or required to deduct as referred below. In all cases, the payments made by the Counterparty shall be net of any taxes or administrative or other costs all fees, taxes, charges, duties, costs and expenses which the Counterparty is entitled or required to deduct as referred to below, plus, to the extent that the Counterparty holds, in relation to its obligations under the Counterparty Agreement, Shares comprised in the Basket of Shares to which that Series of OPALS relates in connection therewith, 50 per cent. of the Counterparty's net income from stocklending and other transactions related to such Shares.
- (2) Income on OPALS will be calculated by the Issuer on each Income Determination Date (subject to adjustment as referred to below), and notified by the Issuer to those holders who were holders of the relevant OPALS on the immediately succeeding Record Date (unless such Income Determination Date is also a Record Date in which case on such Income Determination Date) and, in the case of a Series admitted to listing on the Official List and traded on the Regulated Market of the Luxembourg Stock Exchange and/or any other stock exchange, to the Luxembourg Stock Exchange and/or such other stock exchange, by reference to the dividends and other amounts payable on or in respect of the Shares which for the time being comprised in the Basket of Shares to which the OPALS relate on or prior to the relevant Income Determination Date (to the extent not previously taken into account) and to the interest and other amounts received by the Counterparty in respect of the Shares comprised in the relevant Basket of Shares or in respect of cash or any other amounts deriving from such Shares on or prior to the relevant Income Determination Date (to the extent not previously taken into account by the Issuer in calculating the income on the OPALS), in each case after deduction of all fees, taxes, charges, duties, costs and expenses which the Issuer or the Counterparty, as the case may be, or any custodian of the Counterparty is entitled or required to deduct as referred to below. For this purpose, dividends and other amounts shall be treated as being payable on or prior to the relevant Income Determination Date if the Share Record Date for the payment of such dividends and other amounts in respect of such Shares fall on or prior to the relevant Income Determination Date for payment of income on the OPALS. Dividends and other amounts payable after the relevant Income Determination Date shall fall to be taken into account on subsequent Income Determination Dates.
- (3) Amounts received by the Counterparty in respect of Shares will include: amounts received as a result of corporate actions in respect of such Shares including stock dividends, renounceable and non-renounceable rights, warrants, spin-off shares, tenders and offers, redemptions and where the Counterparty sells any shares, securities or rights received as a result of such corporate actions for cash, the cash so received; and fees in respect of stocklending and other transactions received by the Counterparty in respect of transactions involving Shares held by the Counterparty in connection with its obligations under the Counterparty Agreement the fees or other income in respect of which, net of expenses, will be apportioned equally between the Counterparty and the Issuer.

- (4) If the Issuer determines (in its sole discretion) that:
- (a) an amount that would otherwise fall to be taken into account in calculating the income on OPALS in relation to any dividend or other amount in respect of the relevant Shares is not capable of being determined with sufficient certainty as at the Income Determination Date; or
  - (b) there is a material risk, as at the Income Determination Date that any such dividend or other amount may not be paid (or even if paid would not be received) on the scheduled or expected date for such receipt or before the next Payment Date (whether because of the length of the period between that Income Determination Date and the expected date of receipt, the creditworthiness of the person from whom the amount is to be received or any other reason whatsoever),

the Issuer may (but shall not be obliged to):

- (i) elect to exclude that amount in any calculation of income on the OPALS made before such time as that amount becomes capable of being so determined or is paid or received by the Counterparty; and/or
  - (ii) at any time thereafter, elect to make a payment of income on the relevant Series of OPALS by reference to such amount (after deducting any fees, taxes, charges, duties, costs or expenses incurred by the Issuer or the Counterparty to third parties not previously taken into account as the Issuer considers appropriate) where the date for making that payment is a date selected by it and where the date by reference to which the entitlement to that income is determined precedes the date on which the Issuer gives notice to the holders of the amount of the proposed payment.
- (5) The Issuer may (but shall not be obliged to) include in any payment of income on the OPALS any amount in respect of dividends or other amounts on or in respect of Shares to which the OPALS relate where the amount in question has not yet been paid (or even if paid has not, or would not have been, received) and in that event, the Issuer may reduce the amount of the payment of income to reflect its estimate of the costs and expenses that have been or will be incurred by it (or the Counterparty) in relation to the funding of the payment in respect of that amount (up to the date or dates on which it expects to receive that amount) and, when all or part of the amount in question is so paid to the Issuer or the Counterparty, it shall be treated as already having been taken into account in relation to the calculation of subsequent payments of income.
- (6) Income on the OPALS may be adjusted following notification thereof but prior to payment to holders in the absolute discretion of the Issuer to take account of (i) non-payments of dividends or other amounts on or in respect of Shares comprised in the Basket of Shares to which the OPALS relate or (ii) circumstances whereby dividends actually declared and paid or other amounts received on or in respect of the Shares are greater than or less than the amount taken into account in calculating the income on the relevant OPALS.
- (7) Income may also be reduced in connection with adjustments to the composition of a Basket of Shares. When the Issuer adjusts the Basket of Shares underlying any Series, as described below, the Counterparty normally sells and buys Shares virtually simultaneously. To the extent the proceeds of the sales of Shares from a Basket of Shares are insufficient to pay for the Shares purchased, the shortfall will be reflected in a reduction of the income accrued in respect of the relevant Series. If such costs exceed income accrued on such Series the composition of the relevant Basket of Shares may be adjusted to reflect a sale of additional Shares sufficient to raise the required cash or the Issuer, or any affiliate of the Issuer, may also advance to the Counterparty the amount of the remaining shortfall, such advance together with borrowing costs shall be reflected in future income attributable to the relevant Basket of Shares.
- (8) The fees, taxes, charges, duties, costs and expenses which the Issuer is entitled or required to deduct from or take into account in determining the amounts payable as income on each Series of OPALS are those incurred by the Issuer or the Counterparty to third parties (including entities within the Morgan Stanley group of companies), as well as those charged by the Counterparty, including,

without prejudice to the generality of the foregoing, execution fees for corporate actions, processing fees for tax reclaims, fees for income collection advice notices, costs of currency denomination conversion, shareholder administration fees and a proportion of any annual custody fees charged by any custodian of the Counterparty or custody services supplied by the Counterparty and those incurred in making adjustments pursuant to Condition 9 below and which shall include, in the case of Series in respect of which MSI plc is the Counterparty in circumstances where it does not, in relation to its obligations under the Counterparty Agreement, hold some or all of the Shares comprised in the Basket of shares to which such Series relates, amounts which would have been incurred by MSI plc had it held all of the Shares in such Basket of Shares (as determined in good faith by MSI plc).

- (9) In circumstances where income on the OPALS has (in accordance with this Condition 3) been adjusted following notification thereof but prior to payment to take account of non-payment or the fact that the amount actually declared and paid or received is greater or less than the amount originally taken into account in calculating the income on the OPALS or the fact that after such payment it transpires that the amount actually declared and paid or received is greater than the amount so taken into account, the Issuer may (but shall not be obliged to) elect to make a payment of income on the relevant Series in the same manner as is envisaged for payments of income pursuant to Condition 3(4)(ii) above, but by reference to the amount actually received (after deduction as aforesaid) referred to in this Condition 3(9).
- (10) If the Issuer elects to make a payment of income pursuant to Condition 3(4)(ii) or 3(9), it shall give notice to those holders who were the holders of the relevant Series of OPALS on the Record Date immediately succeeding the relevant Income Determination Date or the day itself if it is an Income Determination Date (and, if the relevant Series is then listed on the official list of the Luxembourg Stock Exchange and/or any other stock exchange, to the Luxembourg Stock Exchange and/or such other stock exchange) specifying the amount to be paid, the proposed date for payment and the date by reference to which the entitlement to that income is determined. Those dates shall be treated as if they were a "Payment Date" and the preceding "Record Date" in relation to that payment, respectively, for the purposes of the Terms and Conditions (and, for the purposes of Condition 3(14), the relevant income shall be treated as if it were determined on an Income Determination Date). Any amount taken into account for the purposes of such an additional payment shall not subsequently be taken into account by the Issuer in calculating income on the OPALS.
- (11) Income on the OPALS will be paid on the relevant Payment Date to each of Euroclear and Clearstream, Luxembourg with respect to that portion of the relevant Global Security held for its account. Each of Euroclear and Clearstream, Luxembourg will be requested in such circumstances to credit such income received by it to the accounts of, or designated by the holders holding the OPALS on the relevant Record Date. All such payments will be made to Euroclear or Clearstream, Luxembourg in immediately available funds in the currency specified in the relevant Final Terms.
- (12) The Issuer reserves the right at any time to vary or terminate the appointment of the Calculation Agent, the Registrar, the Transfer Agent or any Paying Agent and to appoint additional or other Paying Agents in respect of the OPALS generally or any Series of OPALS in particular **provided that** the Issuer will at all times maintain (a) a Registrar so long as any Series of Registered OPALS is outstanding; and (b) a Paying Agent having a specified office in a city in Europe which, so long as OPALS are admitted to listing on the Official List and trading on the Regulated Market of the Luxembourg Stock Exchange, shall be Luxembourg. Where the Issuer appoints additional or other Paying Agents in respect of a particular Series of OPALS, details of such additional or other Paying Agents shall be set out in the Final Terms for the OPALS.
- (13) Income payable on a Series of OPALS may be payable in a currency other than the currency in which amounts or by reference to which, the income is calculated or received. Subject to the next paragraph below, such amounts will be exchanged by or on behalf of the Counterparty for amounts in the currency in which the income is payable at a time or times determined by the Counterparty in its absolute discretion and any risks and costs arising from fluctuations in currency exchange rates (or in rates of exchange for a denomination of the currency) shall be passed through to the Issuer and shall be borne by the holders of the relevant OPALS.

- (14) If the Issuer, acting reasonably, determines that due to the imposition of any exchange or other controls by a governmental, regulatory or monetary authority, the Issuer is unable to receive from the Counterparty or pay to the holders of OPALS some or all of the income determined on an Income Determination Date, the Issuer's obligation to make payment to the holders of OPALS will be deferred until such time as the Issuer is reasonably able to perform such obligations. The Issuer will give notice to those holders who are the holders of the OPALS on the relevant Record Date and, so long as a Series of OPALS is admitted to listing on the Official List and trading on the Regulated Market of the Luxembourg Stock Exchange, to the Luxembourg Stock Exchange of the event causing the deferment of the payment to the holders of OPALS, and, when known, the date when the obligation to make payment will be satisfied.
- (15) If the Issuer, acting reasonably, determines that due to the imposition of any restrictions, suspension or other controls by or affecting any payment system, the Issuer is unable to receive from the Counterparty or pay to the holders of OPALS some or all of the income determined on an Income Determination Date, the Issuer's obligation to make payment to the holders of OPALS will be deferred until such time as the Issuer is reasonably able to perform such obligations. The Issuer will give notice to those holders who are holders of such OPALS on the relevant Record Date and, so long as a Series of OPALS is admitted to listing on the Official List and trading on the Regulated Market of the Luxembourg Stock Exchange, to the Luxembourg Stock Exchange of the event causing the deferment of the payment to the holders of OPALS and, when known, the date when the obligation to make payment will be satisfied.
- (16) In this Condition 3, in the case of Series of OPALS in respect of which MSI plc is the Counterparty, but in respect of which MSI plc does not, in connection with its obligations under the Counterparty Agreement, hold all of the Shares comprised in the Basket of Shares to which such Series of OPALS relates, references to the Counterparty paying (or receiving) income and the amount thereof and deducting costs (of whatever nature) and the amount thereof in relation to the Basket of Shares to which such Series relates shall be construed as references to (and to the amount of) the income that the Counterparty could reasonably have been expected to have paid (or received) and the costs (of whatever nature) that the Counterparty could reasonably have been expected to incur or charge in respect of the Basket of Shares to which such Series relates had it held all of the Shares comprised in that Basket of Shares.
- (17) Notwithstanding any of the foregoing provisions of this Condition 3 of the Terms and Conditions of OPALS if the Issuer, acting reasonably, determines that due to the imposition of any exchange or other controls by a governmental, regulatory or monetary authority, the Issuer is unable to receive from the Counterparty or pay to the holders of OPALS some or all of the income determined on an Income Determination Date, the Issuer's obligation to make payment to the holders of OPALS may be satisfied by the payment of income in a currency other than the currency in which the income is received by the Counterparty. The income received by the Counterparty will be exchanged by or on behalf of the Counterparty for amounts, in the currency in which the Issuer has determined it will pay such income to holders, determined by the Counterparty in its absolute discretion and any risks and costs arising from fluctuations in currency exchange rates (or in the rates of exchange for a denomination of the currency) shall be passed through to the Issuer and shall be borne by the holders of the OPALS.

#### 4. **Maturity**

Unless previously redeemed or purchased and cancelled, each Series of OPALS will mature on the date (the "**Maturity Date**") shown in the relevant Final Terms which shall not be before one year after the date on which OPALS of the relevant Series are first issued nor later than 5 April 2023. Notwithstanding the foregoing, the Issuer may, without the consent of holders, elect to postpone the Maturity Date of a Series of OPALS **provided that** the new Maturity Date is not later than 5 April 2023 and holders of OPALS in that Series remain entitled, in accordance with the provisions of Conditions 5 and 6, to require redemption of the OPALS in that Series held by them during a Redemption Period.

**Holders will not be entitled to have their OPALS redeemed for cash.**

**5. Delivery of Shares**

- (1) The Final Terms relating to a Series may specify a minimum number (the "**Minimum Redeemable Amount**") of such OPALS to be held by a holder in order to be entitled to require redemption during a Redemption Period of the OPALS held by him by calling for delivery of Shares in accordance with the provisions summarised below.
- (2) *Delivery upon Maturity.* Each holder holding the Minimum Redeemable Amount of OPALS (or an integral multiple thereof) which have not been previously redeemed pursuant to the provisions of this Condition 5 shall deliver an instruction (a "**Redemption Instruction**") not later than 10 a.m. (Brussels or Luxembourg time, as the case may be) on or before the Maturity Date for the relevant OPALS to Euroclear or Clearstream, Luxembourg (as the case may be and in accordance with the rules and procedures of the relevant one of Euroclear or Clearstream, Luxembourg) for surrender to the Principal Paying Agent (in the case of Bearer OPALS) or to the Registrar (in the case of Registered OPALS), requiring the OPALS held by him to be redeemed by the Issuer by delivering or transferring or procuring that there is delivered or transferred into the holder's name or to the holder's order the Basket of Shares to which the OPALS held by the holder relate together with the entitlement to receive the income payable on such OPALS as notified by the Issuer on the Maturity Date in accordance with Condition 3 above (subject to adjustment as set out in Condition 3 above), after deduction of all fees, taxes, charges, duties and expenses which the Issuer is entitled or required to deduct or take into account as referred to above. Prior to such delivery or transfer the holder shall pay to the Issuer, or to the Issuer's account at Euroclear or Clearstream, Luxembourg, such amount as shall be advised to the holder by the Issuer as required to satisfy all relevant delivery or transfer taxes, duties, costs and charges. The holder shall specify in the Redemption Instruction all relevant instructions for delivery of the Shares.
- (3) A holder holding less than the Minimum Redeemable Amount of the relevant Series of OPALS shall deliver a Redemption Instruction not later than 10 a.m. (Brussels or Luxembourg time, as the case may be) on or before the Maturity Date for the relevant OPALS to Euroclear or Clearstream, Luxembourg, as the case may be, in accordance with the rules and procedures of the relevant one of Euroclear or Clearstream, Luxembourg, for surrender to the Principal Paying Agent (in the case of Bearer OPALS) or to the Registrar (in the case of Registered OPALS), requiring such OPALS held by him to be redeemed by the Issuer. The Issuer's obligation to redeem such OPALS shall be limited to delivering or transferring or procuring that there is delivered or transferred into the holder's name or to the holder's order such part of the Basket of Shares to which such OPALS relate as is referred to below, together with the entitlement to receive the income payable on such OPALS as notified by the Issuer on the Maturity Date in accordance with Condition 3 above, after deduction of all fees, taxes, charges, duties and expenses which the Issuer is entitled or required to deduct or take into account as referred to above. The part of the Basket of Shares to be delivered to such holder on redemption of such OPALS is such proportion of the Shares of each company the Shares of which are included in the Basket as most closely approximates the proportion the number of such OPALS bears to the Minimum Redeemable Amount for the Series of which those OPALS form part, **provided that** if such apportionment of the Shares results in a fraction of a Share becoming deliverable to such holder or in Shares becoming deliverable to such holder in numbers which are not deliverable in accordance with the rules of the stock exchange or other trading market on which such Shares are principally traded or settlement system through which deliveries of such Shares are principally settled (an "**Undeliverable Share Quantity**"), additional Shares may be delivered to the holder so as to make the Undeliverable Share Quantity into a deliverable quantity, against payment of an amount (determined by the Issuer by reference to the market price of such additional Shares) (the "**Additional Amount**") by such holder in respect of such additional Shares to be delivered or transferred to such holder. Prior to such delivery or transfer the holder shall pay to the Issuer, or to the Issuer's account at Euroclear or Clearstream, Luxembourg, such amount as shall be advised to the holder by the Issuer as is required to pay the Additional Amount and to satisfy all relevant delivery or transfer taxes, duties, costs and charges. The holder shall specify in the Redemption Instruction all relevant instructions for delivery of the Shares.

**As a result of the above provisions, a holder of less than the Minimum Redeemable Amount of OPALS may, in order to receive delivery of Shares on maturity of his OPALS, be required to make substantial additional payments to the Issuer.**

- (4) If a holder fails to deliver a Redemption Instruction by 10 a.m. (Brussels or Luxembourg time, as the case may be) on or before the Maturity Date, but does so on a Business Day which is within thirty days of the Maturity Date, the Issuer may accept such a Redemption Instruction, but the Issuer shall not do so in any other circumstances.
- (5) *Non-Cash Redemption during Redemption Periods.* A holder holding the Minimum Redeemable Amount of OPALS (or an integral multiple thereof) shall be entitled, on service of a Redemption Instruction on any day during a Redemption Period (but in any event not later than 10 a.m. (Brussels or Luxembourg time, as the case may be) on the last day of the Redemption Period) for the relevant OPALS on Euroclear or Clearstream, Luxembourg, as the case may be, in accordance with the rules and procedures of the relevant one of Euroclear or Clearstream, Luxembourg, for surrender to the Principal Paying Agent (in the case of Bearer OPALS) or to the Registrar (in the case of Registered OPALS), to require the OPALS held by him to be redeemed by the Issuer in whole or in part (**provided that**, in the case of redemption in part, the OPALS to be redeemed equal the Minimum Redeemable Amount or an integral multiple thereof) by delivering or transferring or procuring that there is delivered or transferred into the holder's name or to the holder's order the Basket of Shares to which the OPALS to be redeemed relate together with, in each case, the entitlement to receive the income payable on such OPALS as notified by the Issuer on the relevant Record Date in accordance with Condition 3 above (subject to adjustment as set out in Condition 3 above), after deduction of all fees, taxes, charges, duties and expenses relating to the delivery of the Shares which the Issuer is entitled or required to deduct or take into account as referred to above. Prior to such delivery or transfer the holder shall pay to the Issuer, or to the Issuer's account at Euroclear or Clearstream, Luxembourg, such amount as shall be advised to the holder by the Issuer as is required to satisfy all relevant delivery or transfer taxes, duties, costs and charges. The holder shall specify in the Redemption Instruction all relevant instructions for delivery of the Shares.
- (6) *Non-Cash Redemption at Any Time.* A holder holding the Minimum Redeemable Amount of OPALS (or an integral multiple thereof) shall be entitled, on service of a Redemption Instruction on any day during the term of the relevant OPALS (which is not a day during a Redemption Period) on Euroclear or Clearstream, Luxembourg, as the case may be, in accordance with the rules and procedures of the relevant one of Euroclear or Clearstream, Luxembourg, for surrender to the Principal Paying Agent (in the case of Bearer OPALS) or to the Registrar (in the case of Registered OPALS), to require the OPALS held by him to be redeemed by the Issuer in whole or in part (**provided that**, in the case of redemption in part, the OPALS to be redeemed equal the Minimum Redeemable Amount or an integral multiple thereof) by delivering or transferring or procuring that there is delivered or transferred into the holder's name or to the holder's order the Basket of Shares to which the OPALS to be redeemed relate **provided, that** the holder may, at the option of the Issuer, be required to pay to the Issuer an administration charge (the "**Administration Charge**") of 0.50 per cent. calculated on the market value of the OPALS to be redeemed together with all fees, charges and expenses incurred by the Issuer or the Counterparty, as the case may be, or any custodian of the Issuer or the Counterparty, in relation to the delivery of the Basket of Shares to which the OPALS relate. Prior to such delivery or transfer the holder shall pay to the Issuer, or to the Issuer's account at Euroclear or Clearstream, Luxembourg, such amount as shall be advised to the holder by the Issuer as is required to satisfy the Administration Charge (if any) and all relevant delivery or transfer taxes, duties, costs and charges. The holder shall specify in the Redemption Instruction all relevant instructions for delivery of the Shares.
- (7) *Non-cash Redemption at the option of the Issuer.* If in relation to a Series of OPALS at any time the Issuer in its absolute discretion determines that:
  - (a) the then current market value of the outstanding amount of such Series is less than U.S.\$2,000,000;
  - (b) the then outstanding number of OPALS in such Series is less than 20,000; or

- (c) there has been or may be any change in law, regulation, accounting or tax which, in the opinion of the Issuer, adversely affects, or may adversely affect, the Issuer's or the Counterparty's respective interests in respect of such Series,

the Issuer may, in its absolute discretion, redeem all of the OPALS in such Series by delivering or transferring or procuring that there is delivered or transferred into the holder's name or to the holder's order the Basket of Shares to which those OPALS relate subject to the provisions of Condition 5(8) below together with, in each case, the entitlement to receive the income payable on such OPALS as notified by the Issuer on the relevant Record Date in accordance with Condition 3 above (subject to adjustment as set out in Condition 3 above), after deduction of all fees, taxes, charges, duties and expenses relating to the delivery of the Shares which the Issuer is entitled or required to deduct or take into account as referred to above. Prior to such delivery or transfer the holder shall pay to the Issuer, or to the Issuer's account at Euroclear or Clearstream, Luxembourg, such amount as shall be advised to the holder by the Issuer as is required to satisfy all relevant delivery or transfer taxes, duties, costs and charges. Notice of redemption pursuant to this Condition 5(7) will be given to the holders of the relevant Series of OPALS in accordance with Condition 11.

- (8) If, for any reason, upon redemption pursuant to Condition 5(7) above, the number of Shares which a holder is entitled to receive is an Undeliverable Share Quantity (as defined in Condition 5(3)), additional Shares may be delivered to the holder so as to make the Undeliverable Share Quantity into a deliverable quantity against payment of an Additional Amount (as defined in Condition 5(3)) by such holder in respect of such additional Shares to be delivered or transferred to such holder. Prior to such delivery or transfer the holder shall pay to the Issuer, or to the Issuer's account at Euroclear or Clearstream, Luxembourg, such amount as shall be advised to the holder by the Issuer as is required to pay the Additional Amount and to satisfy all relevant delivery or transfer taxes, duties, costs and charges.
- (9) In every case redemption is subject to compliance with the procedures specified in Condition 6, Redemption Procedure below and the provisions of Condition 8, Market Disruption Events, below.

#### **6. Redemption Procedure**

- (1) Any Redemption Instruction delivered pursuant to Condition 5 above is to be served in a form (for the time being approved by the Issuer) available from Euroclear or Clearstream, Luxembourg, as the case may be, or, in the case of Bearer OPALS, the Principal Paying Agent or, in the case of Registered OPALS, the Registrar:
  - (i) specifying the number and Series of OPALS the subject of the Redemption Instruction;
  - (ii) specifying the number of the account designated by the holder at Euroclear or Clearstream, Luxembourg, as the case may be;
  - (iii) including an undertaking to pay any Administration Charge or Additional Amount (if applicable) and any applicable fees, stamp duty, stamp duty reserve tax and transfer taxes or duties and any other taxes, duties, costs and charges wheresoever levied or withholdings due by reason of the redemption of the OPALS by, or the delivery or transfer of Shares to or to the order of, such holder or the Issuer and irrevocably instructing Euroclear or Clearstream, Luxembourg, if so directed by the Issuer, to debit on or after the next Business Day after the Redemption Date a specified account of, or designated by, the holder with the amount of such Administration Charge or Additional Amount (if applicable) and any such taxes, duties, costs and charges;
  - (iv) specifying the settlement details for the Shares and giving the name and address of a person to whom the Shares or documents of transfer relating thereto should be delivered;
  - (v) containing a certification as to non-U.S. beneficial ownership; and
  - (vi) in the case of Registered OPALS, attaching the relevant Registered OPALS Certificates.
- (2) Upon receipt of a Redemption Instruction, Euroclear or Clearstream, Luxembourg, as the case may be, shall verify that the person delivering the Redemption Instruction in respect of the OPALS



specified therein is the holder (or the designee of the holder,) thereof according to the books of Euroclear or Clearstream, Luxembourg, as the case may be. Subject thereto, Euroclear or Clearstream, Luxembourg, as the case may be, will, in the case of Bearer OPALS, notify to the Issuer and to the Principal Paying Agent (or the Principal Paying Agent on the Issuer's behalf) and, in the case of Registered OPALS, notify to the Issuer and to the Registrar (or the Registrar on the Issuer's behalf) the number of OPALS being redeemed and the instructions contained in the Redemption Instruction and will debit the account of, or designated by, the relevant holder with the OPALS being redeemed and any of the fees, costs and expenses which the holder is obligated to pay to the Issuer, normally within four Business Days of receipt of the Redemption Instruction.

- (3) Upon receipt of a Redemption Instruction pursuant to Condition 5(5) or 5(6), the Principal Paying Agent and the Issuer will cause the redemption, in the case of Bearer OPALS, of those Bearer OPALS to which the Redemption Instruction relates to be noted on the Schedule to the Global Bearer Security, and the Registrar and the Issuer will cause the redemption, in case of Registered OPALS, of the Registered OPALS to which the Redemption Instruction relates to be noted on the Register and, in the case of partial payment upon presentation of a Registered OPALS Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Registered OPALS Certificate and the number of OPALS so redeemed shall be cancelled *pro tanto*.
- (4) If the settlement details provided in a Redemption Instruction by a holder redeeming any OPALS (whether on maturity or otherwise) do not enable the Issuer to deliver or transfer any of the relevant Shares to that holder, or a person acting for its account, in the principal domestic clearance system customarily used for settling trades in the relevant Shares (or, if the Issuer so notifies the holder submitting the Redemption Instruction, in Euroclear or Clearstream, Luxembourg), the Issuer may by notice to the holder postpone the Share Delivery Date in respect of the Shares concerned until a date after it has received settlement details which enable it to do so.
- (5) The Issuer shall, as provided below, on the relevant Share Delivery Date, transfer or procure the transfer of the relevant Shares to the person specified in the relevant Redemption Instruction.
- (6) All Shares delivered upon redemption of OPALS shall be fully-paid and non-assessable and shall entitle the holders thereof to participate in full in all dividends and other distributions paid or made on the Shares the Share Record Date for which (and if there is more than one such date relating to the same dividend or other distribution, the first in time) falls after the relevant Share Delivery Date.
- (7) Any determination as to whether a Redemption Instruction is duly completed and in proper form shall be made by Euroclear or Clearstream, Luxembourg, as the case may be, and shall be conclusive and binding on the relevant holder. Any Redemption Instruction so determined to be incomplete or not in proper form shall be null and void. If any such Redemption Instruction is subsequently corrected to the satisfaction of Euroclear or Clearstream, Luxembourg, as the case may be, it shall be deemed to be a new Redemption Instruction submitted at the time such corrected Redemption Instruction is delivered to Euroclear or Clearstream, Luxembourg, as the case may be. Euroclear or Clearstream, Luxembourg, as the case may be, shall use all reasonable efforts promptly to notify the holder submitting a Redemption Instruction if it has determined that such Redemption Instruction is invalid or incomplete.
- (8) Delivery of a Redemption Instruction shall constitute an irrevocable election, instruction and undertaking by the relevant holder to redeem the OPALS specified in the manner stated in the Redemption Instruction. After the delivery of such Redemption Instruction, such redeeming holder may not otherwise transfer such OPALS.
- (9) If the Issuer, the Counterparty or any custodian of the Issuer or the Counterparty is liable for or otherwise obliged to pay any Additional Amount, tax, duty, withholding or other payments which may arise as a result of the ownership, transfer or redemption of any OPALS or Shares (other than any tax on net income), the Issuer shall have the right, but not the duty, to withhold from any amounts otherwise payable to a holder such amount as is necessary for the payment of any such Additional Amounts, taxes, duties, costs, charges or other payments, and any Administration Charge. Where the Issuer has the right to withhold an amount under this Condition 6(9), it shall also have the right, but not the duty, to adjust the composition of the Basket of Shares for the relevant Series by reducing that Basket of Shares by a number of Shares (selected in its discretion)

that it considers will generate net proceeds, when sold, to cover that amount or, in the case of amounts related to the redemption of any OPALS, to reduce the number of Shares to be delivered or transferred by it on such redemption by such a number.

- (10) Where the Issuer determines that it is not reasonably practicable to deliver or transfer any of the Shares to be delivered or transferred on redemption in the manner contemplated in this Condition 6 in compliance with, or as a result of the application of, any applicable law, regulation, rule or practice (whether or not in existence at the time of issue of a particular Series and whether by reason of the holder not satisfying, or not being able to satisfy, any conditions or requirements of any such law, regulation, rule or practice or for any other reason), the Issuer may postpone the Share Delivery Date in respect of those Shares until such time as it determines that it is reasonably practicable so to deliver or transfer the relevant Shares. Where the Issuer determines that it is not so reasonably practicable, it may by notice to the holder specify steps (including, without limitation, the execution of transactions on a stock exchange or other trading system and any related action the Issuer may consider necessary or desirable) to be taken by the holder (and steps that the Issuer will take) in order to effect such delivery or transfer with a view to putting the holder in a position that is as nearly as practicable the same as the holder would have been in had it been reasonably practicable to effect such delivery or transfer, and the taking by the Issuer of the steps so specified as to be taken by the Issuer shall discharge the Issuer's obligation to deliver or transfer the relevant Shares to the holder.

## 7. **Taxation**

Each payment of income in respect of OPALS by the Issuer will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer is required by applicable law or agreement with a taxing authority to make any payment of income subject to any withholding or deduction for, or on account of, any such taxes, duties or charges. In that event, the Issuer shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted.

Each payment to the Issuer by the Counterparty under the arrangements between the Issuer and the Counterparty will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Counterparty is required by applicable law or agreement with a taxing authority to make any payment thereunder subject to any withholding or deduction for, or on account of, any such taxes, duties or charges. In that event, the Counterparty shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted.

**Neither the Issuer nor the Counterparty will be obliged to make any additional payments to holders or the Issuer, as the case may be, in respect of any such withholding or deduction.**

If (i) the Issuer at any time would be required to make (or to increase the amount of) any withholding or deduction from, or would be obliged to account (or to account for an increased amount) in respect of, any payment of income in respect of any OPALS for or on account of any present or future tax, duty or charge of whatsoever nature incurred or levied by or on behalf of the Cayman Islands, any jurisdiction in which the Issuer is treated as resident for taxation purposes by that jurisdiction or in any jurisdiction through which payments are made or Shares are delivered (or, in each case, any political sub-division thereof or therein or any authority thereof or therein) or (ii) the Counterparty would be required to make (or to increase the amount of) any withholding or deduction from, or would be obliged to account (or to account for an increased amount) in respect of, any payment under the arrangements between the Issuer and the Counterparty for or on account of any present or future tax, duty or charge of whatsoever nature incurred or levied by or on behalf of the jurisdiction in which the Counterparty is incorporated, any jurisdiction in which the Counterparty is treated as resident for taxation purposes by that jurisdiction or in any jurisdiction through which payments are made or Shares are delivered (or, in each case, any political sub-division thereof or therein or any authority thereof or therein), then the Issuer may, having given not more than 60 nor less than 30 days' notice to the holders in accordance with Condition 11 below, redeem such OPALS by delivering to the holders of the relevant OPALS the Shares to which the OPALS relate subject to and in accordance with Condition 5 above.

8. **Market Disruption Events**

(1)

- (a) Except where the Issuer determines, in its absolute discretion, that a Market Disruption Event (as hereinafter defined) is unlikely to have a material adverse effect on its ability to perform its obligations in respect of the OPALS or that such Market Disruption Event is likely to cease to be continuing within 30 days of the first occurrence of such Market Disruption Event, or the Issuer determines to effect an adjustment to the composition of the relevant Basket of Shares pursuant to Condition 9(1)(h), in all of which cases no notice need be given upon the occurrence of a Market Disruption Event, the Issuer shall use its best efforts (i) to give notice in accordance with Condition 11 below that a Market Disruption Event has occurred and (ii) within seven days of the date of such notice, to give notice in accordance with Condition 11 below of the action which the holder shall take in connection with the Market Disruption Event. Where a Market Disruption Event has occurred and while that Market Disruption Event is continuing but the Issuer has not given notice thereof, the Issuer may (at its discretion) subsequently give such notice at any time. If, prior to the giving of any such notice in respect of a Market Disruption Event and while that Market Disruption Event is continuing, a holder delivers a Redemption Instruction, the following provisions of this Condition 8(1)(a) shall nevertheless apply and the Issuer shall notify the holder of that fact and of the action the holder shall take in connection with the Market Disruption Event (by sending the notice to Euroclear or, as the case may be, Clearstream, Luxembourg for transmission to the holder). Following the giving of such notice of the occurrence of a Market Disruption Event, and subject to the provisions hereof, any OPALS in respect of which a Market Disruption Event has occurred may not be redeemed, and a holder of such OPALS shall not be entitled to receive the Shares relating to the OPALS held by him until the Issuer gives notice to the contrary; **provided that** where a holder would have been entitled to receive the Shares relating to the OPALS held by him but for the giving of such a notice of the occurrence of a Market Disruption Event, the Issuer may, but shall not be obliged to, deliver or transfer to such holder some or all of those Shares which the Issuer determines are not affected by such Market Disruption Event.
- (b) If the Issuer determines reasonably and in good faith on any day during a Redemption Period relating to a Series of OPALS or any day during the period commencing on the Maturity Date relating to a Series of OPALS and ending on the day 30 days after such Maturity Date that a Market Disruption Event has occurred and is continuing in relation to any OPALS of that Series, the Issuer shall have the right, in its reasonable discretion, to extend or postpone the Redemption Period, Maturity Date or last day of such 30 day period to such day as the Issuer shall deem appropriate or to take any other action which the Issuer reasonably deems to be appropriate in light of all of the circumstances which exist at the time.

(2) **"Market Disruption Event"** means:

- (c) suspension or material limitation of trading in any of the Shares, other than pre-announced limitations on hours or number of days of trading; or
- (d) suspension or material limitation of trading in securities generally on the principal exchange(s) on which any of the Shares are listed or limitation on prices, other than limitations on hours or number of days of trading, for securities generally on any of such exchanges; or
- (e) any event or circumstance beyond the control of the Issuer as a result of which it is unable to perform, or is subject to material restrictions or limitations on the performance of, its obligations (or it requires any governmental, regulatory, monetary authority or similar consents to perform its obligations), whether generally or by reference to specific Baskets of Shares or holders of OPALS or categories thereof; or
- (f) any event, circumstances or cause which has had or reasonably could be expected to have a material adverse effect on the ability of the Issuer to perform its obligations in respect of the OPALS.

A limitation on trading imposed during the course of a trading session by reason of movements in price otherwise exceeding levels permitted by the Relevant Stock Exchange will constitute a Market Disruption Event.

- (3) Where a Market Disruption Event has occurred in respect of any of the Shares comprised in the Basket of Shares to which a Series of OPALS relates and is continuing at the time of issue of further OPALS, the Counterparty may exclude such Shares from the Basket of Shares to be acquired by it and shall pursuant to its arrangements with the Issuer in connection with the issue of such further OPALS acquire such Shares upon the Market Disruption Event ceasing to exist.

## 9. **Adjustments and Other Events**

- (1) The Issuer may at any time during the term of any OPALS issued by it make adjustments to the composition of the Basket of Shares to which such OPALS relate in the following circumstances:
- (a) to reflect changes in the composition or calculation of the relevant Benchmark Index including prospective changes which the index provider has announced;
  - (b) where the Issuer considers that an adjustment should be made either (i) to reduce the likelihood of the performance of the relevant OPALS ceasing to track the performance of the relevant Benchmark Index by a percentage specified in the Final Terms for the relevant OPALS or (ii) to increase the likelihood that the performance of the OPALS will track the performance of the relevant Benchmark Index more closely than would otherwise be the case;
  - (c) if and whenever a company the shares of which are included in a Basket of Shares (a "**Company**") shall sub-divide its outstanding share capital into a greater number of shares or consolidate its outstanding share capital into a smaller number of shares, in which event the number of relevant shares in the Basket of Shares shall be increased (in the case of a sub-division) or decreased (in the case of a consolidation) accordingly but no other adjustment shall be made unless the Issuer shall determine, in its absolute discretion, that some other adjustment is the most appropriate adjustment to be made in the circumstances;
  - (d) if and whenever Shares are redeemed, become the subject of a takeover, any capitalisation or rights issues are effected in respect of them or any other corporate action is effected in respect of them;
  - (e) if it is announced (i) that any Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the relevant Company is the surviving corporation in a merger) or (ii) that any Company is to or may sell or transfer all or substantially all of its assets or (iii) that any Company is to enter into voluntary or involuntary liquidation, is to be dissolved, is insolvent, is to seek or become subject to the appointment of an administrator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets or that any other event is to occur which under the applicable laws of any jurisdiction has an analogous effect to any of such events or (iv) that any of the events referred to in (i), (ii) or (iii) above has occurred in relation to a Company, in which event the rights attaching to the relevant OPALS may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (as determined by the Issuer);
  - (f) to preserve the economic effect of the composition of the relevant Basket of Shares upon the occurrence of any event relating to the economic and monetary union of the European Community, including, without limitation, the redenomination of any Shares into Euros;
  - (g) where a Benchmark Index ceases to exist (as to which see (2) below);
  - (h) upon the occurrence of a Market Disruption Event in which case the Issuer may determine the fair market value of the relevant Shares (the "**Disrupted Shares**") at that time and require the Counterparty to replace such Shares in the Basket of Shares with an amount equal to such fair market value (net of costs) incurred or liable to be incurred as a result

of the Counterparty replacing such Shares or to apply such amount in acquiring other Shares which will be comprised in the Basket of Shares in place of the Disrupted Shares; or

- (i) in such other circumstances as the Issuer believes (in its absolute discretion and notwithstanding any adjustment previously made by the Issuer) should, in the context of the issue of the relevant OPALS and its obligations thereunder, give rise to such adjustment, **provided that** such adjustment is considered by the Issuer to be fair and desirable for the relevant holders generally (without considering the individual circumstances of any holder or the tax or other consequences of such adjustment in any particular jurisdiction).

Under the Counterparty Agreement to which MSI plc is a party, MSI plc may adjust the basket of shares by reference to which its obligations under the Counterparty Agreement in respect of a particular Series of OPALS are determined in circumstances which correspond to those indicated in paragraphs (a) to (i) above (in the case of paragraph (i) treating references to the Issuer as if they were references to MSI plc in its capacity as Counterparty). In the case of such Series of OPALS, the Issuer may treat the making of an adjustment by MSI plc as evidence of the existence of circumstances warranting an adjustment in respect of the relevant Basket of Shares and the Issuer may make a corresponding adjustment.

- (2) In the event that the Benchmark Index relating to a Series of OPALS ceases to exist (each a **"Disbanded Index"**) or experiences an Administrator/Benchmark Event (each a **"Non-Compliant Index"**), the Issuer shall have the discretion to:
  - (a) alter the composition of the relevant Basket of Shares with a view to replicating fully, or based on portfolio optimisation techniques, tracking the performance of a different Benchmark Index which, in the opinion of the Issuer, closely corresponds to the Disbanded Index or Non-Compliant Index, as applicable, provides an investment performance which corresponds to that of the Disbanded Index or Non-Compliant Index, as applicable, immediately before it ceased to exist or supersedes the Disbanded Index or Non-Compliant Index, as applicable; or
  - (b) in relation to a Disbanded Index, maintain or adjust, as it considers appropriate, the existing composition of the relevant Basket of Shares with a view, during the remainder of the term of such Series, to replicating fully, or, based on portfolio optimisation techniques, tracking the performance of the Disbanded Index as if it continued to exist in the form it had immediately prior to it ceasing to exist.
  - (c) in relation to a Non-Compliant Index, maintain or adjust, as it considers appropriate, the existing composition of the relevant Basket of Shares with a view, during the remainder of the term of such Series, to replicating fully, or, based on portfolio optimisation techniques, tracking the performance of the Non-Compliant Index as if the Administrator/Benchmark Event had not occurred, without using such Benchmark Index to determine amounts due in relation to the relevant Series of OPALS in a way that is not permitted under applicable laws and regulations.

Under the Counterparty Agreement to which MSI plc is a party, MSI plc may, in the event that the Benchmark Index relating to a particular Series of OPALS ceases to exist or experiences an Administrator/Benchmark Event, adjust the Basket of Shares by reference to which its obligations under the Counterparty Agreement in respect of a particular Series of OPALS are determined. In the case of such Series of OPALS, the Issuer may treat the making of an adjustment by MSI plc as evidence of the existence of circumstances warranting an adjustment in respect of the relevant Basket of Shares and the Issuer may make a corresponding adjustment.

- (3) In the event that the Issuer exercises its discretion under Condition 9(2) above, it shall also have discretion to change the name of the affected Series of OPALS.
- (4) The Issuer is under no obligation in any circumstances to adjust the composition of a Basket of Shares. The Issuer shall determine any adjustment or amendment and its determination shall be

conclusive and binding on the relevant holders save in the case of manifest error. Notice of any adjustments or amendments shall be given in accordance with Condition 11 below, to the relevant holders as soon as practicable after the determination thereof; **provided that** notice of any adjustment pursuant to Condition 9(1)(b) shall not be given and notice of any adjustment pursuant to Condition 9(1)(c) shall not be given to the relevant holders unless the Issuer shall determine that an adjustment other than a corresponding increase or decrease in the number of relevant Shares in the Basket of Shares is the most appropriate adjustment to be made in the circumstances. Notwithstanding the foregoing, no notice of any adjustment need be given to the relevant holders or otherwise as provided in Condition 11 where the adjustment to the composition of a Basket of Shares is made to reflect changes in the composition or calculation of the relevant Benchmark Index or to deal with Market Disruption. No events occurring after delivery of a Redemption Instruction in relation to, or the Maturity Date of, OPALS will give rise to any adjustments in relation to Shares to be delivered pursuant to redemption of those OPALS as a result of delivery of such Redemption Instruction or the occurrence of the Maturity Date.

- (5) Where (a) the Issuer or any affiliate of the Issuer has made an advance to cover a shortfall arising on the purchase of any Shares consequent upon an adjustment to the composition of a Basket of Shares or the Issuer or the Counterparty has incurred fees, taxes, charges, duties, costs and expenses which the Issuer is entitled or required to take into account in determining the amounts payable as income on the relevant Series and any amount of the advance, fees, taxes, charges, duties, costs or expenses has not been recovered from income attributable to the relevant Basket of Shares and (b) the Issuer is required to redeem any OPALS of the relevant Series, the Issuer shall be entitled to reduce the number of Shares to be delivered or transferred by it on such redemption by a number of Shares (selected in its discretion) that it considers will generate sufficient net proceeds, when sold, to cover all those amounts insofar as attributable to the OPALS being redeemed. Where MSI plc is the Counterparty and it does not hold all of the Shares in the Basket of Shares, the provisions of this Condition 9(5) shall be applied by reference to the position that would have applied had it held all of such Shares.
- (6) Where there has been an adjustment to the composition of a Basket of Shares and the net proceeds of the sale of the Shares removed from the Basket of Shares exceeds (or, where MSI plc is the Counterparty, would have exceeded, had it held and adjusted the Basket of Shares) the net cost of the Shares purchased in order to effect the relevant adjustment, the composition of the Basket of Shares may be further adjusted to reflect an application of that excess in the purchase of additional Shares or such excess may be treated as income on the relevant Series.

#### 10. **Depository Receipts**

A Basket of Shares may include depository receipts. Notwithstanding the other provisions of these Conditions, where a Basket of Shares to which any Series of OPALS relates includes any depository receipts, then, in relation to that Series of OPALS:

- (a) references in these Conditions to "**shares**" shall include a reference to depository receipts;
- (b) where any fees, taxes, charges, duties, costs and expenses are deducted from any dividend or other amount payable on or in respect of the depository receipts, for the purposes of Condition 3, the relevant dividend or other amount payable shall be treated as if the amount of it had been equal to the net amount after all such deductions;
- (c) the Issuer may, upon redemption of any OPALS of that Series, elect to deliver or transfer or procure that there is delivered or transferred into the holder's name or to the holder's order, instead of those depository receipts, a number of shares equal to the number of underlying shares in relation to those depository receipts;
- (d) for the purposes of Condition 8, and the definition of "**Relevant Stock Exchange**", references to the Shares shall include a reference to depository receipts and to the underlying shares in relation to those depository receipts; and
- (e) for the purposes of Condition 9, references to the "**Company**" shall, in relation to the depository receipts, be construed as a reference to the issuer of the underlying shares in relation to those depository receipts and Condition 9 shall be construed as if Condition

9(1) also permitted the Issuer to make adjustments to the composition of a Basket of Shares if there is any variation of the terms and conditions of the depositary receipts or if the agreement or instrument pursuant to which the depositary receipts are issued is terminated.

For these purposes, "**depositary receipts**" means certificates or other instruments that confer property rights in respect of shares or under which the holder has the right to call for delivery of shares and, in relation to any depositary receipts, references to the "**underlying shares**" are references to the shares in respect of which the depositary receipts confer property rights or which the holder has the right to call for delivery.

#### 11. **Notices**

The Issuer will cause all notices to holders to be sent to Euroclear and Clearstream, Luxembourg for transmission by Euroclear and Clearstream, Luxembourg to holders. Any notices so sent shall be conclusively presumed to have been received by the relevant holders.

In addition, if a Series of OPALS is admitted to listing on the Official List and trading on the Regulated Market of the Luxembourg Stock Exchange, any notice to holders of that Series will be published (i) in a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) and/or (ii) on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)) and, if a Series of OPALS is listed on any other stock exchange, any notice to holders of that Series will be published in accordance with the requirements for the time being in force of that other stock exchange.

#### 12. **General**

- (1) In no event shall the Issuer have any liability for indirect, incidental or consequential damages (whether or not it has been advised of the possibility of such damages) other than interest until the date of payment on any sums not paid when due. Holders are entitled to damages only and are not entitled to the remedy of specific performance in respect of OPALS held by them.
- (2) The OPALS are direct and unsecured obligations of the Issuer ranking *pari passu* and without preference among themselves and with all other unsecured and unsubordinated obligations of the Issuer, subject to any statutory exceptions.
- (3) The OPALS shall be governed by and construed in accordance with English law. The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the OPALS and accordingly any suit, action or proceeding (together referred to as "**Proceedings**") arising out of or in connection with the OPALS shall be brought in such courts. The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary. The Issuer agrees that process in connection with Proceedings in the courts of England will be validly served on it if served upon MSI plc as its agent for service of process at its office for the time being (being at the date hereof 25 Cabot Square, Canary Wharf, London E14 4QA).
- (4) Should any of the provisions contained in the terms and conditions of any OPALS be or become invalid, the validity of the remaining provisions shall not be affected in any way.
- (5) The Issuer may modify these Terms and Conditions of OPALS and any other terms and conditions relating to an issue of OPALS, without the consent of the relevant holders, for purposes of curing the ambiguity of, correcting or supplementing any provision contained herein or therein or in any other manner which the Issuer may deem necessary or desirable **provided that** such modification is not materially prejudicial to the interests of the relevant holders. The Issuer may at any time without the consent of the relevant holders substitute any other company in place of the Issuer as obligor under a Series of OPALS, substitute another company in place of the Counterparty as counterparty in relation to a Series of OPALS, subject to such amendment of the Programme Agreement and other documents relating to the OPALS as the Issuer may deem appropriate and **provided that** such substitution and amendment, in the reasonable opinion of the Issuer, is not materially prejudicial to the interests of the relevant holders. In connection with any such modification, substitution or amendment as aforesaid, the Issuer shall not have regard to the consequences of such modification, substitution or amendment for individual holders of OPALS

resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. Notice of any such modification or substitution will be given to the relevant holders in accordance with Condition 11 above but failure to give, or non-receipt of, such notice will not affect the validity of such modification or substitution.

If the Issuer substitutes another entity in place of the Issuer as obligor under a Series of OPALS, the tax consequences (including the withholding tax consequences) of holding the OPALS may change. Except as otherwise set out in these Terms and Conditions, if withholding is required on the OPALS, no additional amounts will be required to be paid.

- (6) The Issuer is at liberty from time to time without the consent of the relevant holders to create and issue further OPALS so that the same shall be consolidated and form a single series with an existing Series of OPALS, but upon such terms as to issue price and otherwise as the Issuer may determine. Following the creation of such further OPALS, for the purposes of Condition 2(4), the maximum amount of the relevant Series shall be the aggregate of the maximum amount specified in the Final Terms relating to such further issue and the maximum amount(s) specified in the Final Terms(s) relating to such Series then in existence, **provided that** in the event that the Maximum Amount of such Series is not issued on the Initial Issue Date and the relevant Series of OPALS is, or is to be, admitted to listing on the Official List and traded on the Regulated Market of the Luxembourg Stock Exchange, further OPALS of such Series shall only be issued at a time when there is in existence a base prospectus or other prospectus which is current for the purpose of admission to the Official List and admission to trading on the Regulated Market of the Luxembourg Stock Exchange of such further OPALS.
- (7) The Issuer or any of its affiliates may at any time and from time to time purchase OPALS at any price in the open market or otherwise (including from MSI plc and its affiliates). Such OPALS may, at the option of the Issuer or, as the case may be, the affiliate, be held, resold or cancelled or otherwise dealt with. No OPALS which has been redeemed or purchased and cancelled by the Issuer may be re-issued and sold by the Issuer.
- (8) Payments in respect of OPALS are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment.
- (9) If any payment of income on OPALS is due to be made by the Issuer or any notice or instruction is due to be given by the Issuer on any day which is not a business day in the place from which, or to which, payment is to be made or to which notice is to be given, such payment shall be made or notice shall be given on the next succeeding day which is a business day in such place.
- (10) Claims against the Issuer for the payment of income in respect of OPALS or the delivery of Shares upon maturity of OPALS will become void upon the expiry of three years from the date on which such payment first became due or the Maturity Date of the relevant OPALS, as the case may be.
- (11) The occurrence or non-occurrence of an EMU Event will not have the effect of altering any term of, or discharging or excusing performance under, any OPALS or, in and of itself, give rise to a Market Disruption Event or otherwise be the basis for the early redemption of any OPALS.
- (12) Each of the Issuer and the Counterparty may enter into borrowing arrangements from time to time for any reason in their respective discretion including, but not limited to, for the purposes of funding payments of income to holders.
- (13) The Issuer may, without the consent of any holders of OPALS, employ any person or persons, including MSI plc or any of its affiliates, to act as its agent, custodian, fiduciary or other representative, pursuant to a written agreement or otherwise.
- (14) No person shall have any right to enforce any of these conditions or any of the provisions of a Global Security under the Contracts (Rights of Third Parties) Act 1999.

### 13. **Meetings of holders of OPALS**

The Agency Agreement contains provisions for the convening of meetings of holders (or, if applicable, the holders of OPALS of any Series) by the Issuer to consider any matter affecting their



interests, including the sanctioning by Extraordinary Resolution of a modification of these Terms and Conditions of OPALS requiring such sanction.

A resolution which in the opinion of the Issuer affects the interests of the holders of one Series only of the OPALS shall be deemed to have been duly passed if passed at a separate meeting of the holders of the OPALS of that Series.

A resolution which in the opinion of the Issuer affects the interests of the holders of more than one Series of the OPALS but does not give rise to a conflict of interest between the holders of the OPALS of any of the Series so affected shall be deemed to have been duly passed if passed at a single meeting of the holders of the OPALS of the Series so affected.

A resolution which in the opinion of the Issuer affects the interests of the holders of more than one Series of the OPALS and gives or may give rise to a conflict of interest between the holders of the OPALS of any of the Series so affected shall be deemed to have been duly passed only if in lieu of being passed at a single meeting of the holders of the OPALS of all such Series it shall be duly passed at separate meetings of the holders of the OPALS of each Series so affected.

The quorum at any meeting of holders (or, if applicable, holders of the OPALS of the relevant Series) for passing an Extraordinary Resolution shall be two or more persons holding or representing over 50 per cent. in principal amount of the OPALS (or, if applicable, the OPALS of the relevant Series) or at any adjourned meeting, two or more persons being or representing holders (or, if applicable, holders of the OPALS of the relevant Series) whatever the aggregate principal amount of the OPALS (or, if applicable, the OPALS of the relevant Series) so held or represented.

## THE ISSUER

The Issuer, Morgan Stanley Capital (Cayman Islands) Limited, was incorporated as a company with limited liability in the Cayman Islands on 24 June 1992 with registration number 43542 under the Companies Law (Revised) of the Cayman Islands. The registered office of the Issuer is c/o Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands, telephone number +1 345 949 8066.

The entire issued share capital of the Issuer is held under the terms of a trust established under Cayman Islands law by a Declaration of Trust dated 2 December 1993 and made by Deutsche Bank (Cayman) Limited (formerly, Morgan Grenfell (Cayman) Limited) (the "**Retired Trustee**"). Pursuant to a Deed of Appointment of New Trustee and Retirement of Trustee dated 12 August 2018 and made between the Retired Trustee and Vistra (Cayman) Limited (the "**Trustee**"), the Retired Trustee retired as trustee and the Trustee was appointed as trustee and the Trustee took legal title of the issued share capital of the Issuer on 1 October 2018. For accounting purposes, the controlling party and ultimate parent undertaking in relation to the Issuer is Morgan Stanley. Pursuant to such Declaration of Trust, the Trustee holds the assets of the trust for the Holders or, in certain events, is required on a discretionary basis to pay and apply capital or income of the trust to or for the benefit of certain charities. The Issuer itself has no subsidiaries.

The principal activity of the Issuer is the issuance of OPALS and the hedging of the obligations arising pursuant to such issuances with Equity Linked Obligations. Paragraph 3 of the Memorandum of Association of the Issuer provides that its objects are unrestricted.

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during a period covering 12 months prior to the date of this Base Prospectus which may have or have had a significant effect on the Issuer and/or its financial position or profitability.

*Capital Structure and Voting Rights:* The Issuer has an authorised share capital of U.S.\$500,000 divided into 500,000 shares of U.S.\$1 par value each of which 1,000 have been issued and are fully paid. Each share is entitled to one vote. The total issued share capital is U.S.\$1,000.

*Selected Financial Information:* The accounting reference date of the Issuer is 31 December in each year. The Issuer's result for the year ended 31 December 2019, after tax, was U.S.\$nil (31 December 2018, U.S.\$nil). During such year no dividends were paid by it. The Issuer's equity shareholders' funds as at 31 December 2019 were U.S.\$1,000 (31 December 2018, U.S.\$1,000).

The selected financial information set out below has been extracted without material adjustment from the audited financial statements of the Issuer for the years ended 31 December 2018 and 31 December 2019:

|  | Years Ended         |                     |
|--|---------------------|---------------------|
|  | 31 December<br>2018 | 31 December<br>2019 |
|  | (U.S.\$'000)        |                     |
| <b>Balance Sheet</b>   |                     |                     |
| Total assets.....  | 2,457,016           | 2,678,596           |
| Total liabilities and assets.....                                | 2,457,015           | 2,678,595           |
| <b>Income Statement</b>  |                     |                     |
| Net gains on financial instruments designated at fair value..... | 0                   | 0                   |
| Interest income.....   | 6                   | 6                   |
| Interest expense.....  | (6)                 | (6)                 |
| Income (loss) from continuing operations before tax.....         | 0                   | 0                   |
| Result and total comprehensive income for the year.....          | 0                   | 0                   |

Extracts from the financial statements of the Issuer for the years ended 31 December 2019 and 31 December 2018 are attached to this Base Prospectus as Appendix A.

## Directors of the Issuer

| Name               | Principal outside activity        |
|--------------------|-----------------------------------|
| Sina El Beid ..... | Managing Director, Morgan Stanley |
| Amy Gelfand.....   | Managing Director, Morgan Stanley |

The business address of the Directors is c/o Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands.

Each of the directors of the Issuer is employed within the Morgan Stanley group of companies. Subject to any interests they may have as Morgan Stanley group employees, the Issuer believes that there are no material potential conflicts of interest between the duties owed to Morgan Stanley by its directors or by the members of its principal committees and the private interests and/or other external duties owed by these individuals.

The Issuer does not have a separate audit committee. Cayman Islands law does not impose a specific corporate governance regime on the Issuer.

*Auditors:* The Issuer's financial statements for the financial years ended 31 December 2019 and 31 December 2018 have been audited by Deloitte Audit (formerly Deloitte Audit Société à responsabilité limitée), 560 rue de Neudorf, L-2220 Luxembourg, BP 1173, L-1011 Luxembourg.

The audit department of Deloitte Audit is authorised by the Institut des Reviseurs d'Entreprises and registered on the public register for réviseurs d'entreprises agréés (approved statutory auditors) and cabinets de révision agréés (approved audit firms). The Institut des Reviseurs d'Entreprises is a professional association under the Luxembourg law of 18 December 2009 concerning the audit profession.

*Documents Available:* Copies of the memorandum and articles of association of the Issuer and the published financial statements of the Issuer (including the report of the auditors thereon) in respect of the years ended 31 December 2019 and 31 December 2018 respectively will be available at the specified offices of the Issuer in the Cayman Islands and of the Paying Agent in Luxembourg for as long as any Series of OPALS is admitted to listing on the Official List and traded on the Regulated Market of the Luxembourg Stock Exchange.

*Legal Entity Identifier (LEI):* The Issuer's LEI is 549300V4LRSC37X2F140

*Credit Ratings:* The Issuer has not been assigned a credit rating.

## THE COUNTERPARTIES

### **Morgan Stanley Capital (Luxembourg) S.A. ("MSCL")**

MSCL, of which Morgan Stanley International Holdings Inc. is the majority shareholder, was established under the laws of the Grand Duchy of Luxembourg on 29 November 1993. Its registered office is at 19, rue de Bitbourg, Luxembourg, L – 1273 Luxembourg. Its ultimate holding company is Morgan Stanley which prepares consolidated accounts.

The business of MSCL consists of holding and managing baskets of securities which are structured with a view to tracking the performance of various equity indices within expected tolerances. MSCL is a party to a Counterparty Agreement with Morgan Stanley Capital (Cayman Islands) Limited ("MSCCIL") an affiliate whose only business activity is the issuance of Optimised Portfolios as Listed Securities ("OPALS") and the purchase of equity linked obligations based on the baskets of securities, from MSCL. All dividends and certain other amounts associated with these baskets and with the operations of MSCL, net of certain expenses associated with these baskets and with the operations of MSCL and MSCCIL, are paid by MSCL to MSCCIL to enable them to fulfil their obligations to holders of OPALS.

The main currency of MSCL's primary economic environment is the U.S. Dollar, its financial statements are therefore prepared in this currency.

*Capital Structure and Voting Rights:* MSCL has an authorised, issued and fully paid share capital of U.S.\$3,000,000 divided into 75,000 shares of U.S.\$40 par value. Each share gives rise to an entitlement to one vote.

MSCL's accounting reference date is 31 December in each year. It does not publish interim accounts. The financial statements of MSCL for the fiscal year ended 31 December 2019 will be available at the specified office of the Listing Agent in Luxembourg.

### **Morgan Stanley & Co. International plc ("MSI plc")**

MSI plc was incorporated as a company limited by shares under the Companies Act 1985 and operates under the Companies Act 2006.

MSI plc is a company limited by shares which was incorporated with registered number 2068222 under the laws of England and Wales on 28 October 1986. MSI plc was re-registered as a public limited company on 13 April 2007. Its registered office is at 25 Cabot Square, Canary Wharf, London E14 4QA. MSI plc is the parent entity of a group of companies including MSI plc and all of its subsidiary and associated undertakings ("MSI plc Group"). The principal activity of the MSI plc Group is the provision of financial services to corporations, governments and financial institutions.

MSI plc operates globally with a particular focus in Europe. It operates branches in the Dubai International Financial Centre, the Netherlands, Poland, the Qatar Financial Centre, South Korea and Switzerland.

As a key contributor to the execution of the Morgan Stanley Group's Institutional Securities global strategy, the MSI plc Group provides capital raising; financial advisory services, including advice on mergers and acquisitions, restructurings, real estate and project finance; corporate lending; sales, trading, financing and market-making activities in equity and fixed income products, including foreign exchange and commodities; and investment activities.

MSI plc's ultimate parent undertaking in the UK is Morgan Stanley International Limited, which is incorporated under the laws of England and Wales, and MSI plc's ultimate parent undertaking and controlling entity is Morgan Stanley, which is incorporated in Delaware, United States of America, and which, together with MSI plc and Morgan Stanley's other subsidiary undertakings, form the Morgan Stanley group of companies.

The Financial Statements of MSI plc for the fiscal year ended 31 December 2019 are available at the specified office of the Listing Agent in Luxembourg.

## PROGRAMME DOCUMENTS

*The following overview of certain of the terms of the Programme Documents does not purport to be complete and is taken from, and is qualified in its entirety by, the provisions of those documents.*

### Programme Agreement

Under the Programme Agreement, MSI plc is appointed to act as dealer, either directly or through an affiliate (the "**Dealer**") under the Programme.

The Issuer agrees to issue, from time to time, Series of OPALS. The terms of a Series shall be set out in the Final Terms relating to, and incorporated in the Global Security representing, such Series of OPALS. Each Global Security will be deposited with the relevant Common Depositary as depositary for Euroclear and Clearstream, Luxembourg. Interests in the Global Security will be transferred in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg. The amount of the Programme may be increased from time to time by the Issuer.

The Dealer agrees that it may, from time to time, subscribe or procure subscribers for OPALS at prices agreed between the Issuer and the Dealer. The Issuer shall apply the proceeds of such subscription in payment to the Counterparty which, in the case of Morgan Stanley Capital (Luxembourg) S.A., shall purchase the Shares comprising the Basket of Shares to which the OPALS relate and to satisfy the other costs and expenses of the Issuer. The Dealer will notify the Common Depositary of the number of OPALS from time to time issued in respect of each Series of OPALS and the relevant Common Depositary will mark the Global Security accordingly. Euroclear or Clearstream, Luxembourg will credit the account of each purchaser of OPALS with an aggregate amount of OPALS equal to the amount of the purchase attributable to such account.

The Issuer makes certain representations and undertakings and agrees to indemnify the Dealer in respect of any losses, liabilities, costs or claims which may be incurred as a result of or in relation to any breach or alleged breach of the warranties and obligations of the Issuer. The Dealer agrees to comply with selling restrictions operating in respect of the OPALS.

The Issuer agrees to pay all expenses incurred in the preparation of documentation. The Dealer, however, will bear all other costs and expenses incurred by it in connection with the offer and distribution of OPALS. The Dealer will be entitled to such commissions or concessions in respect of an issue of OPALS as may be agreed between it and the Issuer from time to time.

The Issuer or the Dealer may terminate the Programme Agreement by not less than 30 days' written notice to the other. Termination will not, however, affect any accrued rights or obligations. The Issuer is permitted to appoint one or more additional Dealers for the duration of the Programme or in respect of an issue of a particular Series of OPALS.

### Agency Agreement

Under the Agency Agreement, MSI plc is appointed to act as calculation agent (in such capacity, the "**Calculation Agent**"), Citigroup Global Markets Europe AG is appointed as the registrar (in such capacity, the "**Registrar**"), Citibank, N.A., London Branch is appointed as principal paying agent (the "**Principal Paying Agent**") and Citibank Europe plc is appointed to act as the transfer agent and as an additional paying agent (in such capacities, the "**Transfer Agent**" and the "**Additional Paying Agent**", respectively, and together with the Principal Paying Agent, the "**Paying Agents**" and each a "**Paying Agent**") under the Programme. The Principal Paying Agent agrees to act as agent in connection with the issue of Bearer OPALS, redemption of Bearer OPALS subject to the terms and conditions of each Series of Bearer OPALS and the terms of each Final Terms and the admission to trading of Bearer OPALS on the Regulated Market of the Luxembourg Stock Exchange (or any other stock exchange), and agrees to keep a complete record of redemption of Bearer OPALS. The Registrar agrees to act as agent in connection with the issue of Registered OPALS, redemption of Registered OPALS subject to the terms and conditions of each Series of Registered OPALS and the terms of each Final Terms and the admission to trading of Registered OPALS on the Regulated Market of the Luxembourg Stock Exchange (or any other stock exchange), and agrees to keep a complete record of redemption of Registered OPALS. Each Paying Agent agrees to make payments of income on the OPALS on the Payment Dates in respect thereof. The Issuer agrees to pay the Paying Agents, the Registrar and the Transfer Agent such fees as may be agreed from time to time between the

Issuer and the Paying Agents, the Issuer and the Registrar and the Issuer and the Transfer Agent respectively and will pay reasonable out-of-pocket expenses incurred by the Paying Agents, the Registrar and the Transfer Agent. Each of the Registrar and the Transfer Agent are protected and will incur no liability for any action taken pursuant to communications reasonably believed by it to be genuine and the Issuer agrees to indemnify each of the Paying Agents, the Registrar and the Transfer Agent against any losses, liabilities, costs and claims which may be made against it in connection with its appointment.

The Principal Paying Agent may resign by giving at least 90 days' notice in writing to the Issuer, **provided that** such resignation shall not take effect until a new Agent has been appointed. The Registrar and the Transfer Agent may resign by giving at least 90 days' notice in writing to the Issuer, **provided that** such resignation shall not take effect until a new Registrar or Transfer Agent, as applicable, has been appointed. The Additional Agent may resign by giving at least 90 days' notice in writing to the Issuer **provided that** such registration shall not take effect until a new Additional Paying Agent has been appointed. The Issuer may terminate the appointment of the Paying Agents, the Registrar or the Transfer Agent by giving at least 30 days' notice in writing **provided that** such termination shall not take effect until a new Paying Agent, a new Registrar or a new Transfer Agent, as the case may be, has been appointed. The Issuer may appoint an alternative or additional Agent, Registrar or Paying Agent in respect of an issue of a particular Series of OPALS.

### **Stock Lending and Other Transactions**

The Counterparty Agreement (as defined below) permits the Counterparty, where the Counterparty holds the Shares which relate to its obligations under such Counterparty Agreement, to engage in stocklending or other transactions in relation to such Shares on the basis that the net income (if any) deriving from such transactions is to be shared equally between the Counterparty and the Issuer.

Subject as provided in the Final Terms, in the case of a Series of OPALS in respect of which the Counterparty is an entity other than MSI plc, such loans or other transactions are required to be collateralised by or effected against cash, letters of credit, securities (which may include unrated and long-term debt securities and equity securities) or other collateral in an amount at least equal to the market value of the loaned or subject Shares, determined daily. This requirement does not apply to Series in respect of which MSI plc is the Counterparty.

The terms of each stocklending or other transaction entered into by the Counterparty in its capacity as such are required to be such as would enable the Counterparty to satisfy its obligations under the arrangements between the Issuer and the Counterparty upon redemption or maturity of the OPALS to which such Shares relate. However, in the event the Counterparty is unable to deliver the relevant Shares directly or indirectly by reason of market related circumstances affecting the availability of the relevant Shares including circumstances affecting the availability of the currency required to obtain the relevant Shares, those circumstances are likely to constitute market disruption events entitling the Issuer to postpone delivery of such Shares or to take other action it considers appropriate.

### **Arrangements with the Counterparty and Custody Provisions**

The Counterparty in relation to each Series of OPALS will be specified in the Final Terms for that Series unless the Final Terms provides that in relation to the relevant Series there shall be no Counterparty. It is expected that in most cases the Counterparty will be either Morgan Stanley Capital (Luxembourg) S.A. or MSI plc.

Morgan Stanley Capital (Luxembourg) S.A. has entered into a Master Equity Linked Obligation Agreement with the Issuer dated 2 December 1993 as most recently amended and restated by an Amendment and Restatement Agreement dated 20 June 2011. MSI plc has entered into a Master Equity Linked Counterparty Agreement with the Issuer dated 29 May 2001 as most recently amended and restated by an Amendment and Restatement Agreement dated 20 June 2011 (each such agreement as from time to time amended being a "**Counterparty Agreement**").

If the arrangements between Morgan Stanley Capital (Luxembourg) S.A. or MSI plc (as applicable) and the Issuer in relation to a Series of OPALS to be issued are to be different to the arrangements set out in the Counterparty Agreement, such different arrangements will be described in the Final Terms for such Series.

Under the Counterparty Agreement the Issuer agrees to pay to the Counterparty in respect of each Series of OPALS sums equal to the net proceeds of issue of OPALS of that Series. The payment of such amounts gives rise to obligations on the part of the Counterparty which are principally discharged by the delivery of the relevant Basket of Shares to the Issuer or by payment to the Issuer of the market value of the relevant Shares in each case on the Maturity Date of the relevant OPALS or at any time prior to the Maturity Date in the event and to the extent that the relevant OPALS are redeemed early pursuant to the terms of the OPALS.

The Counterparty agrees to pay additional amounts in connection with a Series on the Payment Dates for such OPALS. The additional amounts payable on each Payment Date in connection with a Series of OPALS shall be such amount, after taking account of any amounts available to the Issuer, as shall be required by the Issuer to enable the Issuer to pay to the holders of the relevant OPALS the income on such OPALS payable on such Payment Date calculated by the Issuer in accordance with the terms of the relevant OPALS, provided, however, in the case of Series in respect of which Morgan Stanley Capital (Luxembourg) S.A. is the Counterparty, that such additional amounts shall not exceed an amount equal to the income received by the Counterparty in respect of the relevant Basket of Shares relating to the relevant OPALS including any fees or investment income earned thereon, and net of any taxes or administrative or other costs, plus, irrespective of the identity of the Counterparty, 50 per cent. of the Counterparty's net income (if any) from stocklending activities and other transactions related to such Shares as the Counterparty holds in relation to its obligations under the Counterparty Agreement.

The Counterparty is entitled to pay such additional amounts from any funds available to it. The Issuer may pay to the Counterparty certain commissions in respect of the Counterparty agreeing to undertake the obligations under the relevant Counterparty Agreement.

Where the Counterparty is an entity within the Morgan Stanley group of companies other than Morgan Stanley Capital (Luxembourg) S.A. or MSI plc, the arrangements entered into between the Issuer and such Counterparty in relation to a particular Series of OPALS shall be specified in the Final Terms for that Series.

*Arrangements between the Counterparty and MS&Co.* MS&Co. is a U.S. broker-dealer, regulated by the U.S. Securities and Exchange Commission ("**SEC**"). In relation to its dealings with the Counterparty, MS&Co. is subject to the SEC's customer protection requirements as the Counterparty would be considered a "customer" entitled to protections under such rules. MS&Co. is subject to examination and regulation by the SEC and various U.S. self-regulatory organisations, including the New York Stock Exchange. In addition, there is a statutory customer protection scheme in place in the U.S. under the Securities Investor Protection Act that would allow the Counterparty as a customer of MS&Co., to share in the property held by MS&Co. for the accounts of its customers and that would provide insurance cover for a small portion of any shortfall, if MS&Co. became insolvent. Morgan Stanley has purchased additional insurance to cover shortfalls for MS&Co. customers not otherwise covered by Securities Investor Protection Act insurance.

*Morgan Stanley Capital (Luxembourg) S.A. as Counterparty.* Morgan Stanley Capital (Luxembourg) S.A. does not maintain most of its assets with a bank custodian. Historically, the bulk of its assets have been held by MS&Co. in one or more customer segregated accounts. MSI plc (in its capacity as custodian acting on behalf of Morgan Stanley Capital (Luxembourg) S.A. holds currently (or will hold) assets with respect to all Series of OPALS (other than U.S. assets, including ADRs).

MSI plc is regulated in the conduct of investment business the United Kingdom by the Financial Conduct Authority (the "**FCA**") pursuant to the Financial Services and Markets Act 2000. As an entity regulated by the FCA, MSI plc is subject to regulatory capital requirements imposed by the FCA. When MSI plc holds securities as custodian on behalf of a client, it is required by the FCA to hold such securities in accordance with the FCA's rules relating to the holding of client assets (the "**FCA Client Asset Rules**"). Because MSI plc treats Morgan Stanley Capital (Luxembourg) S.A. as a client for the purposes of the FCA Client Asset Rules, any securities that MSI plc holds on behalf of Morgan Stanley Capital (Luxembourg) S.A. are required to be held in accordance with the FCA Client Asset Rules. These Rules require, *inter alia*, MSI plc to record those securities in segregated accounts in its books and records and, where the relevant securities are held with a sub-custodian, they are to be held in a segregated omnibus client account (the "**Omnibus Client Account**") with the sub-custodian (which account may be used to hold securities belonging to MSI plc's clients on a pooled basis). Any securities held by MSI plc on behalf of Morgan Stanley Capital (Luxembourg) S.A. will be held with a sub-custodian.

The purpose of such arrangements is so that, in the event of an insolvency in England of MSI plc, any insolvency officer of MSI plc should not be entitled to utilise securities in the Omnibus Client Account (recorded as owned by Morgan Stanley Capital (Luxembourg) S.A.) otherwise than to deliver them to Morgan Stanley Capital (Luxembourg) S.A. or to enable Morgan Stanley Capital (Luxembourg) S.A. to satisfy its obligations to the Issuer.

*MSI plc as Counterparty.* MSI plc may hold baskets of Shares relating to its obligations under the Counterparty Agreement directly itself or through MS&Co. (as described above). In circumstances where MSI plc, in connection with its obligations under the Counterparty Agreement, holds a basket of Shares itself, the Shares comprising such basket will not be held in a segregated account and will, in the event of the insolvency of MSI plc, form part of MSI plc's assets available to its creditors generally. The Issuer will rank as a general creditor of MSI plc and will therefore rank behind secured or preferred creditors of MSI plc. Further, MSI plc is subject to the Banking Act 2009 which gives wide powers to certain UK regulatory authorities in respect of a relevant financial institution which is determined to be failing or likely to fail. Such powers include, among others, the power to cancel or convert (in whole or in part) certain liabilities in relation to MSI plc which could include liabilities of MSI plc to the Issuer.

### **Expected Annual Tracking Risk**

The Basket of Shares underlying a Series of OPALS may not contain all of the shares that comprise the relevant Benchmark Index and may, in some cases, contain securities that are not included in the relevant Benchmark Index, due in part to the costs involved, legal, regulatory or potential conflict reasons which prevent the Counterparty holding certain securities and, in certain instances, the potential illiquidity of the relevant securities. Instead, most Baskets of Shares will reflect a representative sample of the shares in the relevant Benchmark Index, which will be selected by the Issuer utilising quantitative, qualitative and analytical models in a technique known as "portfolio sampling". Under this technique, each security is considered for inclusion in a Basket of Shares based on its contribution to certain capitalisation, industry and fundamental investment characteristics.

The Issuer will seek to construct the Basket of Shares for each Series of OPALS so that, in aggregate, its capitalisation, industry and fundamental investment characteristics perform like those of the subject Benchmark Index. Over time, the portfolio composition of a Basket of Shares may be altered (or "rebalanced") to reflect changes in the subject Benchmark Index or with a view to tracking more closely the performance of the Benchmark Index, as well as in certain other circumstances (see Condition 9 of the relevant Terms and Conditions). Where such rebalancings are reflected in the basket of shares held by the Counterparty in relation to its obligations under the Counterparty Agreement relating to such Series of OPALS they will result in transaction costs and other expenses being incurred in respect of such Series. A Basket of Shares may be comprised of all of the securities in the Benchmark Index if the Issuer determines it to be appropriate.

Due to the use of this portfolio sampling technique and the other factors discussed herein, the price performance of a Series of OPALS is not expected to be the same as the price performance of its Benchmark Index. The Final Terms for each Series of OPALS will state the "Expected Annual Tracking Risk" for that Series as of the date of the Final Terms.

The Expected Annual Tracking Risk is, for any Series of OPALS, the Issuer's estimate, based on both quantitative and qualitative analysis, of the likely range of variation, after a one year period, between the annual price performance of that Series of OPALS and the annual price performance of the relevant Benchmark Index under normal market conditions. The Expected Annual Tracking Risk is expressed, in percentage units, as a difference in annual price performance between the Series of OPALS and the relevant Benchmark Index.

For example, assume the Expected Annual Tracking Risk in respect of a Series of OPALS linked to the MSCI Argentina index is currently 1.25 per cent. This indicates that the Issuer estimates that it is more likely than not that the realised annual price performance for this Series of OPALS will, after a one year period, differ from the relevant Benchmark Index by no more than 1.25 per cent. under normal market conditions. That is to say, were the MSCI Argentina index to have realised, after one year, an annual price performance of 9 per cent., the Issuer would expect the price performance of the relevant Series of OPALS to have been between 7.75 per cent. and 10.25 per cent.



The price performance (or price return) of a Series of OPALS over any period is the percentage change over that period in the value of the Basket of Shares (plus any additional funds held resulting from adjustments to the Basket of Shares). The price performance of a Series of OPALS disregards the amount of income paid on the Series during the period.

The actual price performance of a Series of OPALS relative to the relevant Benchmark Index will depend upon a number of factors, including but not limited to: the capitalisation, coverage and number of securities in the Basket of Shares, the number of securities in the relevant Benchmark Index, the relative weights of the securities in the Basket of Shares, market volatility, the intra-market (stock) return correlations, the stability of these correlations, liquidity, transaction costs, the frequency and magnitude of changes to the relevant Benchmark Index, the timing and implementation of adjustments ("**rebalances**") to the Basket of Shares, restrictions based on foreign ownership limits, and the size of a "round lot" securities in each market. Some of these factors (for example, the correlations of various securities) can be modelled or assessed quantitatively. Others can be assessed on a qualitative basis.

The Issuer expects to make available on a regular basis its current assessment of the Expected Annual Tracking Risk for each Series of OPALS. Changes to the Expected Annual Tracking Risk for a Series of OPALS may arise as a result of a number of reasons, such as changes in volatilities or correlations, changes to the relevant Benchmark Index (whether or not reflected in changes to the composition of the Basket of Shares), corporate or other events with respect to the Shares comprised in the Basket of Shares (whether or not reflected in changes to the composition of the Basket of Shares) or changes to the composition of the Basket of Shares. However, due to variations in the way in which the Issuer assesses the Expected Annual Tracking Risk of a Series successive statements of Expected Annual Tracking Risk for that Series may not be fully comparable.

In addition, there can be no assurance that the investment results actually achieved by an investor in any Series of OPALS will track the performance of the relevant Benchmark Index to the extent indicated by the Expected Annual Tracking Risk. Factors such as the expenses of the Issuer and the Counterparty, taxes, differences in the timing of payment of income on the Series of OPALS as compared with the payment of distributions on such securities, the fact that the Benchmark Index may "smooth" dividend payments evenly over a year while the Issuer records dividends on the Share Record Date, the fact that Income on OPALS may include stocklending income or income from other transactions, the fact that a Benchmark Index may assume a different foreign tax withholding rate than that applicable to the Counterparty, changes to the relevant Benchmark Index or corporate or other events with respect to the securities comprised in the Basket of Shares (whether or not reflected in changes to the composition of the Basket of Shares), changes to the composition of the Basket of Shares, the investor's actual purchase or sale price for any OPALS, the costs incurred by the investor in redeeming any OPALS and realising the Shares delivered upon redemption and any delays in effecting any such redemption or realisation may adversely affect the extent to which the investment results actually achieved track the performance of the relevant Benchmark Index.

## POTENTIAL CONFLICTS OF INTEREST

### Trading by the Counterparty

In the case of a Series of OPALS in respect of which Morgan Stanley Capital (Luxembourg) S.A. is the Counterparty, it will affect all or substantially all the transactions in the Shares comprised in the Basket of Shares relating to such Series with or through MSI plc or its affiliates. There may from time to time be legal, regulatory or potential conflicts reasons which prevent MSI plc from providing trading services to Morgan Stanley Capital (Luxembourg) S.A. in relation to certain Shares underlying such Series. MSI plc's performance of trading services for Morgan Stanley Capital (Luxembourg) S.A. is solely incidental to the conduct of its business as a broker-dealer. MSI plc or its affiliates will receive customary dealer mark-ups on its transactions for Morgan Stanley Capital (Luxembourg) S.A.'s account, but it will receive no special compensation therefore. Pricing of particular securities not widely quoted, which may represent a substantial majority of the transactions for certain Series of OPALS, necessarily involves judgment and estimates on MSI plc's part taking into account a variety of factors. Although MSI plc will make such judgments in good faith and will endeavour to obtain reasonable pricing for Morgan Stanley Capital (Luxembourg) S.A.'s transactions within the context of the relevant market, there may be other brokers or dealers willing to effect particular transactions at lower commission rates or lower dealer mark-ups than those charged by MSI plc or its affiliates. Affiliates of MSI plc that effect transactions on behalf of Morgan Stanley Capital (Luxembourg) S.A. will receive only their customary mark-ups and commissions for doing so.

In the case of a Series in respect of which MSI plc is the Counterparty, it will conduct trading activities in relation to Shares comprised in the Basket of Shares relating to such Series in the normal course of its business. There may from time to time be legal, regulatory and potential conflicts reasons which prevent MSI plc from conducting trading activities in relation to certain Shares underlying such Series.

### Stock Lending and other Transactions entered into by the Counterparty

*In the case of a Series of OPALS in respect of which Morgan Stanley Capital (Luxembourg) S.A. is the Counterparty.* The Counterparty will enter into stocklending transactions (or other transactions, including equity swaps and equity sale and repurchase transactions) principally with MSI plc or its affiliates which will generally on-lend the borrowed stock or use it to cover short sales of securities made by them as a part of their regular business. Although the Counterparty expects to receive stocklending fees and other income at commercial rates, and to receive collateral or collateral equivalent from such persons in connection with these transactions, there may be other persons in the market willing to effect such transactions on more favourable terms to the Counterparty. Even when MSI plc or its affiliates have no need or desire to engage in stock lending transactions in respect of a Series, the Counterparty may elect not to solicit other borrowers or counterparties; accordingly the Counterparty may not receive stock lending fees or other fees at times when other borrowers or counterparties might pay such fees if solicited.

*In the case of a Series of OPALS in respect of which MSI plc is the Counterparty.* The Counterparty may enter into stocklending transactions (or other transactions) with or through Morgan Stanley group companies or third parties. Such transactions may not be collateralised. The borrower, in the case of stocklending transactions and the counterparty in respect of other transactions, will generally on-lend the borrowed stock or use it to cover short sales of securities made by them as part of their regular business or otherwise deal with the borrowed stock. Although MSI plc expects to receive stock lending fees and other income at commercial rates, there may be other persons in the market willing to effect such transactions on more favourable terms to MSI plc.

### Trading and Investing by, or at the Direction of, MSI plc and its Affiliates

MSI plc and any of its affiliates may trade and invest for their own account or for the accounts of others in securities comprised in a Basket of Shares where MSI plc is the Counterparty or in securities which MSI plc holds as custodian on behalf of Morgan Stanley Capital (Luxembourg) S.A. (when it is acting as Counterparty). Neither MSI plc nor such affiliates have any duty in engaging in such activity to act in a way that is favourable to the Issuer, holders of OPALS or Morgan Stanley (Capital) Luxembourg S. A. (as applicable). MSI plc and affiliates and their respective clients may have interests different from or adverse to those of the Issuer, holders of OPALS or Morgan Stanley Capital (Luxembourg) S.A. (as applicable) and there may be circumstances in which transactions in securities by MSI plc and its affiliates or clients could

have an adverse effect on the value of Shares comprised in a Basket of Shares and, thus, indirectly, on the relevant OPALS.

In addition, MSI plc or any of its affiliates may trade and invest for their own account in OPALS.

#### **Voting and Similar Rights**

The Counterparty or the person with whom it has entered into a stocklending (or other) transaction with respect to Shares may exercise the voting or other similar rights in relation to the Shares underlying a Series of OPALS in a manner that is adverse to the interests of the Issuer or holders of OPALS.

#### **Services to be Provided by Companies within the Morgan Stanley Group**

Companies within the Morgan Stanley group of companies will, in relation to any Series of OPALS, provide advisory and other services to the Issuer in respect of the initial selection of the Basket of Shares for such Series, any adjustment to be made to the Basket of Shares for such Series, the initial determination, and subsequent changes thereto, of the Expected Annual Tracking Risk for any Series.

Under the Counterparty Agreement to which MSI plc is a party, MSI plc may adjust the basket of shares by reference to which its obligations under the Counterparty Agreement in respect of a particular Series of OPALS are determined on the same basis as the Issuer is entitled to adjust the Basket of Shares to which such Series relates under the Terms and Conditions of OPALS. In the case of such Series of OPALS, the Issuer may treat the making of an adjustment by MSI plc as evidence of the existence of circumstances warranting an adjustment in respect of the relevant Basket of Shares and the Issuer may make a corresponding adjustment. It is possible that MSI plc may elect to make an adjustment in circumstances where the Issuer would not, but for MSI plc having done so, elect to do so.

## **TAXATION**

**The tax laws of an investor's state and of the Issuer's state of incorporation might have an impact on the income received from the OPALS. Prospective purchasers of OPALS should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the OPALS and the consequences of such actions under the tax laws of those countries.**

### **Cayman Islands**

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any OPALS under the laws of their country of citizenship, residence or domicile.

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the OPALS. The discussion is a general overview of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands laws:

- (i) payments in respect of the OPALS will not be subject to taxation in the Cayman Islands and no withholding will be required on such payments to any holder of OPALS and gains derived from the sale of OPALS will not be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporate or capital gains tax and no estate duty, inheritance tax or gift tax; and
- (ii) no stamp duty is payable in respect of the issue of OPALS. An instrument of transfer in respect of OPALS is stampable if executed in or brought into the Cayman Islands.

The Issuer has been incorporated under the laws of the Cayman Islands as an exempted company and, as such, has obtained an undertaking from the Governor in Council of the Cayman Islands (the "**Tax Undertaking**") in the following form:

**"The Tax Concessions Law  
(2011 Revision)  
Undertaking as to Tax Concessions**

In accordance with the provisions of Section 6 of the Tax Concessions Law (2011 Revision), the Governor in Cabinet undertakes with:

**MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED the "Company"**

- (a) that no Law which is hereafter enacted in the Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (b) in addition that no tax be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable
  - (i) on or in respect of the shares debentures or other obligations of the Company;
  - (ii) by way of the withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concessions Law (2011 Revision)

This concession shall be for a period of TWENTY years from the 10<sup>th</sup> day of July 2012.

**CLERK OF THE CABINET"**

The Issuer intends to, prior to expiry of the Tax Undertaking, apply for renewal of the same for a further period of twenty years.

## Luxembourg

*The following is a general description of certain Luxembourg withholding tax considerations relating to OPALS. It does not purport to be a complete analysis of all tax considerations relating to OPALS, whether in Luxembourg or elsewhere. Prospective purchasers of OPALS should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of OPALS and receiving payments of interest, principal and/or other amounts under OPALS and the consequences of such actions under the tax laws of Luxembourg. This overview is based upon the law as in effect in Luxembourg on the date of this Base Prospectus, subject to any change in the law or interpretation thereof that may take effect after such date, possibly with retroactive effect, though it is not intended to be, nor should it be construed to be, legal or tax advice. The information contained within this section is limited to withholding taxation issues, and prospective investors should not apply any information set out below to other areas, including (but not limited to) the legality of transactions involving OPALS.*

### Withholding Tax

All payments of interest (including accrued but unpaid interest) and principal by the Issuer under OPALS can be made free and clear of any withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein, in accordance with the applicable Luxembourg law, subject however to the application of the Luxembourg law of 23 December 2005 (the "**Relibi Law**"), as amended, which has introduced a 20 per cent. withholding tax on savings income received by a Luxembourg resident individual.

Pursuant to the Relibi Law, as amended, Luxembourg resident individuals can opt to self declare and pay a 20 per cent. levy on interest payments made by paying agents located outside Luxembourg, in a Member State of either the European Union or the European Economic Area.

The 20 per cent. withholding tax as described above or the 20 per cent. levy are final when Luxembourg resident individuals are acting in the context of the management of their private wealth.

Responsibility for the withholding of tax in application of the above-mentioned Luxembourg Relibi Law, as amended, is assumed by the Luxembourg paying agent within the meaning of this law or by the Luxembourg resident, depending on the case as described above and not by the Issuer.

### The proposed financial transactions tax

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common financial transactions tax ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States and Estonia**"). However, Estonia has since stated that it will not participate.

Following the meeting of the Council of the EU of 14 June 2019, the FTT currently being considered by the participating Member States would be levied on the acquisition of shares or similar instruments of listed companies which have their head office in a member state of the EU (and market capitalisation in excess of €1 billion on 1 December of the preceding year), rather than on any type of financial instrument. In order to reach a final agreement among the participating Member States, further work in the Council and its preparatory bodies will be required in order to ensure that the competences, rights and obligations of non-participating EU member states are respected.

If the proposed directive or any similar tax was adopted and depending on the final terms and scope of the FTT, transactions on the OPALS could be subject to higher costs, and the liquidity of the market for the OPALS may be diminished.

Prospective holders of OPALS are advised to seek their own professional advice in relation to the FTT.

### FATCA

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold at a rate of 30 per cent. on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. U.S. Treasury regulations defining the term "foreign passthru payment" have not yet been filed with the U.S. Federal Register. The Issuer may be a foreign financial institution for these purposes.

A number of jurisdictions (including the Cayman Islands) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as OPALS, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as OPALS, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as OPALS under proposed Treasury regulations, such withholding would not apply prior to the date that is two years after the publication of the final regulations defining "foreign passthru payment" and OPALS issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified (including in the event that the Issuer substitutes another entity in place of the Issuer as obligor under the OPALS) after such date. If withholding applies to the OPALS, the Issuer will not be required to pay any additional amounts with respect to amounts withheld under FATCA. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the OPALS.

### **General**

Purchasers of OPALS may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase or other relevant jurisdiction in addition to the issue price of the OPALS and holders of OPALS may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of incorporation of the relevant companies or other relevant jurisdiction upon delivery to the holder of the Shares to which the OPALS relate. In the event that any stamp taxes and other charges are payable in accordance with the laws and practices of the country of purchase or other relevant jurisdiction upon the acquisition of any Shares by the Counterparty, the number of Shares in the relevant Basket of Shares shall take into account, amongst other things, such taxes and other charges. In the event that any stamp taxes and other charges are payable in accordance with the laws and practices of the country of purchase or other relevant jurisdiction upon the delivery of Shares to the Issuer, such taxes and other charges shall be borne by the relevant holders in accordance with the relevant Terms and Conditions.

Potential purchasers of OPALS who are in any doubt as to their tax position on purchase, ownership, transfer or redemption of any OPALS should consult their own tax advisers.

## SELLING RESTRICTIONS

### General

No action has been or will be taken by the Issuer or the Dealer that would permit a public offering of OPALS or possession or distribution of any offering material in relation to OPALS in any jurisdiction where action for that purpose is required. No offers, sales or deliveries of any OPALS, or distribution of any offering material relating to OPALS, may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws and regulations and will not impose any obligations on the Dealer.

### Offering restrictions in the European Economic Area and the United Kingdom

This Base Prospectus has been prepared on the basis that any offer of OPALS in any Member State of the EEA or in the UK (each, a "**Relevant State**") will be made pursuant to an exemption under the Prospectus Regulation, from the requirement to publish a prospectus for offers of securities. Accordingly, any person making or intending to make an offer in that Relevant State of OPALS which are the subject of an offering contemplated in this Base Prospectus as completed by Final Terms in relation to the offer of those OPALS may only do so in circumstances in which no obligation arises for the Issuer or the Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation in each case in relation to such offer. None of the Issuer or the Dealer has authorised, nor do they authorise, the making of any offer of OPALS in circumstances in which an obligation arises for the Issuer to publish a prospectus in the EEA, the UK or in any other jurisdiction.

### Prohibition of Sales to EEA and UK Retail Investors

The Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any OPALS which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the EEA or in the UK. For the purposes of this provision:

- (a) the expression "retail investor" means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**") or
  - (ii) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
  - (iii) not a qualified investor as defined in the Prospectus Regulation"; and
- (b) the expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the OPALS to be offered so as to enable an investor to decide to purchase or subscribe for the OPALS.

### No consent given or responsibility taken for any public offerings in the European Economic Area

Neither the Issuer nor the Dealer consents to the use of this Base Prospectus (or any supplement thereto or any Final Terms) by any financial intermediary or any other person for the purpose of making a public offering of the OPALS in the EEA, neither the Issuer nor the Dealer accepts any responsibility for the content of this Base Prospectus to any person with respect to the making of a public offering of the OPALS by any financial intermediary or other person or for the actions of such financial intermediary or other person making such offer.

## United Kingdom

This Base Prospectus may only be distributed:

- (a) in circumstances in which the restriction contained in Section 21(1) of the Financial Services and Markets Act 2000, as amended (the "**FSMA**") does not apply; and
- (b) if the distribution is made by an authorised person under the FSMA, in circumstances where the restriction in Section 238(1) of the FSMA does not apply.

The Dealer has represented and agreed that (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any OPALS in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any OPALS in, from or otherwise involving the United Kingdom.

## United States

OPALS have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or the securities laws of any state or other jurisdiction of the United States, nor has the Issuer registered under the United States Investment Company Act of 1940, as amended (the "**Investment Company Act**"). OPALS may not at any time be offered, sold, pledged, assigned, delivered, or otherwise transferred or redeemed, directly or indirectly, within the United States (as defined below) or to, or for the account or benefit of, any U.S. Person (as defined below). Any sale or transfer in violation of this restriction will be void and of no effect and will not be binding upon or be recognised by the Issuer and, under certain circumstances, may subject such OPALS to forfeiture. A holder of OPALS on redemption must certify that it is not, and is not holding for the account or benefit of, a U.S. Person and that OPALS are not being redeemed for or on behalf of a U. S. Person. In addition, a holder of OPALS must notify the Issuer if it, or any person on whose behalf it holds such OPALS, becomes a U.S. Person. If the Issuer becomes aware that OPALS are being held in violation of such restrictions or by any person which would result in the Issuer being required to register under the Investment Company Act, the Issuer will have the right to require the transfer of such OPALS to a non-U.S. Person or to cause the forfeiture of such OPALS. For purposes of this Base Prospectus, the term "**U.S. Person**" means (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organised under the laws of the United States or any political subdivision thereof, (iii) a trust or estate the income of which is subject to United States federal income taxation, regardless of its source or (iv) from time to time, any person, corporation, partnership, trust, estate or other entity which then is treated or constructed to be a U.S. Person for purposes of Regulation S under the Securities Act or the Investment Company Act. The term "**United States**" means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction.

The OPALS will bear a legend to the effect of the foregoing.

## People's Republic of China (PRC)

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that OPALS will not be offered or sold directly or indirectly within the People's Republic of China (the "**PRC**", which, for the sole purpose of this Base Prospectus, does not include Hong Kong and Macau Special Administrative Regions or Taiwan). This Base Prospectus and any material or information contained or incorporated by reference herein in relation to the OPALS have not been, and will not be, submitted to or approved/verified by or registered with the China Securities Regulatory Commission ("**CSRC**") or other relevant governmental and regulatory authorities in the PRC and thus may not be supplied to the public in the PRC or used in connection with any offer for the subscription or the sale of the OPALS in the PRC. Neither this Base Prospectus nor any material or information contained or incorporated by reference herein constitutes an offer to sell or the solicitation of an offer to buy any securities in the PRC.

OPALS may only be invested by PRC investors that are authorised to engage in the investment in the OPALS of the type being offered or sold. PRC investors are responsible for obtaining all relevant government regulatory approvals/licences, verification and/or registrations, including, but not limited to,



those from the State Administration of Foreign Exchange, CSRC, the China Banking and Insurance Regulatory Commission and other relevant regulatory bodies, and complying with all relevant PRC laws and regulations, including, but not limited to, all relevant foreign exchange regulations and/or overseas investment regulations.

Upon redemption or maturity of the OPALS, to the extent permitted by applicable laws and regulations, shares listed in the PRC as part of the Basket of Shares may be delivered to investors that are allowed to receive such shares through mechanisms permitted by applicable laws and regulations. Investors are responsible for obtaining all applicable government regulatory approvals/licences, verification and/or registrations, and complying with all relevant PRC laws and regulations, to receive such PRC listed shares.

**The selling restrictions set out above may be modified by the agreement of the Issuer and the Dealer following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of any OPALS to which it relates or in a Supplement to this Base Prospectus.**

## STATEMENTS REGARDING CERTAIN INDEX PROVIDERS

*The following statements are required by the licensors of certain of the Benchmark Indices that certain Series of OPALS seek to track. The absence of any such statement in respect of any particular Benchmark Index, or the lack of any requirement by a Benchmark Index licensor to include any similar statement, does not imply, nor shall any holder of OPALS or other person infer, any undertaking of responsibility or liability, or any representation or warranty, or the provision of any guarantee by any licensor or provider of any other Benchmark Index.*

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### **The EURO STOXX 50® Index.**

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STOXX HAS NO RELATIONSHIP TO MORGAN STANLEY, OTHER THAN THE LICENSING OF THE INDEX AND THE RELATED TRADE MARKS FOR USE IN CONNECTION WITH OPALS.

STOXX DOES NOT:

- SPONSOR, ENDORSE, SELL OR PROMOTE OPALS;
- RECOMMEND THAT ANY PERSON INVEST IN OPALS OR ANY OTHER SECURITIES;
- HAVE ANY RESPONSIBILITY OR LIABILITY FOR OR MAKE ANY DECISIONS ABOUT THE TIMING, AMOUNT OR PRICING OF OPALS;
- HAVE ANY RESPONSIBILITY OR LIABILITY FOR THE ADMINISTRATION, MANAGEMENT OR MARKETING OF OPALS;
- CONSIDER THE NEEDS OF THE INSTRUMENTS OR THE OWNERS OF OPALS IN DETERMINING, COMPOSING OR CALCULATING THE EURO STOXX 50® INDEX OR HAVE ANY OBLIGATION TO DO SO.

STOXX WILL NOT HAVE ANY LIABILITY IN CONNECTION WITH OPALS. SPECIFICALLY:

- STOXX DOES NOT MAKE ANY WARRANTY, EXPRESS OR IMPLIED AND DISCLAIMS ANY AND ALL WARRANTY ABOUT:
  - THE RESULTS TO BE OBTAINED BY OPALS, THE OWNER OF OPALS OR ANY OTHER PERSON IN CONNECTION WITH THE USE OF THE INDEX AND THE DATA INCLUDED IN THE INDEX;
  - THE ACCURACY OR COMPLETENESS OF THE EURO STOXX 50® AND ITS DATA; AND
  - THE MERCHANTABILITY AND THE FITNESS FOR A PARTICULAR PURPOSE OR USE OF THE INDEX AND ITS DATA;
- STOXX WILL HAVE NO LIABILITY FOR ANY ERRORS, OMISSIONS OR INTERRUPTIONS IN THE INDEX OR ITS DATA;

- UNDER NO CIRCUMSTANCES WILL STOXX BE LIABLE FOR ANY LOST PROFITS OR INDIRECT, PUNITIVE, SPECIAL OR CONSEQUENTIAL DAMAGES OR LOSSES, EVEN IF STOXX KNOWS THAT THEY MIGHT OCCUR.

THE LICENSING AGREEMENT BETWEEN MORGAN STANLEY AND STOXX IS SOLELY FOR THEIR BENEFIT AND NOT FOR THE BENEFIT OF THE OWNERS OF OPALS OR ANY OTHER THIRD PARTIES.

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## **GENERAL INFORMATION**

### **1. Listing Information and Admission to Trading**

For so long as OPALS are outstanding, copies of the latest Annual Report of the Issuer and the latest published annual reports and interim statements (if any) of the companies the shares of which are included in Basket of Shares to which outstanding OPALS relate, may be obtained at the offices of the Paying Agents (free of charge) set out at the end of this Base Prospectus.

For so long as OPALS are outstanding, copies of the Programme Agreement and the Agency Agreement will be available for inspection at the office of MSI plc and the Listing Agent set out at the end of this Base Prospectus.

In the case of any Series of OPALS which is admitted to listing on the Official List and traded on the Regulated Market of the Luxembourg Stock Exchange, the Issuer shall, upon listing such Series, provide the Listing Agent with information on the composition of the relevant Basket of Shares and shall update that information on a monthly basis. Such information will be available at the office of the Listing Agent set out at the end of this Base Prospectus.

The Issuer will not provide any post-issuance information, except if required by any applicable laws and regulations.

### **2. Authorisation of the Programme**

The issue of OPALS under the Programme was originally authorised by a resolution of the Board of Directors of the Issuer passed on 30 November 1993, and subsequently approved by a resolution of the Board of Directors of the Issuer on 15 July 2020.

### **3. Clearance**

The OPALS have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate codes for each Series allocated by Euroclear and Clearstream, Luxembourg will be contained in the relevant Final Terms. The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels, the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue J.F. Kennedy, L-1855 Luxembourg.

### **4. Material Adverse Change and Significant Change**

There has been no material adverse change in the prospects of the Issuer, or significant change in the financial position or performance of the Issuer, since 31 December 2019 (the date of the latest financial statements of the Issuer).

### **5. Publication**

This Base Prospectus, each supplement hereto and the Final Terms with respect to any issue of OPALS admitted to listing on the Official List and traded on the Regulated Market of the Luxembourg Stock Exchange will be published on and available electronically from the Luxembourg Stock Exchange's website (<http://www.bourse.lu>) free of charge during the life of this Base Prospectus.

### **6. Website of the Issuer**

The website of the Issuer can be found at: <https://www.morganstanley.com>. For the avoidance of doubt, unless specifically incorporated by reference into this Base Prospectus, information contained on the website does not form part of this Base Prospectus.

### **7. Validity of the Base Prospectus and Supplements**

For the avoidance of doubt, the Issuer shall have no obligation to supplement this Base Prospectus after the end of its 12-month validity period.



## DOCUMENTS AVAILABLE FOR INSPECTION

The following documents shall be available during normal office hours at the office of Banque Internationale à Luxembourg S.A. set out at the end of this Base Prospectus:

- (i) upon publication, the most recently published annual report and accounts of the Issuer from time to time (including the annual report and accounts for the financial years ended 31 December 2018 and 31 December 2019);
- (ii) the memorandum and articles of association of the Issuer;
- (iii) any supplement to this Base Prospectus;
- (iv) with respect to any issue of OPALS, the relevant Final Terms;
- (v) the Agency Agreement;
- (vi) the relevant Counterparty Agreement(s); and
- (vii) copies of the latest available annual report and accounts of the companies whose Shares comprise the Basket of Shares to which an issue of OPALS relates, as more specifically set out in the relevant Final Terms, **provided that** the Issuer accepts no responsibility for such reports and accounts or the information contained therein and does not warrant the accuracy of such information.

The document listed under limb (ii) above is also available at <https://dl.bourse.lu/MorganStanleyArticles>. For the avoidance of doubt, unless specifically incorporated by reference into this Base Prospectus, information contained on the website does not form part of this Base Prospectus.

**APPENDIX A-1**  
**Financial Statements of the Issuer**  
**Morgan Stanley Capital (Cayman Islands) Limited**  
**Year ended 31 December 2019**

**Registered number: 43542**

Registered office:

c/o Maples Corporate Services Limited

PO Box 309

Ugland House

Grand Cayman

KY1 - 1104

Cayman Islands

**MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

**Report and financial statements**

**31 December 2019**

# **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

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# **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

## **STRATEGIC REPORT**

The Directors present their Strategic report for Morgan Stanley Capital (Cayman Islands) Limited (the “Company”) for the year ended 31 December 2019.

### **PRINCIPAL ACTIVITY**

The Company is an exempted company incorporated under the laws of the Cayman Islands.

The principal activity of the Company is the issuance of Optimised Portfolios as Listed Securities (“OPALS”) and the hedging of the obligations arising pursuant to such issuances with Equity Linked Obligations (“ELOs”).

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

There have not been any significant changes in the Company’s principal activity in the year under review and no significant change in the Company’s principal activity is expected.

### **BUSINESS REVIEW**

#### **Overview of 2019**

The statement of comprehensive income is set out on page 15. The Company’s result for the year is \$nil which is consistent with the Company’s function and the prior year.

The statement of financial position is set out on page 17. Total assets are \$2,678,596,000 at 31 December 2019 compared to \$2,457,016,000 at 31 December 2018 whilst total liabilities are \$2,678,595,000 at 31 December 2019 compared to \$2,457,015,000 at 31 December 2018. The movement in both assets and liabilities is driven by pending ELOs and OPALS trades and the change in the value of ELOs and OPALS, which have increased by \$384,054,000 and \$376,622,000 respectively. The increase in OPALS is due to fair value movements, issuances and redemptions in the year which has resulted in a corresponding increase in ELOs.

The performance of the Company is included in the results of the Morgan Stanley Group. 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.

#### **Emergence of COVID-19**

The coronavirus disease (COVID-19) pandemic has, and will likely continue to, severely impact global economic conditions, resulting in substantial volatility in the global financial markets, increased unemployment, and operational challenges such as the temporary closure of businesses, sheltering-in-place directives and increased remote work protocols. Governments and central banks around the world have reacted to the economic crisis caused by the pandemic by implementing stimulus and liquidity programs and cutting interest rates, though it is unclear whether these or future actions will be successful in countering the economic disruption. If the pandemic is prolonged or the actions of governments and central banks are unsuccessful, the adverse impact on the global economy will deepen, and the future results of operations and financial condition of Morgan Stanley will be adversely affected.

# **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

## **STRATEGIC REPORT**

### **BUSINESS REVIEW (CONTINUED)**

#### **Emergence of COVID-19 (continued)**

Since the emergence of the pandemic each business segment of Morgan Stanley and the business of the Company has been impacted and such impact will likely be greater in the future if conditions persist (e.g., decline and volatility of asset prices, reduction in interest rates, widening of credit spreads, credit deterioration, market volatility and reduced investment banking advisory activity). Operationally, although Morgan Stanley have initiated a work remotely protocol and restricted business travel and have not experienced any significant loss of operational capability, if significant portions of Morgan Stanley's workforce, including key personnel, are unable to work effectively because of illness, government actions, or other restrictions in connection with the pandemic, the business impact of the pandemic could be exacerbated.

While the emergence of the COVID-19 (coronavirus) pandemic has negatively impacted the results of Morgan Stanley, the extent to which it, and the related global economic crisis, affects the businesses, the results of operations and financial condition, as well as the regulatory capital and liquidity ratios of Morgan Stanley, will depend on future developments that are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and any recovery period, future actions taken by governmental authorities, central banks and other third parties in response to the pandemic, and the effects on our customers, counterparties, employees and third-party service providers. Morgan Stanley and the Company continue to use their Risk Management framework, including Stress testing, to understand the attendant uncertainties and their potential impact on our operations, liquidity and capital. Morgan Stanley is maintaining an active dialogue with all its relevant global regulators during this period.

#### **The United Kingdom's ("UK's") withdrawal from the European Union (the "EU")**

As noted above, the principal activity of the Company is the issuance of OPALS and the hedging of the obligations arising pursuant to such issuances with ELOs. The Company manages the risk of potential external impacts on its business (including but not limited to the impact of UK decision to leave the EU of which a thorough assessment has been made by the Company and the Morgan Stanley Group of various Brexit scenarios). The Company maintains a constant planning dialogue with the wider Morgan Stanley Group and accordingly management does not expect any significant impact on the operations and business of the Company arising from these external factors.

### **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. The risk management policy framework includes escalation to the Company's Board of Directors and to appropriate senior management of the Company.

Set out below is an overview of the Company's policies for the management of financial risk and other significant business risks. More detailed qualitative and quantitative disclosures about the Company's management of and exposure to financial risks are included in note 15 to the financial statements.

#### *Market risk*

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities, correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio.

The Company manages the market risk associated with its trading activities at both a trading division and an individual product level, and includes consideration of market risk at the legal entity level.

# MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

## STRATEGIC REPORT

### BUSINESS REVIEW (CONTINUED)

#### **Risk management (continued)**

##### *Market risk (continued)*

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

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.

##### *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 management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to the Company's Board of Directors and appropriate senior management personnel.

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

##### *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 Cayman Islands. 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.

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 of risk.

Stress testing is one of the Morgan Stanley Group's principal risk management tools, used to identify and assess the impact of severe stresses on its portfolios. A number of different scenarios are used to measure the impact on credit risks and market risks stemming from negative economic and political scenarios, including possible contagion effects where appropriate. The results of the stress tests may result in the amendment of limits or exposure mitigation.

# **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

## **STRATEGIC REPORT**

### **BUSINESS REVIEW (CONTINUED)**

#### **Risk management (continued)**

##### *Liquidity risk*

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

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 15.

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

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.

##### *Operational risk*

Operational risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes, from human factors 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.



# MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

## STRATEGIC REPORT

### BUSINESS REVIEW (CONTINUED)

#### Risk management (continued)

##### *Operational risk (continued)*

In addition, the Company employs a variety of risk processes and mitigates to manage its operational risk exposures. These include a governance framework, a comprehensive risk management program and insurance. Operational risks and associated risk exposures are assessed relative to the risk tolerance reviewed and confirmed by the Board and are prioritised accordingly.

The breadth and variety of operational risk are such that the types of mitigating activities are wide-ranging. Examples of activities include continuous enhancement of defences against cyber attacks; 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.

The Operational Risk Department provides independent oversight of operational risk and assesses measures and monitors operational risk against tolerance. The Operational Risk Department works with the business 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 risk, cybersecurity risk, information security risk, fraud risk management and prevention programme and third party risk management (supplier and affiliate 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 maintains programmes for business continuity management and technology disaster recovery that facilitate activities designed to mitigate risk to the Morgan Stanley Group during a business continuity event. A business continuity event is an interruption with potential impact to normal business activity of the Company's people, operations, technology, suppliers and/or facilities. The business continuity management programme's core functions are business continuity planning and crisis management. As part of business continuity planning, business divisions and control groups maintain business continuity plans identifying processes and strategies to continue business critical processes during a business continuity event. Crisis management is the process of identifying and managing the Company's operations during business continuity events. Disaster recovery plans supporting business continuity are in place for critical facilities and resources across the Company.

The Company maintains a programme that oversees our cyber and information security risks. Our cybersecurity and information security policies, procedures and technologies are designed to protect the Company's information assets against unauthorised disclosure, modification or misuse and are also designed to address regulatory requirements. These policies and procedures cover a broad range of areas, including: identification of internal and external threats, access control, data security, protective controls, detection of malicious or unauthorised activity, incident response, and recovery planning.

# **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

## **STRATEGIC REPORT**

### **BUSINESS REVIEW (CONTINUED)**

#### **Risk management (continued)**

##### *Operational risk (continued)*

In connection with its ongoing operations, the Company utilises the services of third party suppliers, 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's risk-based approach to managing exposure to these services includes the performance of due diligence, implementation of service level and other contractual agreements, consideration of operational risk and ongoing monitoring of the third party suppliers' performance. The Company maintains a third party risk programme with appropriate governance, policies, procedures, and technology that supports alignment with our risk tolerance and is designed to meet regulatory requirements. The third party risk programme includes the adoption of appropriate risk management controls and practices through the supplier management lifecycle including, but not limited to assessment of information security, service failure, financial stability, disaster recoverability, reputational risk, contractual risk and safeguards against corruption.

##### *Legal, regulatory and compliance risk*

Legal, regulatory and compliance risk includes the risk of legal or regulatory sanctions, material financial loss; including fines, penalties, judgements, damages and/ or settlements or loss to reputation which the Company may suffer as a result of a failure to comply with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to our business activities. This risk also includes contractual and commercial risk, such as the risk that a counterparty's performance obligations will be unenforceable. It also includes compliance with Anti-Money Laundering, anti-corruption and terrorist financing rules and regulations. The Company 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.

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 and banking industries globally presents a continuing business challenge for the Company.

#### **GOING CONCERN**

Business risks associated with the uncertain market and economic conditions are being actively monitored and managed by the Company. Retaining sufficient capital and liquidity to withstand these market pressures remains central to the Company's strategy. In particular, the Company's capital and liquidity is deemed sufficient to exceed regulatory minimums under both a normal and in a stressed market environment, including the current and potential stresses of COVID-19 (coronavirus) and Brexit for the foreseeable future. The existing and potential effects of COVID-19 (coronavirus) on the business of the Company have been considered as part of the going concern analysis, including impact on operational capacity, access to liquidity and capital, contractual obligations, asset valuations and other critical accounting judgements and key sources of estimation uncertainty. Additionally, the specific impact of Brexit on the business of the Company has been considered. The Company has access to further Morgan Stanley capital and liquidity as required.

# **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

## **STRATEGIC REPORT**

### **BUSINESS REVIEW (CONTINUED)**

#### **Going Concern (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 reports and financial statements.

Approved by the Board and signed on its behalf by

A Gelfand, Director  
28 April 2020

DocuSigned by:  
*Amy GELFAND*  
78D2E7F02DAD4C0...

# **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

## **DIRECTORS REPORT**

The Directors present their report and financial statements (which comprise the statement of comprehensive income, the statement of changes in equity, the statement of financial position, the statement of cashflows and the related notes, 1 to 20) for the Company for the year ended 31 December 2019.

### **RESULTS AND DIVIDENDS**

The result for the year, after tax, was \$nil (2018: \$nil).

During the year, no dividends were paid or proposed (2018: \$nil).

### **RISK MANAGEMENT AND FUTURE DEVELOPMENTS**

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

### **DIRECTORS**

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

S El Bied  
A Gelfand

### **DIRECTORS' AND OFFICERS' LIABILITY INSURANCE**

Directors' and Officers' Liability Insurance is taken out by Morgan Stanley, the Company's ultimate parent undertaking, for the benefit of the Directors and Officers of the Company.

### **DIRECTORS' INDEMNITY**

Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2016 "Companies Act 2006") were in force during the year and up to and including the date of the Directors' report for the benefit of the Directors of the Company.

### **EVENTS AFTER THE REPORTING DATE**

Since the balance sheet date the coronavirus disease (COVID-19) pandemic has, and will likely continue to, severely impact global economic conditions, resulting in substantial volatility in the global financial markets and operational challenges. The extent of the impact is highly uncertain and cannot be predicted and could adversely affect the future operations and financial condition of Morgan Stanley and the Company. For further detail, refer to the 'Emergence of COVID-19' section on page 1 and 2 of the Strategic report.

### **AUDITOR**

#### **Statement as to disclosure of information to the auditor**

Each of the persons who are Directors of the Company at the date when this report is approved confirms that:

- so far as each of the Directors is aware, there is no relevant audit information (being information needed by the Company's auditor in connection with preparing their report) of which the Company's auditor is unaware; and
- each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Approved by the Board and signed on its behalf by

A Gelfand, Director  
28 April 2020

DocuSigned by:  
*Amy GELFAND*  
78D2E7F02DAD4C0...

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### DIRECTORS' RESPONSIBILITIES STATEMENT

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

The Company was incorporated as an exempt company under the laws of the Cayman Islands. The Directors and the shareholders of the Company require the financial statements of the Company to be prepared in accordance with Part 15 of the Companies Act 2006 of the UK (that would have applied had these been statutory accounts under the Companies Act 2006) and drawn up in US dollars.

UK Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and Article 4 of the International Accounting Standards ("IAS") Regulation. Under UK company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required by IAS 1 '*Presentation of financial statements*' ("IAS 1") to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with Part 15 of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.


Furthermore, as the Company is an issuer whose securities are admitted to trading on the Luxembourg stock exchange, which is a regulated market, the Company must comply, amongst others, with Article 3(2) (c) of the Luxembourg law of 11 January 2008, as amended, in relation to certain transparency requirements (the "Transparency Law").

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 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 result 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

A Gelfand, Director  
28 April 2020

DocuSigned by:  
  
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To the Board of Directors

Morgan Stanley Capital (Cayman Islands) Limited

## REPORT OF THE REVISEUR D'ENTREPRISES AGREE

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Morgan Stanley Capital (Cayman Islands) Limited (the "Company"), which comprise the statement of financial position as at December 31, 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### Basis for Opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under those Regulation, Law and standards are further described in the "Responsibilities of the "Réviseur d'Entreprises Agréé" for the Audit of the Financial Statements" section of our report. We are also independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of the 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.

| Valuation of Level II Financial Instruments                  |   |
|--|---|
| Relevant references in the financial statements              | Note 3.c, 3.d, 7 and 9 to the Financial Statements  |
| Key audit matter description                                 | <p>The Company issues OPALS, which are securities whose investment performance corresponds generally to that of a benchmark index by an indirect investment in a basket of shares. The fair value of OPALS is determined using valuation models, incorporating observable inputs referencing identical or comparable securities to the underlying shares. The impact of own credit spreads is also considered and included as appropriate. OPALS are categorised as Level 2 in the fair value hierarchy.</p> <p>ELOs are purchased to hedge the issuance of OPALS. The investment performance of the ELOs corresponds generally to that of the same benchmark index by an indirect investment in a basket of shares, as that of the OPALS they were purchased to hedge. The fair value of the ELOs is determined using valuation models, incorporating observable inputs referencing identical or comparable securities to the underlying shares. The impact of own credit spreads is also considered and included as appropriate. ELOs are categorised as Level 2 in the fair value hierarchy.</p> <p>The valuations of Level 2 financial instruments are material and are the most significant part of the investment portfolio.</p> <p>As of 31 December 2019, the Company held USD 2,630,144 thousand OPALS and USD 2,630,144 thousand ELOs classified as Level 2 in the fair value hierarchy. The size of the portfolio of OPALS and ELOs and complexity of valuation models used to identify their fair values, as well as the use of inputs make these a key audit matter for the audit.</p>   |
| How the scope of our audit responded to the key audit matter | <p>To address the complexities associated with auditing the value of Level 2 financial instruments, our team included valuation specialists having significant quantitative and modelling expertise to assist in performing our audit procedures. Our valuation audit procedures included the following control and substantive procedures:</p> <ul style="list-style-type: none"> <li>We tested the design and operating effectiveness of Morgan Stanley's valuation controls including the: <ul style="list-style-type: none"> <li>✓ Model certification control, which is designed to review a model's theoretical soundness and the appropriateness of its valuation methodology, including whether any limitations or valuation adjustments should be placed on a model's implementation or use given subjectivities in calibrating to varying market conditions.</li> <li>✓ Independent Price Verification control, which is designed to review the appropriateness of valuation methodologies to derive model inputs which are not observable and are significant to the financial instrument's valuation, and</li> <li>✓ The Company's daily trading profit and loss analysis, as well as its trade confirmation, and collateral dispute resolution controls.</li> </ul> </li> <li>Our substantive test procedures included: <ul style="list-style-type: none"> <li>✓ For a sample of Level 2 financial instruments, we checked the input data to determine if these were in line with the Management's input.</li> <li>✓ We also evaluated the reasonableness of the valuation methodologies and models used by management.</li> </ul> </li> </ul> |
| Key observations   | None  |

## **Other information**

The Board of Directors is responsible for the other information. The other information comprises the information stated in the Directors' report and the Corporate Governance Statement but does not include the financial statements and our report of the "Réviseur d'Entreprises Agréé" thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

## **Responsibilities of the Board of Directors**

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## **Responsibilities of the "Réviseur d'Entreprises Agréé" for the Audit of the Financial Statements**

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "Réviseur d'Entreprises Agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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.
- Obtain 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of Directors' 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 report of the "Réviseur d'Entreprises Agréé" 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 report of the "Réviseur d'Entreprises Agréé". However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

## Report on Other Legal and Regulatory Requirements

We have been appointed as "Réviseur d'Entreprises Agréé" by the General Meeting of the Shareholders and the duration of our uninterrupted engagement, including previous renewals and reappointments, is one year.

The Directors' report is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

The accompanying Corporate Governance Statement is presented on pages one to six. The information required by Article 68ter paragraph (1) letters c) and d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

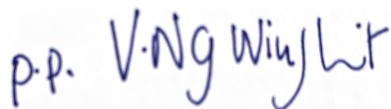
We confirm that the prohibited non-audit services referred to in the EU Regulation N° 537/2014, on the audit profession were not provided and that we remain independent of the Company in conducting the audit.

Where neither disclosed in the management report nor in the financial statements, disclose here any services, in addition to the statutory audit, that were provided to the Company and its controlled undertakings.

## Other matter

The Corporate Governance Statement includes, when applicable, information required by Article 68ter paragraph (1) points a), b), e), f) and g) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

For Deloitte Audit, *Cabinet de Révision Agréé*



Ekaterina Volotovskaya, *Réviseur d'Entreprises Agréé*  
Partner

April 28, 2020

**MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME**

**Year ended 31 December 2019**

|  | <b>Note</b> | <b>2019<br/>\$'000</b> | <b>2018<br/>\$'000</b> |
|--|-------------|------------------------|------------------------|
| Net income from other financial instruments held at fair value |             | -                      | -                      |
| Interest income  |             | 6                      | 6                      |
| Interest expense   |             | (6)                    | (6)                    |
| Net interest income  | 4           | -                      | -                      |
| <b>RESULT BEFORE INCOME TAX</b>                                |             | -                      | -                      |
| Income tax   | 6           | -                      | -                      |
| <b>RESULT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>      |             | -                      | -                      |

All results were derived from continuing operations.

The notes on pages 19 to 45 form an integral part of the financial statements.

**MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

**STATEMENT OF CHANGES IN EQUITY**  
**Year ended 31 December 2019**

|  | <b>Share<br/>capital<br/>\$'000</b> | <b>Retained<br/>earnings<br/>\$'000</b> | <b>Total<br/>equity<br/>\$'000</b> |
|--|-------------------------------------|---|------------------------------------|
| <b>Balance at 1 January 2018</b>                   | 1                                   | -                                       | 1                                  |
| Result and total comprehensive income for the year | -                                   | -                                       | -                                  |
| <b>Balance at 31 December 2018</b>                 | <u>1</u>                            | <u>-</u>                                | <u>1</u>                           |
| Result and total comprehensive income for the year | -                                   | -                                       | -                                  |
| <b>Balance at 31 December 2019</b>                 | <u><u>1</u></u>                     | <u><u>-</u></u>                         | <u><u>1</u></u>                    |

The notes on pages 19 to 45 form an integral part of the financial statements.

# MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

|   | Note | 2019<br>\$'000   | 2018<br>\$'000   |
|---|------|------------------|------------------|
| <b>ASSETS</b>                                       |      |                  |                  |
| Loans and advances                                  | 8    | -                | 55               |
| Trade and other receivables                         | 9    | 48,452           | 210,871          |
| ELOs  | 7,9  | 2,630,144        | 2,246,090        |
| <b>TOTAL ASSETS</b>                                 |      | <u>2,678,596</u> | <u>2,457,016</u> |
| <b>LIABILITIES AND EQUITY</b>                       |      |                  |                  |
| Trade and other payables                            | 10   | 48,443           | 203,488          |
| OPALS   | 7,10 | 2,630,144        | 2,253,522        |
| Debt and other borrowings                           | 11   | 8                | 5                |
| <b>TOTAL LIABILITIES</b>                            |      | <u>2,678,595</u> | <u>2,457,015</u> |
| <b>EQUITY</b>                                       |      |                  |                  |
| Share capital                                       | 12   | 1                | 1                |
| Retained earnings                                   |      | -                | -                |
| <b>Equity attributable to owners of the Company</b> |      | <u>1</u>         | <u>1</u>         |
| <b>TOTAL EQUITY</b>                                 |      | <u>1</u>         | <u>1</u>         |
| <b>TOTAL LIABILITIES AND EQUITY</b>                 |      | <u>2,678,596</u> | <u>2,457,016</u> |

These financial statements were approved by the Board and authorised for issue on 27 April 2020.

Signed on behalf of the Board

A Gelfand  
Director

DocuSigned by:  
*Amy Gelfand*  
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The notes on pages 19 to 45 form an integral part of the financial statements.

**MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

**STATEMENT OF CASH FLOWS**

**Year ended 31 December 2019**

|   | <b>2019</b>      | <b>2018</b>      |
|---|------------------|------------------|
|   | <b>\$'000</b>    | <b>\$'000</b>    |
| Result for the year   | -                | -                |
| <i>Adjustments for:</i>   |                  |                  |
| Interest income   | (6)              | (6)              |
| Interest expense  | 6                | 6                |
| Operating cash flows before changes in operating assets and liabilities | <u>-</u>         | <u>-</u>         |
| Changes in operating assets   |                  |                  |
| Decrease in loans and advances  | 55               | 7                |
| Decrease/(increase) in trade and other receivables                      | 162,425          | (210,804)        |
| Increase in ELOs  | (384,054)        | (701,813)        |
|   | <u>(221,574)</u> | <u>(912,610)</u> |
| Changes in operating liabilities  |                  |                  |
| (Decrease)/increase in trade and other payables                         | (155,051)        | 203,364          |
| Increase in OPALS   | 376,622          | 709,245          |
| Increase in debt and other borrowings                                   | 3                | 1                |
|   | <u>221,574</u>   | <u>912,610</u>   |
| <b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>                         | <u>-</u>         | <u>-</u>         |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                        | -                | -                |
| <b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>           | -                | -                |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>                 | <u>-</u>         | <u>-</u>         |

The notes on pages 19 to 45 form an integral part of the financial statements.

# **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2019**

### **1. CORPORATE INFORMATION**

The Company is incorporated and domiciled in the Cayman Islands, at the following address: Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company is engaged in the issuance of OPALS and the hedging of obligations pursuant to such issuances.

The parent and ultimate controlling entity is disclosed in note 19 to the financial statements.

### **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 (“IFRIC”) and Part 15 of the Companies Act 2006.

#### **New standards and interpretations adopted during the year**

There were no standards, amendments to 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, amendments to standards and interpretations relevant to the Company’s operations were issued by the IASB but not mandatory for accounting periods beginning 1 January 2019. Except where otherwise stated, the Company does not expect that the adoption of the following standards, amendments to standards and interpretations will have a material impact on the Company’s financial statements.

Amendments to IAS 1 and IAS 8 ‘*Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material*’ were issued by the IASB in October 2018, for application in accounting periods beginning on or after 1 January 2020. The amendments were endorsed by the EU in December 2019.

An amendment to IAS 1 ‘*Presentation of Financial Statements*’: Classification of Liabilities as Current or Non-current was issued by the IASB in January 2020, for application in accounting periods beginning on or after 1 January 2022.

#### **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.

#### **Critical accounting judgements and key sources of estimation uncertainty**

No critical accounting judgements have been made in the process of applying the Company’s accounting policies that have had a significant effect on the amounts recognised in the financial statements. There are no key sources of estimation uncertainty in the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

#### **The going concern assumption**

The Company’s business activities, together with the factors likely to affect its future development, performance and position, and the Company’s objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk and liquidity risk, are reflected in the Strategic report on pages 1 to 6, and as set out in the Strategic report, retaining sufficient liquidity and capital to withstand market pressures remains central to Morgan Stanley Group’s and the Company’s strategy.

## **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2019**

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

##### **The going concern assumption (continued)**

Specifically, the existing and potential effects of COVID-19 (coronavirus) on the operational capacity of the business, access to liquidity and capital, contractual obligations, asset valuations and other critical accounting judgements and key sources of estimation uncertainty have been considered on page 1 and 2. Additionally, the specific impact of Brexit on the business of the Company has been considered on page 2. The notes to the Company's financial statements include details of its financial instruments and provide further information, not included in the Strategic report, on its credit risk and liquidity risk.

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 US dollars, the currency of the primary economic environment in which the Company operates.

All currency amounts in the financial statements, Strategic and Directors' reports are rounded to the nearest thousand US dollars.

##### **b. Foreign currencies**

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

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

###### **i) Financial instruments mandatorily at fair value through profit and loss ("FVPL")**

###### **Non-trading financial instruments mandatorily at FVPL**

Non-trading financial assets at FVPL are principally financial assets where the Company makes decisions based upon the assets' fair values and are generally recognised on settlement date at fair value (see note 3(d) below), since they are neither regular way nor are they derivatives. From the date the terms are agreed (trade date), until the financial asset is funded (settlement date), the Company recognises any unrealised fair value changes in the financial asset as non-trading financial assets at FVPL. On settlement date, the fair value of consideration given is recognised as a non-trading financial asset at FVPL.

All subsequent changes in fair value and foreign exchange differences are reflected in the statement of comprehensive income in 'Net income from other financial instruments held at fair value'.



## **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2019**

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

##### **c. Financial instruments (continued)**

##### **i) Financial instruments mandatorily at FVPL (continued)**

##### **Non-trading financial instruments mandatorily at FVPL (continued)**

For all non-trading financial assets at FVPL, transaction costs are excluded from the initial fair value measurement of the financial assets. These costs are recognised in the statement of comprehensive income in 'Other expense'.

Non-trading financial assets mandatorily at FVPL include ELOs.

##### **ii) Financial instruments designated at FVPL**

Financial instruments designated at FVPL include OPALS.

The Company has designated certain financial liabilities at FVPL where the financial liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

From the date the transaction in a financial instrument designated at FVPL is entered into (trade date) until settlement date, the Company recognises any unrealised fair value changes in the contract as financial instruments designated at FVPL in the statement of financial position. On settlement date, the fair value of consideration given or received is recognised as a financial instrument designated at FVPL (see note 3(d) below).

All subsequent changes in fair value and foreign exchange differences are reflected in the statement of comprehensive income in 'Net income from other financial instruments held at fair value'.

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

See note 7 for an analysis of financial assets and financial liabilities designated at FVPL.

##### **iii) Financial assets and financial liabilities at amortised cost**

Financial assets at amortised cost include trade and other receivables and loans and advances.

Financial assets are recognised at amortised cost when the Company's business model objective is to collect the contractual cash flows of the assets and where these cash flows are solely payments of principal and interest on the principal amount outstanding until maturity. Such assets are recognised when the Company becomes a party to the contractual provisions of the instrument. The instruments are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost less expected credit losses ("ECL") allowance. Interest is recognised in the statement of comprehensive income in 'Interest income', using the EIR method as described below. Transaction costs that are directly attributable to the acquisition of the financial asset are added to the fair value on initial recognition. ECL and reversals thereof are recognised in the statement of comprehensive income in 'Net impairment loss on financial instruments'.

Financial liabilities classified at amortised cost include trade and other payables and debt and other borrowings.

Financial liabilities are classified as being subsequently measured at amortised cost, except where they are held for trading or are designated as measured at FVPL. They are recognised when the Company becomes a party to the contractual provisions of the instrument and are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost. Interest is recognised in the statement of comprehensive income in 'Interest expense' using the EIR method as described below. Transaction costs that are directly attributable to the issue of a financial liability are deducted from the fair value on initial recognition.

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

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

##### c. Financial instruments (continued)

##### iii) Financial assets and financial liabilities at amortised cost (continued)

The EIR 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 EIR 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 EIR is established on initial recognition of the financial instrument. The calculation of the EIR includes all fees and commissions paid or received, transaction costs, and discounts or premiums that are an integral part of the EIR.

##### d. Fair value

###### *Fair value measurement*

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

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

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

In determining fair value, the Company uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value that requires 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 fair value hierarchy is broken down into three levels based on the observability of inputs as follows, with Level 1 being the highest and Level 3 being the lowest level:

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

Valuations based on quoted prices in active markets for that the Morgan Stanley Group has the ability to access for identical assets or liabilities. Valuation adjustments, block discounts and discounts for equity-specific restrictions that would not transfer to market participants 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.

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

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

##### d. Fair value (continued)

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including 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, the total fair value amount is disclosed in the level appropriate for the lowest level input that is significant to the total fair value of asset or liability.

##### *Fair value measurement (continued)*

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

##### *Valuation techniques*

Many cash instruments and over the counter (“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 and funding.

Adjustments for liquidity risk adjust model-derived mid-market amounts 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 Borrowings which are designated at FVPL 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 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.

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

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

##### d. Fair value (continued)

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 concentration adjustments to certain of its OTC derivative 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.

##### *Valuation process*

Valuation Control ("VC") within the Finance is responsible for the Company's fair value valuation policies, processes and procedures. VC 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. VC 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*

VC, in conjunction with the Model Risk Management Department, ("MRM") which reports to the Chief Risk Officer of the Morgan Stanley Group ("CRO"), independently reviews 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, VC 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, VC 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, VC 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 VC 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.

VC 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. VC 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, VC 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.

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

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

##### d. Fair value (continued)

###### *Independent Price Verification (continued)*

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

###### *Level 3 Transactions*

VC 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 statement of comprehensive income, but is deferred and recognised over the life of the instrument or at the earlier of when the unobservable market data become observable maturity or disposal of the instrument.

##### e. Modification and 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 Company 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 Company 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 renegotiation or modification of the contractual cash flows of a financial instrument can lead to derecognition where the modification is "substantial", determined by qualitative assessment of whether the revised contractual terms of a financial instrument, such as a loan, are significantly different from those of the original financial instrument. In the event that the qualitative assessment is unclear, a quantitative 10% cash flow test is performed.

Where modifications do not result in derecognition of the financial instrument, the gross carrying amount of the financial instrument is recalculated and a modification gain/ (loss) is recognised in the statement of comprehensive income.

Upon derecognition of a financial asset, the difference between the previous carrying amount and the sum of any consideration received, together with the transfer of any cumulative gain/ loss previously recognised in equity, are recognised in the statement of comprehensive income within 'Net gains/ (losses) on derecognition of financial assets measured at amortised cost and fair value through other comprehensive income.

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

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

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

##### f. Impairment of financial instruments

The Company recognises loss allowances for ECL on financial assets measured at amortised cost.

##### *Measurement of ECL*

For financial assets, ECL are the present value of cash shortfalls (i.e. the difference between contractual and expected cash flows) over the expected life of the financial instrument, discounted at the asset's EIR.

Where a financial asset is credit-impaired at the reporting date, the ECL is measured as the difference between the asset's gross carrying amount and the present value of future cash flows, discounted at the original EIR.

The Company applies a three stage approach to measuring ECL based on the change in credit risk since initial recognition:

- Stage 1: if the credit risk of the financial instrument at the reporting date has not increased significantly since initial recognition then the loss allowance is calculated as the lifetime cash shortfalls that will result if a default occurs in the next 12 months, weighted by the probability of that default occurring.
- Stage 2: if there has been a significant increase in credit risk ("SICR") since initial recognition, the loss allowance is calculated as the ECL over the remaining life of the financial instrument. If it is subsequently determined that there has no longer been a SICR since initial recognition, then the loss allowance reverts to reflecting 12 month expected losses.
- Stage 3: if there has been a SICR since initial recognition and the financial instrument is deemed credit-impaired (see below for definition of credit-impaired), the loss allowance is calculated as the ECL over the remaining life of the financial instrument. If it is subsequently determined that there has no longer been a SICR since initial recognition, then the loss allowance reverts to reflecting 12 month expected losses.

##### *Assessment of significant increase in credit risk*

When assessing SICR, the Company considers both quantitative and qualitative information and analysis based on the Company's historical experience and expert credit risk assessment, including forward-looking information.

The probability of default ("PD") is derived from internal credit rating grades (based on available information about the borrower) and multiple forward-looking macroeconomic scenarios which are probability weighted. Credit risk is considered to have increased significantly if the PD has significantly increased at the reporting date relative to the PD of the facility, at the date of initial recognition. The assessment of whether a change in PD is "significant" is based both on a consideration of the relative change in PD and on qualitative indicators of the credit risk of the facility, which indicate whether a loan is performing or in difficulty. In addition, as a backstop, the Company considers that SICR has occurred in all cases when an asset is more than 30 days past due.

The Company's accounting policy is to not use the 'low' credit risk practical expedient. As a result, the Company monitors all financial instruments which are subject to impairment for SICR, with the exception of trade receivables, for which a lifetime ECL is always calculated.

In general, ECL's are measured so that they reflect:

- A probability-weighted range of possible outcomes
- The time value of money; and
- Relevant information relating to past, current and future economic conditions.

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

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

##### f. Impairment of financial instruments (continued)

###### *Calculation of ECL*

ECL are calculated using three main components:

- PD: for accounting purposes, the 12 month and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and over the remaining lifetime of the financial instrument respectively, based on conditions existing at the balance sheet date and future economic conditions.
- Expected loss given default (“LGD”): the LGD represents expected loss conditional on default, taking into account the mitigating effect of collateral, including the expected value of the collateral when realised and the time value of money.
- Estimated exposure at default (“EAD”): this represents the expected EAD, taking into account the expected repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of the facility over that period.

These parameters are generally derived from internally developed statistical models, incorporating historical, current and forward-looking macro-economic data and country risk expert judgement. The macro-economic scenarios are reviewed quarterly.

The 12 month ECL is equal to the sum over the next 12 months of quarterly PD multiplied by LGD and EAD, with such expected losses being discounted at the EIR. Lifetime ECL is calculated using the discounted present value of total quarterly PDs multiplied by LGD and EAD, over the full remaining life of the facility.

When measuring ECL, the Company considers multiple scenarios, except where practical expedients are used to determine ECL. Practical expedients are used where they are consistent with the principles described above. ECL on certain trade receivables are calculated using a ‘matrix’ approach which reflects the previous history of credit losses on these financial assets, applying different provision levels based on the age of the receivable. Alternatively where there is a history of no credit losses, and where this is expected to persist into the future for structural or other reasons, such as collateral or other credit enhancements, it is determined that the ECL for a financial instrument is de minimis (highly immaterial) and it may not be necessary to recognise the ECL.

The Company measures ECL on an individual asset basis and has no purchased or originated credit-impaired (“POCI”) financial assets.

If a financial asset has been the subject of modification which does not lead to its derecognition (refer to note 3e), SICR is assessed by comparing the risk of default of the financial instrument, based on the modified terms at the reporting date, with the risk of default of the financial instrument at inception, based on the financial instrument’s original, unmodified terms.

Where the modification of contractual cash flows of a financial asset leads to its derecognition and the recognition of a new asset (refer to note 3e), the date of modification is treated as the date of initial recognition for the new financial asset when determining whether a SICR has occurred for that modified financial asset. In rare circumstances, after modification, the new asset is considered to be credit impaired, in which case it is treated as an asset which was credit-impaired at origination.

More information on measurement of ECL is provided in note 15 Financial risk management.

## **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2019**

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

##### **f. Impairment of financial instruments (continued)**

###### *Presentation of ECL (continued)*

ECL is recognised in the statement of comprehensive income within 'Net impairment loss on financial instruments'. ECL on financial assets measured at amortised cost are presented as an ECL allowance. The allowance reduces the net carrying amount on the face of the statement of financial position.

###### *Credit-impaired financial instruments*

In assessing the impairment of financial instruments under the ECL model, the Company defines credit-impaired financial instruments in accordance with the Credit Risk Management Department's policies and procedures. A financial instrument is credit-impaired when, based on current information and events, it is probable that the Company will be unable to collect all scheduled payments of principal or interest when due according to the contractual terms of the agreement.

###### *Definition of Default*

In assessing the impairment of financial instruments under the ECL model, the Company defines default in accordance with Credit Risk Management Department's policies and procedures. This considers whether the borrower is unlikely to pay its credit obligations to the Company in full and takes into account qualitative indicators, such as breaches of covenants. The definition of default also includes a presumption that a financial asset which is more than 90 days past due ("DPD") has defaulted.

###### *Write-offs*

Loans are written off (either partially or in full) when they are deemed uncollectible which generally occurs when all commercially reasonable means of recovering the loan balance have been exhausted. Such determination is based on an indication that the borrower can no longer pay the obligation. However, financial assets that are written off could still be subject to enforcement activities for recoveries of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is reflected directly in the statement of comprehensive income within 'Net impairment loss on financial instruments' and is not recognised in the loss allowance account. Any subsequent recoveries are credited to 'Net impairment loss on financial instruments' within the statement of comprehensive income.

#### **4. INTEREST INCOME AND INTEREST EXPENSE**

All interest income and expense relates to financial assets and financial liabilities at amortised cost and is calculated using the EIR method (see accounting policy 3(c)(iii)).

No other gains or losses have been recognised in respect of financial assets other than as disclosed as 'Interest income' within the statement of comprehensive income.

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

#### **5. AUDIT FEES**

Audit fees of \$57,000 (2018: \$56,000) have been borne by another Morgan Stanley Group undertaking in both the current and prior year.

#### **6. INCOME TAX**

The Company has been granted exempt status in the Cayman Islands. A 20 year tax exemption certificate was issued in 2012.



# MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

### 7. FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY

The following table analyses financial assets and financial liabilities as presented in the statement of financial position by IFRS 9 classifications.

| 31 December 2019            | FVPL<br>(mandatorily)<br>\$'000 | FVPL<br>(designated)<br>\$'000 | Amortised<br>cost<br>\$'000 | Total<br>\$'000 |
|-----------------------------|---------------------------------|--------------------------------|-----------------------------|-----------------|
| Loans and advances          | -                               | -                              | -                           | -               |
| Trade and other receivables | 48,434                          | -                              | 18                          | 48,452          |
| ELOs                        | 2,630,144                       | -                              | -                           | 2,630,144       |
| Total financial assets      | 2,678,578                       | -                              | 18                          | 2,678,596       |
| Trade and other payables    | 48,434                          | -                              | 9                           | 48,443          |
| Debt and other borrowings   | -                               | -                              | 8                           | 8               |
| OPALS                       | -                               | 2,630,144                      | -                           | 2,630,144       |
| Total financial liabilities | 48,434                          | 2,630,144                      | 17                          | 2,678,595       |
| 31 December 2018            | FVPL<br>(mandatorily)<br>\$'000 | FVPL<br>(designated)<br>\$'000 | Amortised<br>cost<br>\$'000 | Total<br>\$'000 |
| Loans and advances          | -                               | -                              | 55                          | 55              |
| Trade and other receivables | 210,803                         | -                              | 68                          | 210,871         |
| ELOs                        | 2,246,090                       | -                              | -                           | 2,246,090       |
| Total financial assets      | 2,456,893                       | -                              | 123                         | 2,457,016       |
| Trade and other payables    | 203,371                         | -                              | 117                         | 203,488         |
| Debt and other borrowings   | -                               | -                              | 5                           | 5               |
| OPALS                       | -                               | 2,253,522                      | -                           | 2,253,522       |
| Total financial liabilities | 203,371                         | 2,253,522                      | 122                         | 2,457,015       |

#### Financial assets mandatorily at FVPL

*ELOs* – The Company is a party to a Master Equity Linked Obligation Agreement and to a Master Equity Linked Counterparty Agreement with other Morgan Stanley Group undertakings. ELOs are purchased to hedge the issuance of OPALS and track the value of a basket of equities. These instruments contain an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract. Using the fair value option, the entire instrument is measured at FVPL.

#### Financial liabilities designated at FVPL

*OPALS* – These instruments are securities whose investment performance corresponds generally to that of a benchmark index by an indirect investment in a basket of shares. All dividends and certain other amounts associated with these baskets, net of certain expenses, are received by the Company to enable it to fulfil its obligations to holders of OPALS.

These instruments contain an embedded derivative which significantly modifies the cash flows of the issuance. The return on the instrument is linked to an underlying that is not clearly and closely related to the debt host including, but not limited to, equity, credit or commodity linked notes. Using the fair value option, the entire instrument is measured at FVPL.

# MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

### 7. FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY (CONTINUED)

|       | 31 December 2019 |                       | 31 December 2018 |                       |
|-------|------------------|-----------------------|------------------|-----------------------|
|       | Assets<br>\$'000 | Liabilities<br>\$'000 | Assets<br>\$'000 | Liabilities<br>\$'000 |
| OPALS | -                | 2,630,144             | -                | 2,253,522             |
| ELOs  | 2,630,144        | -                     | 2,246,090        | -                     |
|       | <u>2,630,144</u> | <u>2,630,144</u>      | <u>2,246,090</u> | <u>2,253,522</u>      |

There were no significant gains or losses attributable to changes in own credit risk for financial liabilities designated at fair value (2018: \$nil).

The Company determines the amount of changes in fair value attributable to changes in counterparty credit risk or own credit risk, as relating to financial assets, and financial liabilities designated at FVPL, 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 FVPL at 31 December 2019 and 31 December 2018 is considered to be a reasonable approximation of the contractual value at maturity.

### 8. LOANS AND ADVANCES

|                                      | 2019<br>\$'000 | 2018<br>\$'000 |
|--------------------------------------|----------------|----------------|
| Loans and advances at amortised cost | <u>-</u>       | <u>55</u>      |

### 9. TRADE AND OTHER RECEIVABLES

|  | 2019<br>\$'000   | 2018<br>\$'000   |
|--|------------------|------------------|
| <b>Trade and other receivables (amortised cost)</b>      |                  |                  |
| Trade receivables  | 48,434           | 210,803          |
| Other receivables  |                  |                  |
| Amounts due from other Morgan Stanley Group undertakings | <u>18</u>        | <u>68</u>        |
| Total trade and other receivables (amortised cost)       | <u>48,452</u>    | <u>210,871</u>   |
| <b>Trade and other receivables (non-trading at FVPL)</b> |                  |                  |
| ELOs   | 2,630,144        | 2,246,090        |
| <b>Total</b>   | <u>2,678,596</u> | <u>2,456,961</u> |

# MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

### 10. TRADE AND OTHER PAYABLES

|  | 2019<br>\$'000   | 2018<br>\$'000   |
|--|------------------|------------------|
| <b>Trade and other payables (amortised cost)</b>         |                  |                  |
| Trade payables   | 48,434           | 203,371          |
| Other payables   |                  |                  |
| Amounts due from other Morgan Stanley Group undertakings | 9                | 117              |
| Total trade and other payables (amortised cost)          | 48,443           | 203,488          |
| <b>Trade and other payables (designated at FVPL)</b>     |                  |                  |
| OPALS  | 2,630,144        | 2,253,522        |
| <b>Total</b>   | <u>2,678,587</u> | <u>2,457,010</u> |

### 11. DEBT AND OTHER BORROWINGS

|   | 2019<br>\$'000 | 2018<br>\$'000 |
|---|----------------|----------------|
| Debt and other borrowings at amortised cost | <u>8</u>       | <u>5</u>       |

### 12. EQUITY

#### Ordinary share capital

|  | Ordinary<br>shares of \$1<br>each<br>Number |
|--|---|
| <b>Authorised</b>  |   |
| At 1 January 2018, 31 December 2018 and 31 December 2019 | <u>500,000</u>                              |

|  | Ordinary shares<br>of \$1 each<br>Number | Ordinary<br>shares of \$1<br>each<br>\$'000 |
|--|--|---|
| <b>Allotted, Issued and fully paid</b>                   |  |   |
| At 1 January 2018, 31 December 2018 and 31 December 2019 | <u>1,000</u>                             | <u>1</u>                                    |

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

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

#### 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 2019

|                             | Less than<br>or equal to<br>twelve<br>months<br>\$'000s | More than<br>twelve<br>months<br>\$'000s | Total<br>\$'000s |
|-----------------------------|---|--|------------------|
| <b>ASSETS</b>               |   |  |                  |
| Trade and other receivables | 48,452  | -  | 48,452           |
| ELOs                        | -   | 2,630,144                                | 2,630,144        |
|                             | <u>48,452</u>   | <u>2,630,144</u>                         | <u>2,678,596</u> |
| <b>LIABILITIES</b>          |   |  |                  |
| Trade and other payables    | 48,443  | -  | 48,443           |
| OPALS                       | -   | 2,630,144                                | 2,630,144        |
| Debt and other borrowings   | -   | 8  | 8                |
|                             | <u>48,443</u>   | <u>2,630,152</u>                         | <u>2,678,595</u> |

At 31 December 2018

|                             | Less than<br>or equal to<br>twelve<br>months<br>\$'000s | More than<br>twelve<br>months<br>\$'000s | Total<br>\$'000s |
|-----------------------------|---|--|------------------|
| <b>ASSETS</b>               |   |  |                  |
| Loans and advances          | -   | 55                                       | 55               |
| Trade and other receivables | 210,871   | -  | 210,871          |
| ELOs                        | -   | 2,246,090                                | 2,246,090        |
|                             | <u>210,871</u>  | <u>2,446,145</u>                         | <u>2,457,016</u> |
| <b>LIABILITIES</b>          |   |  |                  |
| Trade and other payables    | 203,488   | -  | 203,488          |
| OPALS                       | -   | 2,253,522                                | 2,253,522        |
| Debt and other borrowings   | -   | 5  | 5                |
|                             | <u>203,488</u>  | <u>2,456,898</u>                         | <u>2,457,015</u> |

#### 14. SEGMENT REPORTING

Segment information is presented in respect of the Company's business and geographical segments. The business 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. The Company's business includes the issuance of financial instruments and the hedging of the obligations arising pursuant to such issuances.

## **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2019**

#### **14. SEGMENT REPORTING (CONTINUED)**

##### **Geographical segments**

The Company operates in one geographical market, Europe, Middle East and Africa.

#### **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.

The principal activity of the Company is the issuance of OPALS and the hedging of the obligations arising pursuant to such issuances. It is the policy and objective of the Company not to be exposed to market risk. On issuance of each financial instrument, the Company enters into economics hedges of its obligations by purchasing financial instruments from another Morgan Stanley Group undertaking.

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 to institutions and sophisticated investors through its Institutional Securities business segments.

##### **Credit risk management**

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

The Company enters into all 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.

##### **Exposure to credit risk**

The maximum exposure to credit risk ("gross credit exposure") of the Company as at 31 December 2019 is disclosed below, based on the carrying amounts of the financial assets and the maximum amount that the Company could have to pay in relation to unrecognised financial instruments, which the Company believes are subject to credit risk. The table includes financial instruments subject to ECL and not subject to ECL. Those financial instruments that bear credit risk but are not subject to ECL are subsequently measured at fair value. Exposure arising from financial instruments not recognised on the statement of financial position is measured as the maximum amount that the Company could have to pay, which may be significantly greater than the amount that would be recognised as a liability.

The Company has not entered into any credit enhancements to manage its exposure to credit risk.

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

# MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Exposure to credit risk (continued)

*Exposure to credit risk by class*

| Class                                     | Gross credit exposure <sup>(1)</sup> |                  |
|---|--------------------------------------|------------------|
|   | 2019<br>\$'000                       | 2018<br>\$'000   |
| <b>Subject to ECL:</b>                    |                                      |                  |
| Loans and advances                        | -                                    | 55               |
| Trade and other receivables:              |                                      |                  |
| Trade receivables                         | 48,434                               | 210,803          |
| Other receivables                         | 18                                   | 68               |
| <b>Not subject to ECL <sup>(2)</sup>:</b> |                                      |                  |
| ELOs                                      | 2,630,144                            | 2,246,090        |
|   | <u>2,678,596</u>                     | <u>2,457,016</u> |

(1) The carrying amount recognised in the statement of financial position best represents the Company's maximum exposure to credit risk.

(2) Financial assets measured at FVPL are not subject to ECL.

#### Credit quality

*Exposure to credit risk by internal rating grades*

Internal credit ratings, as below, are derived using methodologies generally consistent with those used by external agencies:

Investment grade: internal grades AAA - BBB

Non-investment grade: internal grades BB - CCC

Default: internal grades D

The table below shows gross carrying amount and, in the case of unrecognised financial instruments, nominal amounts by internal rating grade. All exposures subject to ECL are Stage 1, unless otherwise shown:

#### 31 December 2019

|                                 | A<br>\$'000      |
|---------------------------------|------------------|
| <b>Subject to ECL:</b>          |                  |
| Loans and advances              | -                |
| Trade receivables               | 48,434           |
| Other receivables               | 18               |
| <b>Total subject to ECL</b>     | <u>48,452</u>    |
| <b>Not subject to ECL:</b>      |                  |
| ELOs                            | 2,630,144        |
| <b>Total not subject to ECL</b> | <u>2,630,144</u> |

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

#### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### Credit quality (continued)

31 December 2018

|                                 | A<br>\$'000      |
|---------------------------------|------------------|
| <b>Subject to ECL:</b>          |                  |
| Loans and advances              | 55               |
| Trade receivables               | 210,803          |
| Other receivables               | 68               |
| <b>Total subject to ECL</b>     | <u>210,926</u>   |
| <b>Not subject to ECL:</b>      |                  |
| ELO's                           | 2,246,090        |
| <b>Total not subject to ECL</b> | <u>2,246,090</u> |

At 31 December 2019, there were no financial assets past due but not impaired or individually impaired (2018: \$nil). Included in the trade receivables are pending trades for ELOs.

##### Liquidity risk

Liquidity risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity risk encompasses the Company's ability (or perceived ability) to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten the Company's viability as a going concern. Liquidity risk also encompasses the associated funding risks triggered by the market or idiosyncratic stress events that may cause unexpected changes in funding needs or an inability to raise new funding. Generally, the Company incurs liquidity 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, which oversees and monitors liquidity risk. The Liquidity Risk Department ensures transparency of material liquidity 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 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.

## **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2019**

#### **15. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **Liquidity risk (continued)**

The liquidity 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 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 risk across the Morgan Stanley Group.

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

The primary goal of the Company's liquidity risk and funding management framework is to ensure that the Company has access to adequate funding across a wide range of market conditions 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 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 management framework that support our target liquidity profile, 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.

##### *Required Liquidity Framework*

The Required Liquidity Framework establishes 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 Morgan Stanley Group and legal entity level.

##### *Liquidity Stress Tests*

The Morgan Stanley Group uses Liquidity Stress Tests to model external and intercompany 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.



## **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2019**

#### **15. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **Liquidity risk (continued)**

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, 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, Assets/ 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 depending on market and firm-specific events. The Global Liquidity Reserve consists of cash and unencumbered securities sourced from trading assets, investment securities and securities received as collateral.

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

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

The Global Liquidity Reserve may fluctuate from period to period based on the overall size and composition of the statement of the financial position, the maturity profile of our unsecured debt and estimates of funding needs in a stressed environment, among other factors.

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.

# MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Liquidity risk (continued)

##### *Funding management (continued)*

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 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. The liquid nature of the marketable securities and short-term receivables arising principally from sales and trading activities in the Institutional Securities business 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 financial assets and financial liabilities 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 2019 and 31 December 2018. Receipts of financial assets and repayments of financial liabilities that are subject to immediate notice are treated as if notice were given immediately and are classified as on demand. This presentation is considered by the Company to appropriately reflect the liquidity risk arising from these financial assets and financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial assets and financial liabilities is managed by the Company.

|                                    | On demand<br>\$'000 | Equal to or<br>more than 1<br>year but less<br>than 5 years<br>\$'000 | Total<br>\$'000  |
|------------------------------------|---------------------|---|------------------|
| <b>31 December 2019</b>            |                     |   |                  |
| <b>Financial assets</b>            |                     |   |                  |
| Loans and advances                 | -                   | -   | -                |
| Trade and other receivables        | 48,452              | -   | 48,452           |
| ELOs                               | 2,630,144           | -   | 2,630,144        |
| <b>Total financial assets</b>      | <u>2,678,596</u>    | <u>-</u>  | <u>2,678,596</u> |
| <b>Financial liabilities</b>       |                     |   |                  |
| Trade and other payables           | 48,443              | -   | 48,443           |
| OPALS                              | 2,630,144           | -   | 2,630,144        |
| Debt and other borrowings          | -                   | 8   | 8                |
| <b>Total financial liabilities</b> | <u>2,678,587</u>    | <u>8</u>  | <u>2,678,595</u> |

# MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

### 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Liquidity risk (continued)

*Maturity analysis (continued)*

| 31 December 2018                   | On demand<br>\$'000 | Equal to or<br>more than 1<br>year but less<br>than 5 years<br>\$'000 | Total<br>\$'000  |
|------------------------------------|---------------------|---|------------------|
| <b>Financial assets</b>            |                     |   |                  |
| Loans and advances                 | -                   | 55  | 55               |
| Trade and other receivables        | 210,871             | -   | 210,871          |
| ELOs                               | 2,246,090           | -   | 2,246,090        |
| <b>Total financial assets</b>      | <u>2,456,961</u>    | <u>55</u>   | <u>2,457,016</u> |
| <b>Financial liabilities</b>       |                     |   |                  |
| Trade and other payables           | 203,488             | -   | 203,488          |
| OPALS                              | 2,253,522           | -   | 2,253,522        |
| Debt and other borrowings          | -                   | 5   | 5                |
| <b>Total financial liabilities</b> | <u>2,457,010</u>    | <u>5</u>  | <u>2,457,015</u> |

#### Market risk

Market risk is defined by IFRS 7 'Financial instruments – Disclosures' ("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.

The Company manages the market risk associated with its trading activities at both division and an individual product level, and includes consideration of market risk at the legal entity level.

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

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

The Company enters into all 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 OPALS expose the Company to the risk of changes in market prices of the underlying securities, interest rate risk and, where denominated in currencies other than US dollar, the risk of changes in rates of exchange between the US dollar and the other relevant currencies. The Company uses the risk mirroring contracts, in the form of ELOs, which it purchases from another Morgan Stanley Group undertaking, to match the price, interest rate and foreign currency risks associated with the issuance of the OPALS, consistent with the Company's risk management strategy. As such, the Company is not exposed to any market risk on these financial instruments.

# MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

### 16. 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.

#### 31 December 2019

|  | Quoted<br>prices in<br>active<br>market<br>(Level 1)<br>\$'000 | Valuation<br>techniques<br>using<br>observable<br>inputs<br>(Level 2)<br>\$'000 | Valuation<br>techniques<br>with<br>significant<br>unobservable<br>inputs<br>(Level 3)<br>\$'000 | Total<br>\$'000 |
|--|--|---|---|-----------------|
| Trade and other receivables:                         |  |   |   |                 |
| - ELOs   | -  | 2,630,144   | -   | 2,630,144       |
| <b>Total financial assets measured at fair value</b> | -  | 2,630,144   | -   | 2,630,144       |

Trade and other payables:

|   |   |           |   |           |
|---|---|-----------|---|-----------|
| - OPALS   | - | 2,630,144 | - | 2,630,144 |
| <b>Total financial liabilities measured at fair value</b> | - | 2,630,144 | - | 2,630,144 |

#### 31 December 2018

|  | Quoted<br>prices in<br>active<br>market<br>(Level 1)<br>\$'000 | Valuation<br>techniques<br>using<br>observable<br>inputs<br>(Level 2)<br>\$'000 | Valuation<br>techniques<br>with<br>significant<br>unobservable<br>inputs<br>(Level 3)<br>\$'000 | Total<br>\$'000 |
|--|--|---|---|-----------------|
| Trade and other receivables:                         |  |   |   |                 |
| - ELOs   | -  | 2,246,090   | -   | 2,246,090       |
| <b>Total financial assets measured at fair value</b> | -  | 2,246,090   | -   | 2,246,090       |

Trade and other payables:

|   |   |           |   |           |
|---|---|-----------|---|-----------|
| - OPALS   | - | 2,253,522 | - | 2,253,522 |
| <b>Total financial liabilities measured at fair value</b> | - | 2,253,522 | - | 2,253,522 |

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:

## **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2019**

#### **16. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)**

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

###### *OPALS*

The Company issues OPALS, which are securities whose investment performance corresponds generally to that of a benchmark index by an indirect investment in a basket of shares. The fair value of OPALS is determined using valuation models, incorporating observable inputs referencing identical or comparable securities to the underlying shares. The impact of own credit spreads is also considered and included as appropriate. OPALS are categorised in Level 2 of the fair value hierarchy.

###### *ELOs*

ELOs are purchased to hedge the issuance of OPALS as the investment performance of the ELOs corresponds generally to that of the same benchmark index by an indirect investment in a basket of shares, as that of the OPALS they were purchased to hedge. The fair value of the ELOs is determined using valuation models, incorporating observable inputs referencing identical or comparable securities to the underlying shares. The impact of own credit spreads is also considered and included as appropriate. ELOs are categorised in Level 2 of the fair value hierarchy.

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

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

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

There were no transfers between Level 2 and Level 3 of the fair value hierarchy during the current or prior year.

##### **d. 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 current or prior year.

#### **17. 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.

#### **18. 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 common equity. The Morgan Stanley Group generally holds Parent common equity for prospective regulatory requirements, organic growth, acquisition and other capital needs.

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

#### 18. CAPITAL MANAGEMENT (CONTINUED)

The Required Capital Framework is expected to evolve over time in response to changes in the business and regulatory environment, for example, to incorporate changes in 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 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. In the future, the Morgan Stanley Group may adjust its capital base in reaction to the changing needs of its businesses.

The Company views capital as an important source of financial strength. It manages and monitors its capital in line with established policies and procedures and in compliance with local regulatory requirements.

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:

|                        | 2019<br>\$'000 | 2018<br>\$'000 |
|------------------------|----------------|----------------|
| Ordinary share capital | <u>1</u>       | <u>1</u>       |

#### 19. RELATED PARTY DISCLOSURES

##### Parent and subsidiary relationships

###### *Parent and ultimate controlling entity*

The entire issued share capital of the Company is held under the terms of a trust established under Cayman Islands law with Vistra (Cayman) Limited.

In the Directors' opinion, for accounting purposes, 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. Copies of its financial statements can be obtained from [www.morganstanley.com/investorrelations](http://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 Morgan Stanley Capital (Cayman Islands) Limited.

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

#### 19. RELATED PARTY DISCLOSURES (CONTINUED)

##### Key management compensation (continued)

Key management personnel compensation, in respect of their services rendered, comprised the following:

|                                   | 2019<br>\$'000 | 2018<br>\$'000 |
|-----------------------------------|----------------|----------------|
| Short-term employee benefits      | 4              | 2              |
| Share-based payments              | 1              | -              |
| Other long-term employee benefits | 1              | -              |
|                                   | <u>6</u>       | <u>2</u>       |

The share-based payment costs disclosed above reflect the amortisation of equity-based awards granted to key management personnel 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.

##### Transactions with related parties

The Morgan Stanley Group conducts business for clients globally through a combination of both functional and legal entity organisational structures. Accordingly, the Company is closely integrated with the operations of the Morgan Stanley Group and enters into transactions with other Morgan Stanley Group undertakings on an arm's length basis for the purposes of utilising financing, trading and risk management, and infrastructure services. The nature of these relationships along with information about the transactions and outstanding balances is given below. Settlement of the outstanding balances will be made via inter-company mechanisms. The Company has not recognised any expense and has made no provision for impairment relating to the amount of outstanding balances from related parties (2018: \$nil).

##### *Funding*

The Company receives funding from and provides funding to other Morgan Stanley Group undertakings in the following forms:

##### *General funding*

General funding is undated, unsecured, floating rate lending, other than certain funding which is dated on a rolling 395 day term. 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.

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

# MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

### 19. RELATED PARTY DISCLOSURES (CONTINUED)

#### Transactions with related parties (continued)

##### General funding (continued)

|  | 2019               |                   | 2018               |                   |
|--|--------------------|-------------------|--------------------|-------------------|
|  | Interest<br>\$'000 | Balance<br>\$'000 | Interest<br>\$'000 | Balance<br>\$'000 |
| Amounts due from the Company's direct and indirect parent undertakings | 4                  | -                 | 4                  | -                 |
| Amounts due from other Morgan Stanley Group undertakings               | <u>2</u>           | <u>18</u>         | <u>2</u>           | <u>123</u>        |
|  | <u>6</u>           | <u>18</u>         | <u>6</u>           | <u>123</u>        |
| Amounts due to the Company's direct and indirect parent undertakings   | -                  | 5                 | -                  | 47                |
| Amounts due to other Morgan Stanley Group undertakings                 | <u>6</u>           | <u>12</u>         | <u>6</u>           | <u>75</u>         |
|  | <u>6</u>           | <u>17</u>         | <u>6</u>           | <u>122</u>        |

##### Trading and risk management

The Company issues OPALS and hedges the obligations arising from the issuance by entering into ELOs with another Morgan Stanley Group undertaking. All such transactions are entered into on an arm's length basis. These transactions may give rise to credit risk either for the Company, or to a related party towards the Company. The total amounts receivable and payable on OPALS and ELOs were as follows:

|  | 2019<br>\$'000   | 2018<br>\$'000   |
|--|------------------|------------------|
| Trade receivables  | 48,434           | 210,803          |
| Amounts due from other Morgan Stanley Group undertakings | <u>2,630,144</u> | <u>2,246,090</u> |
|  | <u>2,678,578</u> | <u>2,456,893</u> |
|  | 2019<br>\$'000   | 2018<br>\$'000   |
| Trade payables   | 48,434           | 203,488          |
| Amounts due to other Morgan Stanley Group undertakings   | <u>2,630,144</u> | <u>2,253,522</u> |
|  | <u>2,678,578</u> | <u>2,457,010</u> |

##### Infrastructure services

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



## **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2019**

#### **20. EVENTS AFTER THE REPORTING DATE**

Since the balance sheet date the emergence of the coronavirus disease (COVID-19) pandemic has, and will likely continue to, severely impact global economic conditions, resulting in substantial volatility in the global financial markets and operational challenges. The extent of the impact is highly uncertain and cannot be predicted and could adversely affect the future operations and financial condition of Morgan Stanley and the Company. For further detail, refer to the 'Emergence of COVID-19' section on page 1 and 2 of the Strategic report.

**APPENDIX A-2**  
**Financial Statements of the Issuer**  
**Morgan Stanley Capital (Cayman Islands) Limited**  
**Year ended 31 December 2018**

**Registered number: 43542**

Registered office:

c/o Maples Corporate Services Limited

PO Box 309

Ugland House

Grand Cayman

KY1 - 1104

Cayman Islands

**MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

**Report and financial statements**

**31 December 2018**

## **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

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## **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

### **STRATEGIC REPORT**

The Directors present their Strategic report for Morgan Stanley Capital (Cayman Islands) Limited (the “Company”) for the year ended 31 December 2018.

#### **PRINCIPAL ACTIVITY**

The Company is an exempted company incorporated under the laws of the Cayman Islands.

The principal activity of the Company is the issuance of Optimised Portfolios as Listed Securities (“OPALS”) and the hedging of the obligations arising pursuant to such issuances with Equity Linked Obligations (“ELOs”).

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

There have not been any significant changes in the Company’s principal activity in the year under review and no significant change in the Company’s principal activity is expected.

#### **BUSINESS REVIEW**

As noted above, the principal activity of the Company is the issuance of Optimised Portfolios as Listed Securities (“OPALS”) and the hedging of the obligations arising pursuant to such issuances with Equity Linked Obligations (“ELOs”). The Company manages the risk of potential external impacts on its business (including but not limited to the impact of United Kingdom’s (the “UK”) decision to leave the European Union (the “EU”) of which a thorough assessment has been made by the Company and the Morgan Stanley Group of various Brexit scenarios). The Company maintains a constant planning dialogue with the wider Morgan Stanley Group and accordingly management does not expect any significant impact on the operations and business of the Company arising from these external factors.

#### **Overview of 2018**

The statement of comprehensive income is set out on page 14. The Company’s result for the year is \$nil which is consistent with the Company’s function and the prior year. Interest income decreased by \$72,000 and interest expense decreased by \$76,000 compared to 31 December 2017. This is due to a part settlement of a loan receivable with a Morgan Stanley Group undertaking in December 2017. In addition there were foreign exchange gains of \$4,000 reported in the prior year.

The statement of financial position is set out on page 16. Total assets are \$2,457,016,000 at 31 December 2018 compared to \$1,544,400,000 at 31 December 2017 whilst total liabilities are \$2,457,015,000 at 31 December 2018 compared to \$1,544,399,000 at 31 December 2017. The movement in both assets and liabilities is driven by pending ELO and OPAL trades and the change in the value of ELOs and OPALS respectively, which have increased by \$701,813,000 and \$709,245,000. The increase in OPALS is due to fair value movements, issuances and redemptions in the year which has resulted in a corresponding increase in ELOs.

The performance of the Company is included in the results of the Morgan Stanley Group. 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.

## **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

### **STRATEGIC REPORT**

#### **BUSINESS REVIEW (CONTINUED)**

##### **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 appropriate senior management personnel of the Company.

Set out below is an overview of the Company's policies for the management of financial risk and other significant business risks. More detailed qualitative and quantitative disclosures about the Company's management of and exposure to financial risks are included in note 17 to the financial statements.

##### *Market risk*

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities, correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio.

The Company manages the market risk associated with its trading activities at both a trading division and an individual product level, and includes consideration of market risk at the legal entity level. It is the policy and objective of the Company not to be exposed to market risk.

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.

##### *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 management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to the Company's Board of Directors and appropriate senior management personnel.

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

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### STRATEGIC REPORT

#### BUSINESS REVIEW (CONTINUED)

##### Risk management (continued)

###### *Country risk exposure (continued)*

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 risk 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 risk*

Liquidity risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity risk also encompasses the Company's ability (or perceived ability) to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern. Liquidity risk also encompasses the associated funding risks triggered by the market or idiosyncratic stress events that may cause unexpected changes in funding needs or an inability to raise new funding. Generally, the Company incurs liquidity and funding risk as a result of its trading, investing and client facilitation activities.

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 17.

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

###### *Operational risk*

Operational risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes, from human factors 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, including revenue-generating activities (e.g., sales and trading) and support and control groups (e.g., information technology and trade processing).

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.

## **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

### **STRATEGIC REPORT**

#### **BUSINESS REVIEW (CONTINUED)**

##### **Risk management (continued)**

###### *Operational risk (continued)*

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 mitigates to manage its operational risk exposures. These include a governance framework, a comprehensive risk management program and insurance. Operational risks and associated risk exposures are assessed relative to the risk tolerance reviewed and confirmed by the Board and are prioritised accordingly.

The breadth and variety of operational risk are such that the types of mitigating activities are wide-ranging. Examples of activities include continuous enhancement of defences against cyber attacks; 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.

The Operational Risk Department provides independent oversight of operational risk and assesses measures and monitors operational risk against tolerance. The Operational Risk Department works with the business 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 risk, cybersecurity risk, information security risk and data risk management programme (e.g., cybersecurity), fraud risk management and prevention programme and third party risk management (supplier and affiliate 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 maintains programmes for business continuity management and technology disaster recovery that facilitate activities designed to mitigate risk to the Morgan Stanley Group during a business continuity event. A business continuity event is an interruption with potential impact to normal business activity of the Company's people, operations, technology, suppliers and/or facilities. The business continuity management programme's core functions are business continuity planning and crisis management. As part of business continuity planning, business divisions and control groups maintain business continuity plans identifying processes and strategies to continue business critical processes during a business continuity event. Crisis management is the process of identifying and managing the Company's operations during business continuity events. Disaster recovery plans supporting business continuity are in place for critical facilities and resources across the Company.



## **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

### **STRATEGIC REPORT**

#### **BUSINESS REVIEW (CONTINUED)**

##### **Risk management (continued)**

###### *Operational risk (continued)*

The Company maintains a programme that oversees our cyber and information security risks. Our cybersecurity and information security policies, procedures and technologies are designed to protect the Company's information assets against unauthorised disclosure, modification or misuse and are also designed to address regulatory requirements. These policies and procedures cover a broad range of areas, including: identification of internal and external threats, access control, data security, protective controls, detection of malicious or unauthorised activity, incident response, and recovery planning.

In connection with its ongoing operations, the Company utilises the services of third party suppliers, 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's risk-based approach to managing exposure to these services includes the performance of due diligence, implementation of service level and other contractual agreements, consideration of operational risk and ongoing monitoring of the third party suppliers' performance. The Company maintains a third party risk programme with appropriate governance, policies, procedures, and technology that supports alignment with our risk tolerance and is designed to meet regulatory requirements. The third party risk programme includes the adoption of appropriate risk management controls and practices through the supplier management lifecycle including, but not limited to assessment of information security, service failure, financial stability, disaster recoverability, reputational risk, contractual risk and safeguards against corruption.

###### *Legal, regulatory and compliance risk*

Legal, regulatory and compliance risk includes the risk of legal or regulatory sanctions, material financial loss; including fines, penalties, judgements, damages and/ or settlements or loss to reputation which the Company may suffer as a result of a failure to comply with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to our business activities. This risk also includes contractual and commercial risk, such as the risk that a counterparty's performance obligations will be unenforceable. It also includes compliance with Anti-Money Laundering, anti-corruption and terrorist financing rules and regulations. The Company 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.

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 and banking industries globally presents a continuing business challenge for the Company.

##### **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.

Although the Company has net liabilities payable within the next 12 months, the Company is performing in line with expectations and the net liabilities payable within the next 12 months are due to amounts owing to fellow Morgan Stanley Group undertakings, the demand for repayment of which is wholly within the control of the Morgan Stanley Group.

## **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

### **STRATEGIC REPORT**

#### **BUSINESS REVIEW (CONTINUED)**

##### **Going Concern (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.

Approved by the Board and signed on its behalf by



A Gelfand - Director

Date: ~~2018~~ April 20169

## **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

### **DIRECTORS REPORT**

The Directors present their report and financial statements (which comprise the statement of comprehensive income, the statement of changes in equity, the statement of financial position, the statement of cashflows and the related notes, 1 to 21) for the Company for the year ended 31 December 2018.

### **RESULTS AND DIVIDENDS**

The result for the year, after tax, was \$nil (2017: \$nil).

During the year, no dividends were paid or proposed (2017: \$nil).

### **RISK MANAGEMENT AND FUTURE DEVELOPMENTS**

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

### **DIRECTORS**

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

S El Bied (appointed 31 July 2018)

A Gelfand

H Nakajima (resigned 17 July 2018)

### **DIRECTORS' AND OFFICERS' LIABILITY INSURANCE**

Directors' and Officers' Liability Insurance is taken out by Morgan Stanley, the Company's ultimate parent undertaking, for the benefit of the Directors and Officers of the Company.

### **DIRECTORS' INDEMNITY**

Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2016 "Companies Act 2006") were in force during the year and up to and including the date of the Directors' report for the benefit of the Directors of the Company.

### **EVENTS AFTER THE REPORTING DATE**

There have been no significant events since the reporting date.

### **AUDITOR**

Deloitte LLP have expressed their willingness to continue in office as auditor of the Company and, under sections 485 to 488 of the Companies Act 2006, will be deemed to be re-appointed.

### **Statement as to disclosure of information to the auditor**

Each of the persons who are Directors of the Company at the date when this report is approved confirms that:

- so far as each of the Directors is aware, there is no relevant audit information (being information needed by the Company's auditor in connection with preparing their report) of which the Company's auditor is unaware; and
- each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Approved by the Board and signed on its behalf by



A Gelfand - Director

Date: 20 April 2019

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### DIRECTORS' RESPONSIBILITIES STATEMENT

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

The Company was incorporated as an exempt company under the laws of the Cayman Islands. The Directors and the shareholders of the Company require the financial statements of the Company to be prepared in accordance with Part 15 of the Companies Act 2006 of the UK (that would have applied had these been statutory accounts under the Companies Act 2006) and drawn up in US dollars.

UK Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and Article 4 of the International Accounting Standards ("IAS") Regulation. Under UK company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required by IAS '*Presentation of financial statements*' ("IAS 1") to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with Part 15 of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Furthermore, as the Company is an issuer whose securities are admitted to trading on the Luxembourg stock exchange, which is a regulated market, the Company must comply, amongst others, with Article 3(2) (c) of the Luxembourg law of 11 January 2008, as amended, in relation to certain transparency requirements (the "Transparency Law").

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 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 result 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



A Gelfand - Director

To the Board of Directors

Morgan Stanley Capital (Cayman Islands) Limited

## REPORT OF THE REVISEUR D'ENTREPRISES AGREE

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Morgan Stanley Capital (Cayman Islands) Limited (the "Company"), which comprise the statement of financial position as at December 31, 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### Basis for Opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under those Regulation, Law and standards are further described in the "Responsibilities of the "Réviseur d'Entreprises Agréé" for the Audit of the Financial Statements" section of our report. We are also independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of the 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.

| Valuation of Level II Financial Instruments                  |   |
|--|---|
| Relevant references in the financial statements              | Note 3.c, 3.d, 9, 11 and 12 to the Financial Statements   |
| Key audit matter description                                 | <p>The Company issues OPALS, which are securities whose investment performance corresponds generally to that of a benchmark index by an indirect investment in a basket of shares. The fair value of OPALS is determined using valuation models, incorporating observable inputs referencing identical or comparable securities to the underlying shares. The impact of own credit spreads is also considered and included as appropriate. OPALS are categorised as Level 2 in the fair value hierarchy.</p> <p>ELOs are purchased to hedge the issuance of OPALS. The investment performance of the ELOs corresponds generally to that of the same benchmark index by an indirect investment in a basket of shares, as that of the OPALS they were purchased to hedge. The fair value of the ELOs is determined using valuation models, incorporating observable inputs referencing identical or comparable securities to the underlying shares. The impact of own credit spreads is also considered and included as appropriate. ELOs are categorised as Level 2 in the fair value hierarchy.</p> <p>The valuations of Level 2 financial instruments are material and are the most significant part of the investment portfolio.</p> <p>As of 31 December 2018, the Company held USD 2,253,522 thousand OPALS and USD 2,246,090 thousand ELOs classified as Level 2 in the fair value hierarchy. The size of the portfolio of OPALS and ELOs and complexity of valuation models used to identify their fair values, as well as the use of inputs make these a key audit matter for the audit.</p>   |
| How the scope of our audit responded to the key audit matter | <p>To address the complexities associated with auditing the value of Level 2 financial instruments, our team included valuation specialists having significant quantitative and modelling expertise to assist in performing our audit procedures. Our valuation audit procedures included the following control and substantive procedures:</p> <ul style="list-style-type: none"> <li>• We tested the design and operating effectiveness of Morgan Stanley's valuation controls including the: <ul style="list-style-type: none"> <li>✓ Model certification control, which is designed to review a model's theoretical soundness and the appropriateness of its valuation methodology, including whether any limitations or valuation adjustments should be placed on a model's implementation or use given subjectivities in calibrating to varying market conditions.</li> <li>✓ Independent Price Verification control, which is designed to review the appropriateness of valuation methodologies to derive model inputs which are not observable and are significant to the financial instrument's valuation, and</li> <li>✓ The Company's daily trading profit and loss analysis, as well as its trade confirmation, and collateral dispute resolution controls.</li> </ul> </li> <li>• Our substantive test procedures included: <ul style="list-style-type: none"> <li>✓ For a sample of Level 2 financial instruments, we checked the input data to determine if these were in line with the Management's input.</li> <li>✓ We also evaluated the reasonableness of the valuation methodologies and models used by management.</li> </ul> </li> </ul> |
| Key observations   | None  |

## **Other information**

The Board of Directors is responsible for the other information. The other information comprises the information stated in the Directors' report and the Corporate Governance Statement but does not include the financial statements and our report of the "Réviseur d'Entreprises Agréé" thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

## **Responsibilities of the Board of Directors**

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## **Responsibilities of the "Réviseur d'Entreprises Agréé" for the Audit of the Financial Statements**

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "Réviseur d'Entreprises Agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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.
- Obtain 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of Directors' 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 report of the "Réviseur d'Entreprises Agréé" 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 report of the "Réviseur d'Entreprises Agréé". However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.



## Report on Other Legal and Regulatory Requirements

We have been appointed as “Réviseur d’Entreprises Agréé” by the General Meeting of the Shareholders and the duration of our uninterrupted engagement, including previous renewals and reappointments, is one year.

The Directors’ report is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

The accompanying Corporate Governance Statement is presented on pages one to six. The information required by Article 68ter paragraph (1) letters c) and d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the prohibited non-audit services referred to in the EU Regulation N° 537/2014, on the audit profession were not provided and that we remain independent of the Company in conducting the audit.

Where neither disclosed in the management report nor in the financial statements, disclose here any services, in addition to the statutory audit, that were provided to the Company and its controlled undertakings.

### Other matter

The Corporate Governance Statement includes, when applicable, information required by Article 68ter paragraph (1) points a), b), e), f) and g) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

For Deloitte Audit, *Cabinet de Révision Agréé*



Ekaterina Volotovskaya, *Réviseur d’Entreprises Agréé*  
Partner

April 26, 2019

**MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME**  
**Year ended 31 December 2018**

|  | Note | 2018<br>\$'000 | 2017<br>\$'000 |
|--|------|----------------|----------------|
| Net income from other financial instruments held at fair value |      | -              | -              |
| Other revenue  | 5    | -              | 4              |
| Interest income  |      | 6              | 78             |
| Interest expense   |      | (6)            | (82)           |
| Net interest income  | 6    | -              | (4)            |
| <b>RESULT BEFORE INCOME TAX</b>                                |      | -              | -              |
| Income tax   | 8    | -              | -              |
| <b>RESULT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>      |      | <u>-</u>       | <u>-</u>       |

All operations were continuing in the current and prior year

The notes on pages 18 to 48 form an integral part of the financial statements.

**MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

**STATEMENT OF CHANGES IN EQUITY**

**Year ended 31 December 2018**

|  | Share<br>capital<br>\$'000 | Retained<br>earnings<br>\$'000 | Total<br>equity<br>\$'000 |
|--|----------------------------|--------------------------------|---------------------------|
| <b>Balance at 1 January 2017</b>                   | 1                          | -                              | 1                         |
| Result and total comprehensive income for the year | -                          | -                              | -                         |
| <b>Balance at 31 December 2017</b>                 | <u>1</u>                   | <u>-</u>                       | <u>1</u>                  |
| Result and total comprehensive income for the year | -                          | -                              | -                         |
| <b>Balance at 31 December 2018</b>                 | <u><u>1</u></u>            | <u><u>-</u></u>                | <u><u>1</u></u>           |

The notes on pages 18 to 48 form an integral part of the financial statements.

**MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

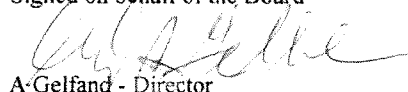
**STATEMENT OF FINANCIAL POSITION**

**Year ended 31 December 2018**

|   | <b>Note</b> | <b>2018<br/>\$'000</b> | <b>2017<br/>\$'000</b> |
|---|-------------|------------------------|------------------------|
| <b>ASSETS</b>                                       |             |                        |                        |
| Loans and advances                                  | 10          | 55                     | 62                     |
| Trade receivables                                   | 11          | 210,803                | -                      |
| Other receivables                                   | 11          | 68                     | 61                     |
| ELOs  | 9,11        | 2,246,090              | 1,544,277              |
| <b>TOTAL ASSETS</b>                                 |             | <b>2,457,016</b>       | <b>1,544,400</b>       |
| <b>LIABILITIES AND EQUITY</b>                       |             |                        |                        |
| Trade payables                                      | 12          | 203,371                | -                      |
| Other payables                                      | 12          | 117                    | 118                    |
| OPALS   | 9,12        | 2,253,522              | 1,544,277              |
| Debt and other borrowings                           | 13          | 5                      | 4                      |
| <b>TOTAL LIABILITIES</b>                            |             | <b>2,457,015</b>       | <b>1,544,399</b>       |
| <b>EQUITY</b>                                       |             |                        |                        |
| Share capital                                       | 14          | 1                      | 1                      |
| Retained earnings                                   |             | -                      | -                      |
| <b>Equity attributable to owners of the Company</b> |             | <b>1</b>               | <b>1</b>               |
| <b>TOTAL EQUITY</b>                                 |             | <b>1</b>               | <b>1</b>               |
| <b>TOTAL LIABILITIES AND EQUITY</b>                 |             | <b>2,457,016</b>       | <b>1,544,400</b>       |

These financial statements were approved by the Board and authorised for issue on 26 April 2019

Signed on behalf of the Board



A. Gelfand - Director

The notes on pages 18 to 48 form an integral part of the financial statements.

**MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

**STATEMENT OF CASH FLOWS**  
**Year ended 31 December 2018**

|   | <b>2018</b>      | <b>2017</b>        |
|---|------------------|--------------------|
|   | <b>\$'000</b>    | <b>\$'000</b>      |
| Result for the year   | -                | -                  |
| <i>Adjustments for:</i>   |                  |                    |
| Interest income   | (6)              | (78)               |
| Interest expense  | 6                | 82                 |
| Operating cash flows before changes in operating assets and liabilities | <u>-</u>         | <u>4</u>           |
| Changes in operating assets   |                  |                    |
| Decrease in loans and advances  | 7                | 3,217              |
| Increase in trade receivables   | (210,803)        | -                  |
| Increase in other receivables   | (1)              | (51)               |
| (Increase)/decrease in ELOs   | <u>(701,813)</u> | <u>1,220,156</u>   |
|   | <u>(912,610)</u> | <u>1,223,322</u>   |
| Changes in operating liabilities  |                  |                    |
| Increase in trade payables  | 203,371          | -                  |
| Decrease in other payables  | (7)              | (3,173)            |
| Increase/(decrease) in OPALS  | 709,245          | (1,220,156)        |
| Increase in debt and other borrowings                                   | <u>1</u>         | <u>3</u>           |
|   | <u>912,610</u>   | <u>(1,223,326)</u> |
| <b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>                         | <u>-</u>         | <u>-</u>           |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                        | -                | -                  |
| <b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>           | -                | -                  |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>                 | <u>-</u>         | <u>-</u>           |

The notes on pages 18 to 48 form an integral part of the financial statements.

## **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2018**

#### **1. CORPORATE INFORMATION**

The Company is incorporated and domiciled in the Cayman Islands, at the following address: Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company is engaged in the issuance of OPALS and the hedging of obligations pursuant to such issuances.

The parent and ultimate controlling entity is disclosed in note 21 to the financial statements.

#### **2. BASIS OF PREPARATION**

##### **Statement of compliance**

The Company has prepared its annual financial statements in accordance with IFRSs issued by the International Accounting Standards Board ("IASB") as adopted by the EU, Interpretations issued by the IFRS Interpretations Committee ("IFRIC") and Part 15 of the Companies Act 2006.

##### **New standards and interpretations adopted during the year**

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

IFRS 9 '*Financial instruments*' ("IFRS 9") was issued by the IASB in November 2009, reissued in October 2010, 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 accounting periods beginning on or after 1 January 2018. The standard was endorsed by the EU in November 2016. The Company early adopted 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 ("FVPL"), and has adopted the remaining requirements of IFRS 9 from 1 January 2018.

A further amendment to IFRS 9, relating to the accounting treatment of financial instruments with prepayment features including negative compensation, was issued by the IASB in October 2017. The amendment is applicable retrospectively, except where otherwise prescribed by transitional provisions of the amendment, and is effective for accounting periods beginning on or after 1 January 2019. The amendment was endorsed by the EU in March 2018. The Company has early adopted this amendment from 1 January 2018.

The main aspects of IFRS 9 which impact the Company are its requirements relating to:

- Classification and measurement of financial assets

The classification and measurement of financial assets is determined based upon how these financial assets are managed and their contractual cash flow characteristics. Measurement will be either at amortised costs, fair value through other comprehensive income ("FVOCI") or FVPL.

- Impairment of financial assets

The impairment requirements are based on expected credit losses ("ECL") and apply to financial assets measured at amortised cost.

The Company has completed a project to implement IFRS 9. As part of this project, the Company has completed an evaluation of its business models and a review of the contractual terms of financial assets.

As a result of this evaluation, all financial assets designated at FVPL under IAS 39 '*Financial instruments: Recognition and Measurement*' ("IAS 39") have moved to mandatorily at FVPL under IFRS 9. There was no impact of this on the Company's retained earnings as at 1 January 2018. No financial liabilities have changed classification.

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2018

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

##### New standards and interpretations adopted during the year (continued)

For loans and advances and other receivables, a model-based approach has been adopted, the key aspects of which are:

- The impairment allowance is based on ECL associated with the lifetime cash shortfalls that will result if a default occurs in the twelve months after the reporting date (the 'twelve month ECL'), unless there has been a significant increase in credit risk ("SICR") since origination, in which case the ECL is based on all possible defaults over the total expected life of the instrument (the 'lifetime ECL');
- Identifying whether assets have experienced a SICR since origination. When determining whether credit risk has increased significantly since initial recognition, the Company considers both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit risk assessment, including forward-looking information;
- Estimating ECL, reflecting an unbiased and the probability-weighted impact of multiple future economic scenarios. ECL are calculated using three main components: probability of default ("PD"), the expected loss given default ("LGD") and an estimated exposure at default ("EAD"). These parameters are generally derived from internally developed statistical models, combined with historical, current and forward-looking customer and macro-economic data.

For trade receivables, a simplified approach has been adopted as permitted by IFRS 9, whereby an allowance is recognised for the lifetime ECL of the instrument. Practical expedients have been employed to calculate the ECL for trade receivables. For some portfolios of financial assets, ECL have been estimated to be close to zero, reflecting the short term nature of the portfolio.

The impact of the implementation of the ECL impairment approach on retained earnings as at 1 January 2018 is not material to the Company.

Under the transitional provisions of the Standard, the Company's opening balance sheet at the date of initial application (1 January 2018) has been restated, with no restatement of comparative periods. However, the Company has updated the presentation of its primary statements on transition to IFRS 9 to provide more relevant information to the users of the financial statements. The comparative period has been re-presented to align to the new format in the annual financial statements.

Note 3 Summary of significant accounting policies provides the new accounting policies under IFRS 9 applicable from 1 January 2018, alongside the accounting policies applicable to 31 December 2017 under IAS 39.

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 '*Financial Instruments: Disclosures*' was updated by the IASB and the Company adopted the updated IFRS 7 for the year beginning 1 January 2018. The updated requirements include transition disclosures shown in note 4, in addition to qualitative and quantitative information about the ECL as set out in note 17.

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

##### New standards and interpretations not yet adopted

Amendments to IAS 1 '*Presentation of Financial Statements*' and IAS 8 '*Accounting Policies, Changes in Accounting Estimates and Errors*' were issued by the IASB in October 2018, for application in accounting periods beginning on or after 1 January 2020.

## **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2018**

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

##### **Basis of measurement**

The financial statements of the Company are prepared under the historical cost basis, except for certain financial instruments that have been measured at fair value as explained in the accounting policies below.

##### **Critical judgements in applying the Company's accounting policies**

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

##### **The going concern assumption**

The Company's business activities, together with the factors likely to affect its future development, performance and position, are reflected in the Business Review section of the Strategic report on pages 1 to 6. In addition, the notes to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

As set out in the Strategic report, retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy.

Although the Company has net liabilities payable within the next 12 months, the Company is performing in line with expectations and the net liabilities payable within the next 12 months are due to amounts owing to fellow Morgan Stanley Group undertakings, the demand for repayment of which is wholly within the control of the Morgan Stanley Group.

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 US dollars, the currency of the primary economic environment in which the Company operates.

All currency amounts in the financial statements, Strategic and Directors' report are rounded to the nearest thousand US dollars.

##### **b. Foreign currencies**

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



## **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2018**

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

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

##### **i) Financial instruments mandatorily at fair value through profit and loss**

##### **Non-trading financial assets at fair value through profit or loss**

Non-trading financial assets at FVPL are principally financial assets where the Company makes decisions based upon the assets' fair values and are generally recognised on settlement date at fair value (see note 3(d) below), since they are neither regular way nor are they derivatives. From the date the terms are agreed (trade date), until the financial asset is funded (settlement date), the Company recognises any unrealised fair value changes in the financial asset as non-trading financial assets at FVPL. On settlement date, the fair value of consideration given is recognised as a non-trading financial asset at FVPL.

All subsequent changes in fair value and foreign exchange differences are reflected in the statement of comprehensive income in 'Net income from other financial instruments held at fair value'.

For all non-trading financial assets at FVPL, transaction costs are excluded from the initial fair value measurement of the financial assets. These costs are recognised in the statement of comprehensive income in 'Other expense'.

Non-trading financial assets mandatorily at FVPL include ELOs.

##### **ii) Financial instruments designated at fair value through profit or loss**

##### ***Applicable until 31 December 2017 and from 1 January 2018***

The Company has designated certain financial liabilities at FVPL where the financial liability contained an embedded derivative that significantly modified the cash flows that would otherwise be required under the contract.

##### ***Applicable until 31 December 2017 and from 1 January 2018***

From the date the transaction in a financial instrument designated at FVPL is entered into (trade date) until settlement date, the Company recognises any unrealised fair value changes in the contract as financial instruments designated at FVPL in the statement of financial position. On settlement date, the fair value of consideration given or received is recognised as a financial instrument designated at FVPL (see note 3(d) below).

All subsequent changes in fair value and foreign exchange differences are reflected in the statement of comprehensive income in 'Net income from other financial instruments held at fair value'.

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

See note 9 for an analysis of financial assets and financial liabilities designated at FVPL.

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2018

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

##### iii) Financial assets and financial liabilities at amortised cost

###### *Applicable from 1 January 2018*

Financial assets classified as loans and receivables include other receivables.

Financial assets are recognised at amortised cost when the Company's business model objective is to collect the contractual cash flows of the assets and where these cash flows are SPPI on the principal amount outstanding until maturity. Such assets are recognised when the Company becomes a party to the contractual provisions of the instrument. The instruments are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost less ECL allowance. Interest is recognised in the statement of comprehensive income in 'Interest income', using the effective interest rate ("EIR") method as described below. Transaction costs that are directly attributable to the acquisition of the financial asset are added to the fair value on initial recognition. ECL and reversals thereof are recognised in the statement of comprehensive income in 'Net impairment loss on financial instruments'.

###### *Applicable until 31 December 2017*

Financial assets classified as loans and receivables were recognised when the Company became a party to the contractual provisions of the instrument. They were initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost less allowance for impairment. Interest was recognised in the statement of comprehensive income in 'Interest income', using the EIR method as described below. Transaction costs that were directly attributable to the acquisition of the financial asset were added to the fair value on initial recognition. Impairment losses and reversals of impairment losses on financial assets classified as loans and receivables were recognised in the statement of comprehensive income in 'Other expense'.

###### *Applicable until 31 December 2017 and from 1 January 2018*

Financial liabilities classified at amortised cost include certain trade and other payables, and certain debt and other borrowings.

Financial liabilities are classified as being subsequently measured at amortised cost, except where they are held for trading or are designated as measured at FVPL. They are recognised when the Company becomes a party to the contractual provisions of the instrument and are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost. Interest is recognised in the statement of comprehensive income in 'Interest expense' using the EIR method as described below. Transaction costs that are directly attributable to the issue of a financial liability are deducted from the fair value on initial recognition.

The EIR 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 EIR 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 EIR is established on initial recognition of the financial instrument. The calculation of the EIR includes all fees and commissions paid or received, transaction costs, and discounts or premiums that are an integral part of the EIR.

##### 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.

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2018

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

##### d. Fair value (continued)

###### *Fair value measurement (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.

In determining fair value, the Company uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value that requires 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 fair value hierarchy is broken down into three levels based on the observability of inputs as follows, with Level 1 being the highest and Level 3 being the lowest level:

- Level 1 – Quoted prices (unadjusted) in an active market for identical assets or liabilities  
Valuations based on quoted prices in active markets for 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, 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.

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2018

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

##### d. Fair value (continued)

###### *Fair value measurement (continued)*

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the total fair value amount is disclosed in the level appropriate for the lowest level input that is significant to the total fair value of asset or liability.

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 Borrowings (primarily structured notes which are designated at FVPL 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 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 concentration adjustments to certain of its OTC derivative 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.

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2018

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

##### d. Fair value (continued)

###### *Valuation process*

Valuation Control ("VC") within the Financial Control Group ("FCG") is responsible for the Company's fair value valuation policies, processes and procedures. VC 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. VC 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.* VC, in conjunction with the Model Risk Management Department, ("MRM") which reports to the Chief Risk Officer of the Morgan Stanley Group ("CRO"), independently reviews 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, VC 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, VC 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, VC 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 VC 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.

VC 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. VC 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, VC 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.

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

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

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

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

##### d. Fair value (continued)

###### *Gains and losses on inception*

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

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

##### e. Modification and derecognition of financial assets and liabilities

###### *Applicable until 31 December and from 1 January 2018*

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 Company 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 Company 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 renegotiation or modification of the contractual cash flows of a financial asset can lead to derecognition where the modification is "substantial", determined by qualitative assessment of whether the revised contractual terms of a financial asset, such as a loan, are significantly different from those of the original financial asset. In the event that the qualitative assessment is unclear, a quantitative 10% cash flow test is performed.

Where modifications do not result in derecognition of the asset, the gross carrying amount of the financial asset is recalculated and a modification gain/ (loss) is recognised in the statement of comprehensive income.

Upon derecognition of a financial asset, the difference between the previous carrying amount and the sum of any consideration received, together with the transfer of any cumulative gain/ loss previously recognised in equity, are recognised in the statement of comprehensive income within 'Net gains/ (losses) on derecognition of financial assets measured at amortised cost and FVOCI'.

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

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

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

##### f. Impairment of financial assets

*Applicable from 1 January 2018*

The Company recognises loss allowances for ECL on financial assets measured at amortised cost.

##### *Measurement of ECL*

For financial assets, ECL are the present value of cash shortfalls (i.e. the difference between contractual and expected cash flows) over the expected life of the financial instrument, discounted at the asset's EIR.

Where a financial asset is credit-impaired at the reporting date, the ECL is measured as the difference between the asset's gross carrying amount and the present value of future cash flows, discounted at the original EIR.

The Company applies a three stage approach to measuring ECL based on the change in credit risk since initial recognition:

- Stage 1: if the credit risk of the financial instrument at the reporting date has not increased significantly since initial recognition ("SICR"), then the loss allowance is calculated as the lifetime cash shortfalls that will result if a default occurs in the next 12 months, weighted by the probability of that default occurring ("12 months expected losses").
- Stage 2: if there has been a SICR since initial recognition, the loss allowance is calculated as the ECL over the remaining life of the financial instrument. If it is subsequently determined that there has no longer been a SICR since initial recognition, then the loss allowance reverts to reflecting 12 month expected losses.
- Stage 3: if there has been a SICR since initial recognition and the financial instrument is deemed credit-impaired (see below for definition of credit-impaired), the loss allowance is calculated as the ECL over the remaining life of the financial instrument. If it is subsequently determined that there has no longer been a significant increase in credit risk since initial recognition, then the loss allowance reverts to reflecting 12 month expected losses.

The Company's accounting policy is to not use the 'low' credit risk practical expedient. As a result, the Company monitors all financial instruments which do not have a significant financing component that are subject to impairment for SICR.

In general, ECL are measured so that they reflect:

- a) A probability-weighted range of possible outcomes
- b) The time value of money; and
- c) Relevant information relating to past, current and future economic conditions.

When measuring ECL, the Company considers multiple scenarios, except where practical expedients are used to determine ECL. Practical expedients are used where they are consistent with the principles described above. ECL on certain trade receivables are calculated using a "matrix" approach which reflects the previous history of credit losses on these financial assets, applying different provision levels based on the age of the receivable. Alternatively where there is a history of no credit losses which is expected to persist into the future for structural or other reasons, such as collateral or other credit enhancement, it is determined that the ECL for a financial instrument is *de minimis* (i.e. highly immaterial) and it may not be necessary to recognise an ECL.

The Company measures ECL on an individual basis and has no purchased or originated credit-impaired financial assets.

If a financial asset has been the subject of modification which does not lead to its derecognition (refer accounting policy 3e), SICR is assessed by comparing the risk of default of the financial instrument, based on the modified terms at the reporting date, with the risk of default of the financial instrument at inception, based on the financial instrument's original, unmodified, terms.

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

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

##### f. Impairment of financial assets (continued)

Where the modification of contractual cash flows of a financial asset leads to its derecognition and the recognition of a new asset (refer accounting policy 3e), the date of modification is treated as the date of initial recognition for the new financial asset when determining whether a SICR has occurred for that modified financial asset. In rare circumstances, after modification the asset is considered to be credit impaired, in which case it is treated as an asset which was credit-impaired at origination.

More information on measurement of ECL is provided within note 17 Financial risk management.

##### *Presentation of ECL*

ECL is recognised in the statement of comprehensive income within 'Net impairment loss on financial instruments'. ECL on financial assets measured at amortised cost are presented as an ECL allowance. The allowance reduces the net carrying amount on the face of the statement of financial position.

##### *Credit-impaired financial instruments*

In assessing the impairment of financial instruments under the ECL model, the Company defines credit-impaired financial instruments in accordance with Credit Risk Management Department's policies and procedures. A financial instrument is credit-impaired when, based on current information and events, it is probable that the Company will be unable to collect all scheduled payments of principal or interest when due according to the contractual terms of the agreement.

##### *Definition of Default*

In assessing the impairment of financial instruments under the ECL model, the Company defines default in accordance with Credit Risk Management Department's policies and procedures. This considers whether the borrower is unlikely to pay its credit obligations to the Company in full and takes into account qualitative indicators, such as breaches of covenants. The definition of default also includes a presumption that a financial asset which is more than 90 days past due ("DPD") has defaulted.

##### *Write-offs*

Financial assets that are written off could still be subject to enforcement activities for recoveries of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is reflected directly in the statement of comprehensive income within 'Net impairment loss on financial instruments' and is not recognised in the loss allowance account. Any subsequent recoveries are credited to 'Net impairment loss on financial instruments' within the statement of comprehensive income.

##### *Applicable until 31 December 2017*

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 were recognised if an event had occurred which would have had an adverse impact on the expected future cash flows of an asset and the expected impact could be reliably estimated.

Impairment losses on loans and receivables were measured as the difference between the carrying amount of the loans and receivables and the present value of estimated cash flows discounted at the asset's original EIR. Such impairment losses are recognised in the statement of comprehensive income within 'Other expense' and were 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 EIR 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 was reversed as described for the relevant categories of financial asset in note 3(c). Any reversal was limited to the extent that the value of the asset would not exceed the original amortised cost of the asset had no impairment occurred.



## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2018

#### 4. TRANSITION TO IFRS 9

As discussed in note 2 the Company adopted a new standard from 1 January 2018, IFRS 9, which has resulted in no adjustment to retained earnings at the date of adoption.

The disclosures below set out the impact of adopting IFRS 9 on the statement of financial position and retained earnings, including the effect of replacing IAS 39's incurred credit loss models with the ECL framework under IFRS 9.

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets and financial liabilities as at 1 January 2018 in accordance with the Company's updated accounting policies on the classification and impairment of financial instruments under IFRS 9 as set out in note 3(c).

##### a. IFRS 9: Classification of financial instruments on the date of initial application

|                                    | Note | Original<br>classification<br>under IAS 39 | New<br>classification<br>under IFRS 9 | Original<br>carrying amount<br>under IAS 39<br>\$'000 | New carrying<br>amount under<br>IFRS 9<br>\$'000 |
|------------------------------------|------|--|---------------------------------------|---|--|
| <b>Financial assets</b>            |      |  |                                       |   |  |
| <b>Loans and advances</b>          |      | Loans and receivables                      | Financial assets at amortised cost    | 62  | 62   |
| <b>ELOs</b>                        | a    | FVPL (designated)                          | FVPL (non-trading)                    | 1,544,277   | 1,544,277  |
| <b>Trade and other receivables</b> |      | Loans and receivables                      | Financial assets at amortised cost    | 61  | 61   |
| <b>Total financial assets</b>      |      |  |                                       | <u>1,544,400</u>                                      | <u>1,544,400</u>                                 |

# MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2018

### 4. TRANSITION TO IFRS 9 (CONTINUED)

#### a. IFRS 9: Classification of financial instruments on the date of initial application (continued)

|                                    | Note | Original<br>classification<br>under IAS 39 | New<br>classification<br>under IFRS 9   | Original<br>carrying amount<br>under IAS 39<br>\$'000 | New carrying<br>amount under<br>IFRS 9<br>\$'000 |
|------------------------------------|------|--|---|---|--|
| <b>Financial liabilities</b>       |      |  |   |   |  |
| <b>OPALS</b>                       | a    | FVPL<br>(designated)                       | FVPL<br>(designated)                    | 1,544,277   | 1,544,277  |
| <b>Trade and other payables</b>    |      | Financial liabilities at amortised cost    | Financial liabilities at amortised cost | 118   | 118  |
| <b>Debt and other borrowings</b>   |      | Financial liabilities at amortised cost    | Financial liabilities at amortised cost | 4   | 4  |
| <b>Total financial liabilities</b> |      |  |   | <u>1,544,399</u>                                      | <u>1,544,399</u>                                 |

The Company's accounting policies on the classification of financial instruments under IFRS 9 are set out in note 3. The application of these policies resulted in the reclassifications set out in the table above and explained below.

- a. ELOs were designated at FVPL under IAS 39. On transition to IFRS 9, ELOs are mandatorily at FVPL as they are held within a business model in which they are managed and their performance is evaluated on a fair value basis. OPALS continue to be designated at FVPL.

#### IFRS 9: Expected credit losses

The Company had no impairment provisions under IAS 39 at 31 December 2017 and has no ECL impairment allowance as at 1 January 2018 (see note 2 *New standards and interpretations adopted during the year*).

### 5. OTHER REVENUE

|                            | 2018<br>\$'000 | 2017<br>\$'000 |
|----------------------------|----------------|----------------|
| Net foreign exchange gains | <u>-</u>       | <u>4</u>       |

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

#### 6. INTEREST INCOME AND INTEREST EXPENSE

No other gains or losses have been recognised in respect of loans and receivables other than as disclosed as 'Interest income' and foreign exchange differences disclosed in 'Other income' (note 5), within the statement of comprehensive income.

No other gains or losses have been recognised in respect of financial liabilities at amortised cost other than as disclosed as 'Interest expense' and foreign exchange differences disclosed in 'Other income' (note 5), within the statement of comprehensive income.

All interest income and expense relates to financial assets and financial liabilities at amortised cost and is calculated using the EIR method (see accounting policy 3(c)(iii)).

#### 7. AUDIT FEES

Audit fees of \$56,000 (2017: \$60,000) have been borne by another Morgan Stanley Group undertaking in both the current and prior year.

#### 8. INCOME TAX

The Company has been granted exempt status in the Cayman Islands. A 20 year tax exemption certificate was issued in 2012.

#### 9. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY

The following table analyses financial assets and financial liabilities as at 31 December 2018 presented in the statement of financial position by IFRS 9 classifications.

| 31 December 2018            | FVPL<br>(mandatorily)<br>\$'000 | FVPL<br>(designated)<br>\$'000 | Amortised<br>cost<br>\$'000 | Total<br>\$'000  |
|-----------------------------|---------------------------------|--------------------------------|-----------------------------|------------------|
| Loans and advances          | -                               | -                              | 55                          | 55               |
| Trade and other receivables | 210,803                         | -                              | 68                          | 210,871          |
| ELOs                        | 2,246,090                       | -                              | -                           | 2,246,090        |
| Total financial assets      | <u>2,456,893</u>                | <u>-</u>                       | <u>123</u>                  | <u>2,457,016</u> |
| Trade and other payables    | 203,371                         | -                              | 117                         | 203,488          |
| Debt and other borrowings   | -                               | -                              | 5                           | 5                |
| OPALS                       | -                               | 2,253,522                      | -                           | 2,253,522        |
| Total financial liabilities | <u>203,371</u>                  | <u>2,253,522</u>               | <u>122</u>                  | <u>2,457,015</u> |

# MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

### 9. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY (CONTINUED)

The following table analyses financial assets and financial liabilities as at 31 December 2017 presented in the statement of financial position by IAS 39 classifications.

31 December 2017

|                             | FVPL<br>(designated)<br>\$'000 | Loans and<br>receivables<br>\$'000 | Financial<br>liabilities at<br>amortised<br>cost<br>\$'000 | Total<br>\$'000 |
|-----------------------------|--------------------------------|------------------------------------|--|-----------------|
| Loans and advances          | -                              | 62                                 | -  | 62              |
| Trade and other receivables | -                              | 61                                 | -  | 61              |
| ELOs                        | 1,544,277                      | -                                  | -  | 1,544,277       |
| Total financial assets      | 1,544,277                      | 123                                | -  | 1,544,400       |
| Trade and other payables    | -                              | -                                  | 118  | 118             |
| Debt and other borrowings   | -                              | -                                  | 4  | 4               |
| OPALS                       | 1,544,277                      | -                                  | -  | 1,544,277       |
| Total financial liabilities | 1,544,277                      | -                                  | 122  | 1,544,399       |

#### Financial assets and liabilities designated at FVPL

These financial assets and liabilities in the table above which are designated at FVPL consist primarily of the following financial assets and financial liabilities:

*OPALS* – These instruments are securities whose investment performance corresponds generally to that of a benchmark index by an indirect investment in a basket of shares. All dividends and certain other amounts associated with these baskets, net of certain expenses, are received by the Company to enable it to fulfil its obligations to holders of OPALS.

These instruments contain an embedded derivative which significantly modifies the cash flows of the issuance. The return on the instrument is linked to an underlying that is not clearly and closely related to the debt host including, but not limited to, equity, credit or commodity linked notes. Using the fair value option, the entire instrument is measured at fair value through profit or loss.

*ELOs* – The Company is a party to a Master Equity Linked Obligation Agreement and to a Master Equity Linked Counterparty Agreement with other Morgan Stanley Group undertakings. ELOs are purchased to hedge the issuance of OPALS and track the value of a basket of equities. These instruments contain an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract. Using the fair value option, the entire instrument is measured at fair value through profit or loss.

Until 31 December 2017, these financial assets and liabilities were designated at FVPL. From 1 January 2018 ELOs are classified as non-trading mandatorily at FVPL. OPALS continue to be designated at FVPL.

|       | 31 December 2018 |                       | 31 December 2017 |                       |
|-------|------------------|-----------------------|------------------|-----------------------|
|       | Assets<br>\$'000 | Liabilities<br>\$'000 | Assets<br>\$'000 | Liabilities<br>\$'000 |
| OPALS | -                | 2,253,522             | -                | 1,544,277             |
| ELOs  | 2,246,090        | -                     | 1,544,277        | -                     |
|       | 2,246,090        | 2,253,522             | 1,544,277        | 1,544,277             |

# MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

### 9. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY (CONTINUED)

There were no significant gains or losses attributable to changes in own credit risk for financial liabilities designated at fair value (2017: \$nil).

The Company determines the amount of changes in fair value attributable to changes in counterparty credit risk or own credit risk, as relating to financial assets, and financial liabilities designated at FVPL, 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 FVPL at 31 December 2018 and 31 December 2017 is considered to be a reasonable approximation of the contractual value at maturity.

### 10. LOANS AND ADVANCES

|                                      | 2018<br>\$'000 | 2017<br>\$'000 |
|--------------------------------------|----------------|----------------|
| Loans and advances at amortised cost | <u>55</u>      | <u>62</u>      |

### 11. TRADE AND OTHER RECEIVABLES

|  | 2018<br>\$'000   | 2017<br>\$'000   |
|--|------------------|------------------|
| <b>Trade and other receivables (amortised cost)</b>      |                  |                  |
| Trade receivables  | 210,803          | -                |
| Other receivables  |                  |                  |
| Amounts due from other Morgan Stanley Group undertakings | <u>68</u>        | <u>61</u>        |
| Total trade and other receivables (amortised cost)       | <u>210,871</u>   | <u>61</u>        |
| <b>Trade and other receivables (non-trading at FVPL)</b> |                  |                  |
| ELOs   | 2,246,090        | -                |
| <b>Financial assets designated at FVPL</b>               |                  |                  |
| ELOs   | -                | 1,544,277        |
| <b>Total</b>   | <u>2,456,961</u> | <u>1,544,338</u> |

In the prior year, the other receivables at amortised cost were in a classification called 'Loans and other receivables' under IAS 39.

# **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS** **Year ended 31 December 2018**

### **12. TRADE AND OTHER PAYABLES**

|  | <b>2018</b>             | <b>2017</b>             |
|--|-------------------------|-------------------------|
|  | <b>\$'000</b>           | <b>\$'000</b>           |
| <b>Trade and other payables (amortised cost)</b>         |                         |                         |
| Trade payables   | 203,371                 | -                       |
| Other payables   |                         |                         |
| Amounts due from other Morgan Stanley Group undertakings | 117                     | 118                     |
| Total trade and other payables (amortised cost)          | <u>203,488</u>          | <u>118</u>              |
| <b>Trade and other payables (designated at FVPL)</b>     |                         |                         |
| OPALS  | 2,253,522               | 1,544,277               |
| <b>Total</b>   | <u><u>2,457,010</u></u> | <u><u>1,544,395</u></u> |

### **13. DEBT AND OTHER BORROWINGS**

|  | <b>2018</b>   | <b>2017</b>   |
|--|---------------|---------------|
|  | <b>\$'000</b> | <b>\$'000</b> |
| <b>Debt and other borrowings (amortised cost)</b>      |               |               |
| Amounts due to other Morgan Stanley group undertakings | <u>5</u>      | <u>4</u>      |

### **14. EQUITY**

#### **Ordinary share capital**

|  | <b>Ordinary<br/>shares of \$1<br/>each<br/>Number</b> |
|--|---|
| <b>Authorised</b>  |   |
| At 1 January 2017, 31 December 2017 and 31 December 2018 | <u><u>500,000</u></u>                                 |

|  | <b>Ordinary shares<br/>of \$1 each<br/>Number</b> | <b>Ordinary<br/>shares of \$1<br/>each<br/>\$'000</b> |
|--|---|---|
| <b>Issued and fully paid</b>                             |   |   |
| At 1 January 2017, 31 December 2017 and 31 December 2018 | <u><u>1,000</u></u>                               | <u><u>1</u></u>                                       |

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

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

#### 15. 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 2018

|                             | Less than<br>or equal to<br>twelve<br>months<br>\$'000s | More than<br>twelve<br>months<br>\$'000s | Total<br>\$'000s |
|-----------------------------|---|--|------------------|
| <b>ASSETS</b>               |   |  |                  |
| Loans and advances          | -   | 55                                       | 55               |
| Trade and other receivables | 68  | 210,803                                  | 210,871          |
| ELOs                        | -   | 2,246,090                                | 2,246,090        |
|                             | 68  | 2,456,948                                | 2,457,016        |
| <b>LIABILITIES</b>          |   |  |                  |
| Trade and other payables    | 117   | 203,371                                  | 203,488          |
| OPALS                       | -   | 2,253,522                                | 2,253,522        |
| Debt and other borrowings   | -   | 5  | 5                |
|                             | 117   | 2,456,898                                | 2,457,015        |

At 31 December 2017

|                             | Less than<br>or equal to<br>twelve<br>months<br>\$'000s | More than<br>twelve<br>months<br>\$'000s | Total<br>\$'000s |
|-----------------------------|---|--|------------------|
| <b>ASSETS</b>               |   |  |                  |
| Loans and advances          | -   | 62                                       | 62               |
| Trade and other receivables | 61  | -  | 61               |
| ELOs                        | -   | 1,544,277                                | 1,544,277        |
|                             | 61  | 1,544,339                                | 1,544,400        |
| <b>LIABILITIES</b>          |   |  |                  |
| Trade and other payables    | 118   | -  | 118              |
| OPALS                       | -   | 1,544,277                                | 1,544,277        |
| Debt and other borrowings   | -   | 4  | 4                |
|                             | 118   | 1,544,281                                | 1,544,399        |

#### 16. SEGMENT REPORTING

Segment information is presented in respect of the Company's business and geographical segments. The business 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.

## **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS** **Year ended 31 December 2018**

#### **16. SEGMENT REPORTING (CONTINUED)**

##### **Business segments (continued)**

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

##### **Geographical segments**

The Company operates in one geographical market, Europe, Middle East and Africa.

#### **17. 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.

The principal activity of the Company is the issuance of OPALS and the hedging of the obligations arising pursuant to such issuances. It is the policy and objective of the Company not to be exposed to market risk. On issuance of each financial instrument, the Company enters into economics hedges of its obligations by purchasing financial instruments from another Morgan Stanley Group undertaking.

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 to institutions and sophisticated investors through its Institutional Securities business segments.

##### **Credit risk management**

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

The Company enters into all 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.



## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

#### 17. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### Exposure to credit risk

The maximum exposure to credit risk ("gross credit exposure") of the Company as at 31 December 2018 is disclosed below, based on the carrying amounts of the financial assets and the maximum amount that the Company could have to pay in relation to unrecognised financial instruments, which the Company believes are subject to credit risk. Within the table financial instruments subject to accounting ECL are distinguished from those that are not. Those financial instruments that bear credit risk but are not subject to ECL are subsequently measured at fair value. The Company has not entered into any credit enhancements to manage its exposure to credit risk.

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

##### *Exposure to credit risk by class*

| Class                                    | Gross credit exposure<br>(1) |                  |
|--|------------------------------|------------------|
|  | 2018<br>\$'000               | 2017<br>\$'000   |
| <b>Subject to ECL:</b>                   |                              |                  |
| Loans and advances                       | 55                           | 62               |
| Trade and other receivables:             |                              |                  |
| Trade receivables                        | 210,803                      | -                |
| Other receivables                        | 68                           | 61               |
| <b>Not subject to ECL<sup>(2)</sup>:</b> |                              |                  |
| ELO's                                    | 2,246,090                    | 1,544,277        |
|  | <u>2,457,016</u>             | <u>1,544,400</u> |

(1) The carrying amount recognised in the statement of financial position best represents the Company's maximum exposure to credit risk.

(2) Financial assets measured at FVPL are not subject to ECL.

##### Expected credit loss measurement

##### Assessment of significant increase in credit risk

As explained in note 3(f), in order to assess whether an instrument is subject to a 12 month ECL or to a lifetime ECL, and therefore its appropriate staging, the Company determines whether there has been a SICR for the instrument since initial recognition.

When making this assessment, the Company considers both quantitative and qualitative information and analysis based on the Company's historical experience and expert credit risk assessment, including forward-looking information.

## **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2018**

#### **17. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **Assessment of significant increase in credit risk (continued)**

The PD is derived from internal credit rating grades (based on available information about the borrower) and multiple forward-looking macroeconomic scenarios which are probability weighted. Credit risk is considered to have increased significantly if the PD has significantly increased at the reporting date relative to the PD of the facility, at the date of initial recognition. The assessment of whether a change in PD is “significant” is based both on a consideration of the relative change in PD and on qualitative indicators of the credit risk of the facility, which indicate whether a loan is performing or in difficulty. In addition, as a backstop, the Company considers that SICR has occurred in all cases when an asset is more than 30 DPD.

##### **Calculation of ECL**

ECL are calculated using three main components:

- PD: for accounting purposes, the 12 month and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and over the remaining lifetime of the financial instrument respectively, based on conditions existing at the balance sheet date and future economic conditions.
- LGD: the LGD represents expected loss conditional on default, taking into account the mitigating effect of collateral, including the expected value of the collateral when realised and the time value of money.
- EAD: this represents the expected EAD, taking into account the expected repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of the facility over that period.

These parameters are generally derived from internally developed statistical models, incorporating historical, current and forward-looking macro-economic data.

The 12 month ECL is equal to the sum over the next 12 months of quarterly PD multiplied by LGD and EAD, with such expected losses being discounted at the EIR. Lifetime ECL is calculated using the discounted present value of total quarterly PDs multiplied by LGD and EAD, over the full remaining life of the facility.

##### **Incorporation of forward looking information**

The Company uses internal macro-economic research and country risk expert judgement to support the calculation of ECL. The macro-economic scenarios are reviewed quarterly.

##### **Exposure to credit risk by internal rating grades**

Internal credit ratings are derived using methodologies generally consistent with those used by external agencies.

The following table provides an analysis of the credit risk exposure by ECL stage per class of recognised and unrecognised financial instruments subject to ECL, based on the following internal credit rating grades:

Investment grade: internal grades AAA - BBB

Non-investment grade: internal grades BB - CCC

Default: internal grades D

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2018

#### 17. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### Exposure to credit risk by internal rating grades (continued)

31 December 2018

|                            | Stage 1<br>12-month<br>ECL<br>\$'000 |
|----------------------------|--------------------------------------|
| <b>Loans and advances:</b> |                                      |
| Credit grade               |                                      |
| Investment grade           | <u>55</u>                            |
| <b>Trade receivables:</b>  |                                      |
| Credit grade               |                                      |
| Investment grade           | <u>210,803</u>                       |
| <b>Other receivables:</b>  |                                      |
| Credit grade               |                                      |
| Investment grade           | <u>68</u>                            |

At 31 December 2018, there were no financial assets past due but not impaired or individually impaired (2017: \$nil). Included in the trade receivables are pending trades for ELOs.

The credit rating for ELOs was A in both the current and prior year.

#### Liquidity risk

Liquidity risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity risk encompasses the Company's ability (or perceived ability) to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten the Company's viability as a going concern. Liquidity risk also encompasses the associated funding risks triggered by the market or idiosyncratic stress events that may cause unexpected changes in funding needs or an inability to raise new funding. Generally, the Company incurs liquidity 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, which oversees and monitors liquidity risk. The Liquidity Risk Department ensures transparency of material liquidity 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 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.

## **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2018**

#### **17. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **Liquidity risk (continued)**

The liquidity 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 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 risk across the Morgan Stanley Group.

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

The primary goal of the Company's liquidity risk and funding management framework is to ensure that the Company has access to adequate funding across a wide range of market conditions 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 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 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 establishes 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 Morgan Stanley Group and legal entity level.

##### *Liquidity Stress Tests*

The Morgan Stanley Group uses Liquidity Stress Tests to model external and intercompany 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.

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

#### 17. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### Liquidity risk (continued)

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, 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, ALCO 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 depending on market and firm-specific events. The Global Liquidity Reserve consists of cash and unencumbered securities sourced from trading assets, investment securities and securities received as collateral.

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

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

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

##### *Funding management*

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 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.

# MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

### 17. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Liquidity risk (continued)

##### 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. The liquid nature of the marketable securities and short-term receivables arising principally from sales and trading activities in the Institutional Securities business 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 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 2018 and 31 December 2017. Receipts of financial assets and repayments of financial liabilities that are subject to immediate notice are treated as if notice were given immediately and are classified as on demand. This presentation is considered by the Company to appropriately reflect the liquidity risk arising from these financial assets and financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial assets and financial liabilities is managed by the Company.

|                               | On demand<br>\$'000 | Equal to or<br>more than 1<br>year but less<br>than 5 years<br>\$'000 | Total<br>\$'000  |
|-------------------------------|---------------------|---|------------------|
| <b>31 December 2018</b>       |                     |   |                  |
| <b>Financial assets</b>       |                     |   |                  |
| Loans and advances            | -                   | 55  | 55               |
| Trade receivables             | 210,803             | -   | 210,803          |
| Other receivables             | 68                  | -   | 68               |
| ELOs                          | 2,246,090           | -   | 2,246,090        |
| <b>Total financial assets</b> | <u>2,456,961</u>    | <u>55</u>   | <u>2,457,016</u> |

|                                    | On demand<br>\$'000 | Equal to or<br>more than 1<br>year but less<br>than 5 years<br>\$'000 | Total<br>\$'000  |
|------------------------------------|---------------------|---|------------------|
| <b>31 December 2018</b>            |                     |   |                  |
| <b>Financial liabilities</b>       |                     |   |                  |
| Trade payables                     | 203,371             | -   | 203,371          |
| Other payables                     | 117                 | -   | 117              |
| OPALS                              | 2,253,522           | -   | 2,253,522        |
| Debt and other borrowings          | -                   | 5   | 5                |
| <b>Total financial liabilities</b> | <u>2,457,010</u>    | <u>5</u>  | <u>2,457,015</u> |

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

#### 17. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### Liquidity risk (continued)

| 31 December 2017                   | On demand<br>\$'000 | Equal to or<br>more than 1<br>year but less<br>than 5 years<br>\$'000 | Total<br>\$'000  |
|------------------------------------|---------------------|---|------------------|
| <b>Financial assets</b>            |                     |   |                  |
| Loans and advances                 | -                   | 62  | 62               |
| Trade receivables                  | -                   | -   | -                |
| Other receivables                  | 61                  | -   | 61               |
| ELOs                               | 1,544,277           | -   | 1,544,277        |
| <b>Total financial assets</b>      | <u>1,544,338</u>    | <u>62</u>   | <u>1,544,400</u> |
| <b>Financial liabilities</b>       |                     |   |                  |
| Trade payables                     | -                   | -   | -                |
| Other payables                     | 118                 | -   | 118              |
| OPALS                              | 1,544,277           | -   | 1,544,277        |
| Debt and other borrowings          | -                   | 4   | 4                |
| <b>Total financial liabilities</b> | <u>1,544,395</u>    | <u>4</u>  | <u>1,544,399</u> |

##### Market risk

Market risk is defined by IFRS 7 '*Financial instruments – Disclosures*' ("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.

The Company manages the market risk associated with its trading activities at both division and an individual product level, and includes consideration of market risk at the legal entity level.

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

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

The Company enters into all 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 OPALS expose the Company to the risk of changes in market prices of the underlying securities, interest rate risk and, where denominated in currencies other than US dollar, the risk of changes in rates of exchange between the US dollar and the other relevant currencies. The Company uses the risk mirroring contracts, in the form of ELOs, which it purchases from another Morgan Stanley Group undertaking, to match the price, interest rate and foreign currency risks associated with the issuance of the OPALS, consistent with the Company's risk management strategy. As such, the Company is not exposed to any market risk on these financial instruments.

# MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

### 18. 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.

| 2018   | Quoted<br>prices in<br>active<br>market<br>(Level 1)<br>\$'000 | Valuation<br>techniques<br>using<br>observable<br>inputs<br>(Level 2)<br>\$'000 | Valuation<br>techniques<br>with<br>significant<br>unobservable<br>inputs<br>(Level 3)<br>\$'000 | Total<br>\$'000  |
|--|--|---|---|------------------|
| Trade and other receivables:                         |  |   |   |                  |
| - ELOs   | -  | 2,246,090   | -   | 2,246,090        |
| <b>Total financial assets measured at fair value</b> | <b>-</b>   | <b>2,246,090</b>  | <b>-</b>  | <b>2,246,090</b> |

|   |          |                  |          |                  |
|---|----------|------------------|----------|------------------|
| Trade and other payables:                                 |          |                  |          |                  |
| - OPALS   | -        | 2,253,522        | -        | 2,253,522        |
| <b>Total financial liabilities measured at fair value</b> | <b>-</b> | <b>2,253,522</b> | <b>-</b> | <b>2,253,522</b> |

| 2017   | Quoted<br>prices in<br>active<br>market<br>(Level 1)<br>\$'000 | Valuation<br>techniques<br>using<br>observable<br>inputs<br>(Level 2)<br>\$'000 | Valuation<br>techniques<br>with<br>significant<br>unobservable<br>inputs<br>(Level 3)<br>\$'000 | Total<br>\$'000  |
|--|--|---|---|------------------|
| Trade and other receivables:                         |  |   |   |                  |
| - ELOs   | -  | 1,544,277   | -   | 1,544,277        |
| <b>Total financial assets measured at fair value</b> | <b>-</b>   | <b>1,544,277</b>  | <b>-</b>  | <b>1,544,277</b> |

|   |          |                  |          |                  |
|---|----------|------------------|----------|------------------|
| Trade and other payables:                                 |          |                  |          |                  |
| - OPALS   | -        | 1,544,277        | -        | 1,544,277        |
| <b>Total financial liabilities measured at fair value</b> | <b>-</b> | <b>1,544,277</b> | <b>-</b> | <b>1,544,277</b> |



## **MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2018**

#### **18. 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:

###### *OPALS*

The Company issues OPALS, which are securities whose investment performance corresponds generally to that of a benchmark index by an indirect investment in a basket of shares. The fair value of OPALS is determined using valuation models, incorporating observable inputs referencing identical or comparable securities to the underlying shares. The impact of own credit spreads is also considered and included as appropriate. OPALS are categorised in Level 2 of the fair value hierarchy.

###### *ELOs*

ELOs are purchased to hedge the issuance of OPALS as the investment performance of the ELOs corresponds generally to that of the same benchmark index by an indirect investment in a basket of shares, as that of the OPALS they were purchased to hedge. The fair value of the ELOs is determined using valuation models, incorporating observable inputs referencing identical or comparable securities to the underlying shares. The impact of own credit spreads is also considered and included as appropriate. ELOs are categorised in Level 2 of the fair value hierarchy.

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

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

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

There were no transfers between Level 2 and Level 3 of the fair value hierarchy during the current and prior year.

##### **d. 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 current or prior year.

#### **19. 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.

#### **20. 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.

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

#### 20. CAPITAL MANAGEMENT (CONTINUED)

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 common equity. The Morgan Stanley Group generally holds Parent common equity for prospective regulatory requirements, organic growth, acquisition and other capital needs.

The Required Capital Framework is expected to evolve over time in response to changes in the business and regulatory environment and for example to incorporate changes in 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. In the future, the Morgan Stanley Group 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:

|                        | 2018<br>\$'000 | 2017<br>\$'000 |
|------------------------|----------------|----------------|
| Ordinary share capital | <u>1</u>       | <u>1</u>       |

#### 21. RELATED PARTY DISCLOSURES

##### Parent and subsidiary relationships

###### *Parent and ultimate controlling entity*

The entire issued share capital of the Company is held under the terms of a trust established under Cayman Islands law with Vistra (Cayman) Limited. The shares were previously held with Deutsche Bank (Cayman) Limited and were transferred on 1 October 2018.

In the Directors opinion, for accounting purposes, 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. Copies of its financial statements can be obtained from [www.morganstanley.com/investorrelations](http://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 Morgan Stanley Capital (Cayman Islands) Limited.

## MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2018

#### 21. RELATED PARTY DISCLOSURES (CONTINUED)

##### Key management compensation (continued)

Key management personnel compensation in respect of their services rendered comprised the following:

|                              | 2018<br>\$'000 | 2017<br>\$'000 |
|------------------------------|----------------|----------------|
| Short-term employee benefits | 2              | 3              |

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

##### Transactions with related parties

The Morgan Stanley Group conducts business for clients globally through a combination of both functional and legal entity organisational structures. Accordingly, the Company is closely integrated with the operations of the Morgan Stanley Group and enters into transactions with other Morgan Stanley Group undertakings on an arm's length basis for the purposes of utilising financing, trading and risk management, and infrastructure services. The nature of these relationships along with information about the transactions and outstanding balances is given below. Settlement of the outstanding balances will be made via inter-company mechanisms. The Company has not recognised any expense and has made no provision for impairment relating to the amount of outstanding balances from related parties (2017: \$nil).

##### *Funding*

The Company receives funding from and provides funding to other Morgan Stanley Group undertakings in the following forms:

##### *General funding*

General funding is undated, unsecured, floating rate lending, other than certain funding which is dated on a rolling 395 day term. 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.

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

**MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**Year ended 31 December 2018**

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

**Transactions with related parties (continued)**

*General funding (continued)*

|  | <b>2018</b>                |                           | <b>2017</b>                |                           |
|--|----------------------------|---------------------------|----------------------------|---------------------------|
|  | <b>Interest<br/>\$'000</b> | <b>Balance<br/>\$'000</b> | <b>Interest<br/>\$'000</b> | <b>Balance<br/>\$'000</b> |
| Amounts due from the Company's direct and indirect parent undertakings | 4                          | -                         | -                          | -                         |
| Amounts due from other Morgan Stanley Group undertakings               | 2                          | 123                       | 78                         | 123                       |
|  | <u>6</u>                   | <u>123</u>                | <u>78</u>                  | <u>123</u>                |
| Amounts due to the Company's direct and indirect parent undertakings   | -                          | 47                        | 4                          | 50                        |
| Amounts due to other Morgan Stanley Group undertakings                 | 6                          | 75                        | 78                         | 72                        |
|  | <u>6</u>                   | <u>122</u>                | <u>82</u>                  | <u>122</u>                |

*Trading and risk management*

The Company issues OPALS and hedges the obligations arising from the issuance by entering into ELOs with another Morgan Stanley Group undertaking. All such transactions are entered into on an arm's length basis. These transactions may give rise to credit risk either for the Company, or to a related party towards the Company. The total amounts receivable and payable on OPALS and ELOs were as follows:

|  | <b>2018<br/>\$'000</b> | <b>2017<br/>\$'000</b> |
|--|------------------------|------------------------|
| Trade receivables  | 210,803                | -                      |
| Amounts due from other Morgan Stanley Group undertakings | <u>2,246,090</u>       | <u>1,544,277</u>       |
|  | <u>2,456,893</u>       | <u>1,544,277</u>       |

*Infrastructure services*

In the current and prior year, the Company uses infrastructure services, including the provision of office facilities, operated by other Morgan Stanley Group undertakings at no charge. In addition, as disclosed in note 6, the audit fees have been borne by another Morgan Stanley Group undertaking.

## APPENDIX B

### Appendix Relating to the Issuance of OPALS Basket OPALS

#### MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

*(Incorporated with limited liability in the Cayman Islands)*

#### UP TO U.S.\$50,000,000,000 OPTIMISED PORTFOLIOS AS LISTED SECURITIES ("OPALS<sup>®</sup>") PROGRAMME

*for the issue of OPALS due from one year  
after the date on which OPALS of the relevant Series are first issued to any date on or before 5 April  
2023*

*This Appendix is applicable only in relation to the issuance of any Series (referred to herein as a Series of "OPALS Basket OPALS" or "OB OPALS") of OPALS relating to a Basket of Shares (as defined below). Unless otherwise defined herein, terms defined in the Base Prospectus have the same meaning in this Appendix.*

*Under the Programme, the Issuer, subject to compliance with all relevant laws, regulations and directives, may from time to time issue a Series of OPALS denominated in U.S. dollars or in such other currencies and in such denominations as the Issuer may determine to institutional investors who are not U.S. persons. The Issuer seeks to provide holders of a Series of OPALS with investment results that correspond generally to those of a Benchmark Index identified in the Final Terms relating to that Series, generally by an indirect investment in a basket of securities. In the case of OB OPALS the basket of securities may comprise shares and/or OPALS (a "Basket of Shares").*

*The terms and conditions applicable to a Series of OB OPALS will be the "Terms and Conditions of OB OPALS" below. In the case of each Series of OB OPALS, the relevant Terms and Conditions are subject to the provisions of the Final Terms issued in relation to that Series.*

*Holders of a Series of OB OPALS holding the Minimum Redeemable Amount (as defined in the relevant Terms and Conditions) of such OB OPALS or an integral multiple thereof shall be entitled at their option to have such OB OPALS redeemed on specified dates during the term of such OB OPALS by calling for delivery of the Basket of Shares to which such OB OPALS relate. Holders of a Series of OB OPALS holding the Minimum Redeemable Amount of such OB OPALS or an integral multiple thereof shall be entitled to have such OB OPALS redeemed on the maturity date thereof by calling for delivery of the Basket of Shares to which such OB OPALS relate. Where the securities comprised in the Basket of Shares to which a Series of OB OPALS relates include OPALS and such OPALS are or have been redeemed on or prior to the redemption date in respect of such OB OPALS, the entitlement of the holder with respect to such OPALS on the redemption of such OB OPALS will be to call for delivery of the basket of securities delivered upon redemption of such OPALS (subject to adjustment in accordance with the relevant Terms and Conditions).*

*Holders of a Series of OB OPALS holding less than the Minimum Redeemable Amount of such OB OPALS shall be entitled, subject to certain conditions, to have such OB OPALS redeemed on the maturity date thereof by calling for delivery of a due proportion of the securities forming part of the Basket of Shares to which such Series of OB OPALS relates. Where such due proportion of securities comprises OPALS and such OPALS are or have been redeemed on or prior to the redemption date in respect of such OB OPALS the entitlement of the holder with respect to such OPALS on the redemption of such OB OPALS will be to call for delivery of the basket of securities (or proportion thereof) delivered upon redemption of such OPALS (subject to adjustment in accordance with the relevant Terms and Conditions) in each case as more particularly described under the relevant Terms and Conditions.*

*Holders of a Series of OB OPALS holding the Minimum Redeemable Amount of such OB OPALS or an integral multiple thereof shall also be entitled to have such OB OPALS redeemed at any time during the term of such OB OPALS by calling for delivery of the Basket of Shares to which such OB OPALS relate, **provided that** such holders may, at the option of the Issuer, be required to pay an administration charge and certain other charges and expenses, all as more particularly described under the relevant Terms and Conditions. Where so specified in the relevant Terms and Conditions, the Issuer may in certain*

*circumstances require redemption of a Series of OB OPALS prior to the maturity date thereof. In every case, redemption is subject to compliance with any procedures prescribed by the Issuer pursuant to, and subject in certain circumstances to postponement in accordance with, the relevant Terms and Conditions.*

*An investment in OB OPALS involves certain special considerations and risks. See "Risk Factors" as set out in the Base Prospectus.*

*The assets of the Issuer (consisting materially of obligations owed to it by one or more Counterparties) are the sole source of payments in respect of OB OPALS. OB OPALS are obligations of the Issuer and do not represent an interest in or an obligation of, and are not insured or guaranteed by, Morgan Stanley or any of its other affiliates. The Dealer intends to make a secondary market in each Series of OB OPALS but is under no legal obligation to do so or continue to do so.*

*Application may be made to admit a Series of OB OPALS on the Regulated Market of the Luxembourg Stock Exchange during the period of twelve months from the date of this document, such period ending on 17 July 2021; any such application to admit any such Series of OB OPALS to trading will be referred to in the Final Terms relating to such Series. The Issuer may from time to time agree with the Dealer (as defined in the relevant Terms and Conditions) to issue OB OPALS which are not intended to be admitted to listing on the Official List and traded on the Regulated Market of the Luxembourg Stock Exchange or any other stock exchange or to issue OB OPALS which are to be listed on such other stock exchange (as well as or instead of the Luxembourg Stock Exchange) in a member country of the European Union or elsewhere as the Issuer and the Dealer may agree.*

*OB OPALS have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or the securities laws of any State or other jurisdiction of the United States (as defined herein), nor has the Issuer registered under the United States Investment Company Act of 1940, as amended (the "**Investment Company Act**"). OB OPALS may not at any time be offered, sold, pledged, assigned, delivered or otherwise transferred or redeemed, directly or indirectly, within the United States or to, or for the account or benefit of, any U.S. Person (as defined herein). Any sale or transfer in violation of this restriction will be void and of no effect and will not be binding upon or be recognised by the Issuer and, under certain circumstances, may subject such OB OPALS to forfeiture. Upon redemption holders of OB OPALS will be required to make a certification in respect of non-U.S. beneficial ownership. For the purposes hereof, the term "**United States**" means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction and the term "**U.S. Person**" means a citizen or resident of the United States; (ii) a corporation, partnership or other entity created or organised under the laws of the United States or any political subdivision thereof; (iii) a trust or estate or other entity which then is treated or constructed to be a U.S. Person for the purposes of the Investment Company Act.*

*No invitation may be made to the public in the Cayman Islands to subscribe for OB OPALS.*

*Each Series will be represented by a global security (the "**Global Security**") which will be held by a common depositary (the "**Common Depositary**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**"). Definitive OB OPALS will not be issued. The purchase and transfer of OB OPALS may only be effected through an account at Euroclear or Clearstream, Luxembourg.*

**This Appendix does not constitute, and may not be used for the purpose of, an offer or solicitation by any person in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation, and no action is being taken to permit an offering of the OB OPALS or the distribution of this Appendix in any jurisdiction where such action is required.**

References in this Appendix to "**OPALS**" shall (except in the section headed "*Terms and Conditions of OPALS*") be deemed to include OB OPALS and references in the Base Prospectus to a "**Basket**" or "**Basket of Shares**" shall (except in the section headed "*Terms and Conditions of OPALS*") be deemed to include a "Basket of Shares" as defined herein (as to which see the relevant Terms and Conditions) in respect of OB OPALS.

## TERMS AND CONDITIONS OF OB OPALS

*These Terms and Conditions of OB OPALS apply to a Series of OB OPALS in respect of which the initial issue date is on or after 29 May 2001. The following statements are qualified by the provisions of the final terms (the "Final Terms") attached to the Global Security representing the relevant Series, details of the relevant Series being shown in the relevant Final Terms. In relation to any Series of OB OPALS the initial issue date of which precedes 20 June 2006, "Final Terms" means the Pricing Supplement relating to that Series.*

### 1. Definitions

In these Terms and Conditions the following expressions shall have the following meanings (unless the context requires otherwise):

|  |  |
|--|--|
| <b>"Administrator/Benchmark Event"</b> | means, in respect of any Series of OB OPALS, delivery of a notice by the Calculation Agent to the Issuer specifying that any authorisation, registration, recognition, endorsement, equivalence decision, approval or inclusion in any official register in respect of the Benchmark Index or the administrator or sponsor of the Benchmark Index has not been, or will not be, obtained or has been, or will be, rejected, refused, suspended or withdrawn by the relevant competent authority or other relevant official body, in each case with the effect that any of the Issuer or the Calculation Agent is not, or will not be, permitted under any applicable law or regulation to use the Benchmark Index to perform its of their respective obligations in respect of the Series of OB OPALS. |
| <b>"Basket of Shares"</b>              | means the basket of Securities to which a Series of OB OPALS relates;  |
| <b>"Bearer OB OPALS"</b>               | means a Series of OB OPALS issued in bearer form;  |
| <b>"Benchmark Index"</b>               | means, in respect of a Series of OB OPALS, the stock index specified in the Final Terms relating to that Series as the stock index by reference to which the composition of the relevant Basket of Shares has been determined;   |
| <b>"Business Day"</b>                  | means a day (other than a Saturday or Sunday) on which (i) banks are open for business in London and New York and, in respect of a Series of OB OPALS, in each city in which any Related Stock Exchange is situated, and (ii) Euroclear and Clearstream, Luxembourg are open for business;   |
| <b>"Clearing System Business Day"</b>  | means a day on which each clearing system for which the Registered OB OPALS is being held is open for business;  |
| <b>"EMU Event"</b>                     | means an event associated with economic and monetary union in the European Community including, without limitation, each (and any combination) of the following: <ul style="list-style-type: none"><li>(i) the introduction of, changeover to or operation of a single or unified European currency (whether known as the "euro" or otherwise);</li><li>(ii) the fixing of conversion rates between a member state's currency and the new currency or between currencies of member states;</li><li>(iii) the introduction of that new currency as lawful currency in a member state;</li></ul>   |

- (iv) the withdrawal from legal tender of any currency that, before the introduction of the new currency, was lawful currency in one of the member states; or
- (v) the disappearance or replacement of a relevant rate option or other price source for the ECU or the national currency of any member state, or the failure of the agreed sponsor (or a successor sponsor) to publish or display a relevant rate, index, price, page or screen;

**"Income Determination Date"** means, in respect of each Series of OB OPALS, the last day on which income on such OB OPALS shall accrue for the purpose of determining the amount of income to be paid to holders of such OB OPALS on the next succeeding Payment Date, each such day being specified in the Final Terms for that Series, **provided that**, if any such day is not a Business Day, the Income Determination Date in that case shall be the next following Business Day;

**"Payment Business Day"** means, in respect of a Series of OB OPALS, (1) in relation to any sum payable in a Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Currency (if other than the place of presentation, London and which if the Currency is Australian dollars or New Zealand dollars shall be Melbourne and Wellington, respectively) or (2) in relation to any sum payable in euro, any day on which TARGET2 is open for the settlement of payments in euro;

**"OPALS"** means OPALS issued upon and subject to the relevant Terms and Conditions set forth in the Base Prospectus issued in relation to the OPALS Programme of Morgan Stanley Capital (Cayman Islands) Limited (as the same may from time to time be amended or supplemented) as supplemented and modified by the terms and conditions contained in the respective Final Terms relating thereto;

**"Payment Date"** means, in respect of a Series of OB OPALS, each day specified as such in the Final Terms for that Series, **provided that**, if any such day is not a Payment Business Day, the Payment Date in that case shall be the next following Payment Business Day;

**"Record Date"** means, subject to Condition 3(10), in respect of any Bearer OB OPALS and any income payable on such Bearer OB OPALS, the close of business (in the relevant clearing system) on the Clearing System Business Day prior to the Payment Date, by reference to which the entitlement to that income is determined; and in respect of any Registered OB OPALS and any income payable on such Registered OB OPALS, the close of business (in the relevant clearing system) on the Clearing System Business Day prior to the Payment Date, by reference to which the entitlement to that income is determined (the person entitled being the person shown as the holder in the Register at the opening of business in the place of the Registrar's specified office on such day). Where payment in respect of Registered OB OPALS is to be made by cheque, the cheque will be mailed to the address shown as the address of the holder in the Register at the opening of business on the relevant Record Date;

**"Redemption Date"** means, in respect of any OB OPALS, a Business Day on which a Redemption Instruction in relation to such OB OPALS is received



by Euroclear or Clearstream, Luxembourg, as the case may be, **provided that** if such Redemption Instruction is received on a day which is not a Business Day or after 10.00 a.m. (Brussels or Luxembourg time) on any Business Day, the Redemption Date shall be the next following Business Day;

|                                  |  |
|----------------------------------|--|
| <b>"Redemption Instruction"</b>  | has the meaning specified in Condition 5(2);   |
| <b>"Redemption Period"</b>       | means, in respect of a Series of OB OPALS, each period of three Business Days specified in the Final Terms relating to that Series as the period during which a holder of a Minimum Redeemable Amount (as defined in Condition 5) or an integral multiple thereof of OB OPALS may, in accordance with Condition 5(5), require the OB OPALS held by him to be redeemed by calling for the Basket of Shares to which the OB OPALS held by him relate to be delivered in accordance with the delivery procedures set out in Conditions 5 and 6;   |
| <b>"Registered OB OPALS"</b>     | means a Series of OB OPALS issued in registered form;  |
| <b>"Relevant Stock Exchange"</b> | means, in respect of any Securities, the principal securities exchange or trading system on which such Shares are listed or traded;  |
| <b>"Security"</b>                | means, in relation to a Series of OB OPALS, Shares, securities and/or OPALS or any of them;  |
| <b>"Security Delivery Date"</b>  | means, in respect of any Series of OB OPALS, the day for delivery of Securities to the holder of such OB OPALS who has delivered a Redemption Instruction, being such day which is as soon as practicable, in the opinion of the Issuer, after the Redemption Date in respect of such OB OPALS;  |
| <b>"Security Record Date"</b>    | means, in respect of any Security and any dividend or other amount payable on or in respect of, or other right relating to, that Security, the date by reference to which the entitlement to that dividend or other amount or right or to participate in the event giving rise to such other amount or right is determined, the date on which a Security generally starts trading on the basis that excludes such dividend or other amount (i.e. on an "ex-dividend" basis) being such a date and, in the case of a Security which is an OPAL, an income determination date for such OPAL being such a date; |
| <b>"Series"</b>                  | means OB OPALS or any other OPALS, as the case may be, issued in the same currency, with the same maturity date and relating to a Basket of Shares comprised of the same number of Securities constituting a single series of OB OPALS or OPALS, as the case may be;   |
| <b>"Shares"</b>                  | means, in relation to a Series of OB OPALS, the shares comprised in the Basket of Shares, as the case may be, or any of them; and  |
| <b>"TARGET2"</b>                 | means the Trans European Automated Real time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007.  |

References in these Terms and Conditions of OB OPALS to any person shall include reference to its successors.

## 2. Issue and Form

- (1) OB OPALS will be issued pursuant to (i) the provisions of a programme agreement dated 7 April 1993 (as most recently amended and restated by an Amendment and Restatement Agreement dated 17 July 2020) between the Issuer and Morgan Stanley & Co. International plc ("**MSI plc**") as dealer (in such capacity, the "**Dealer**", which expression shall include any other entity appointed as a dealer pursuant to the terms of such Programme Agreement), as the same may from time to time be further amended, (such agreement as from time to time amended being the "**Programme Agreement**"), and (ii) the provisions of an agency agreement dated 7 April 1993 (as most recently amended and restated by an Amendment and Restatement Agreement dated 17 July 2020 between the Issuer, MSI plc as calculation agent (in such capacity, the "**Calculation Agent**", which expression shall include any other entity appointed as calculation agent pursuant to the terms of such Agency Agreement), Citibank, N.A., London Branch as principal paying agent (the "**Principal Paying Agent**" which expression shall include any other entity appointed as principal paying agent pursuant to the terms of such Agency Agreement) and Citibank Europe plc as additional paying agent (the "**Additional Paying Agent**", together with the Principal Paying Agent, the "**Paying Agents**", and each a "**Paying Agent**", which expression shall include any other entity appointed as a paying agent pursuant to the terms of such Agency Agreement), Citigroup Global Markets Europe AG as registrar (the "**Registrar**", which expression shall include any other entity appointed as a registrar pursuant to the terms of such Agency Agreement) and Citibank Europe plc as transfer agent (the "**Transfer Agent**", which expression shall include any other entity appointed as a transfer agent, as applicable pursuant to the terms of such Agency Agreement), as the same may from time to time be further amended (such agreement as from time to time amended being the "**Agency Agreement**"). The terms of each Series of OB OPALS in respect of which the initial issue date is on or after 29 May 2001 will be these Terms and Conditions of OB OPALS supplemented or modified as set forth in the Final Terms for that Series. Any minimum investment in OB OPALS forming part of a Series will be specified in the Final Terms relating to that Series.
- (2) Each OB OPALS in a Series will relate to a Basket of Shares selected to track the Benchmark Index for that Series. Unless otherwise provided in respect of a particular Series in the Final Terms for that Series, the Issuer will enter into arrangements with whichever of Morgan Stanley Capital (Luxembourg) S.A., MSI plc or another company within the Morgan Stanley group of companies as is identified in the Final Terms for the relevant Series (the "**Counterparty**" which expression shall, in relation to each Series, include such other of Morgan Stanley Capital (Luxembourg) S.A., MSI plc or any other Morgan Stanley group company as the Issuer may, pursuant to these Terms and Conditions of OB OPALS, appoint as counterparty in respect of such Series in place of or in addition to the company which was Counterparty immediately prior to such new appointment) pursuant to which the Issuer will pay to the Counterparty the net proceeds of issue of such OB OPALS. In the case of a Series in respect of which Morgan Stanley Capital (Luxembourg) S.A. is the Counterparty it will use such net proceeds to purchase the Basket of Shares to which such OB OPALS relate and in the case of a Series in respect of which MSI plc is the Counterparty it may use such net proceeds to purchase Securities comprised in the Basket of Shares to which such OB OPALS relate. Where all OB OPALS of a Series are issued on the initial issue date specified in the relevant Final Terms or on some other date selected by the Issuer but are not all sold by the Dealer at the time of issue, the net proceeds of issue of OB OPALS not sold by the Dealer at the time of their issue will be paid upon their sale by the Dealer and in the case of a Series of OB OPALS in respect of which Morgan Stanley Capital (Luxembourg) S.A. is the Counterparty, it will purchase the Basket of Shares to which such OB OPALS relate upon receipt of such net proceeds. In the case of a Series of OB OPALS in respect of which MSI plc is the Counterparty, it may purchase the Basket of Shares to which such OB OPALS relate upon receipt of such net proceeds, but will become subject to obligations to the Issuer with respect to the Basket of Shares under the Counterparty Agreement.
- (3) Each Series of OB OPALS will at all times be represented by a global security (the "**Global Security**") which may be for a Series of OB OPALS in bearer form (the "**Global Bearer Security**") or for a Series of OB OPALS in registered form (the "**Global Registered Security**") which will be held by a common depository (the "**Common Depository**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"). Bearer OB OPALS may only be issued if it has been determined that they are in registered form, or are not "registration required obligations", for U.S. federal income tax purposes. Interests in the Global

Security will be transferable in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg.

### ***Bearer OB OPALS***

Each person who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg, as being entitled to a particular number of Bearer OB OPALS, by way of an interest (to the extent of such number) in the Global Bearer Security (a "**holder**"), shall be treated by the Issuer and the Principal Paying Agent as the holder of such number of OB OPALS for all purposes.

### ***Registered OB OPALS***

- (a) The Registrar will maintain outside of the UK a register (the "**Register**") in respect of each Series of Registered OB OPALS in accordance with the provisions of the Agency Agreement. Title to Registered OB OPALS passes by registration in the Register in accordance with the provisions of the Agency Agreement. A certificate (each, a "**Registered OPALS Certificate**") will be issued to each holder in respect of its registered holding. Each Registered OB OPALS Certificate will be numbered serially with an identifying number which will be recorded in the Register.
- (b) A "**holder**" in the case of Registered OB OPALS means the person in whose name such Global Registered Security is for the time being registered in the Register (which, for so long as the Global Registered Security is held by or on behalf of a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or a nominee for that depositary or common depositary). The holder of any Registered OB OPALS shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or on the Registered OPALS Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the OB OPALS under the Contracts (Rights of Third Parties) Act 1999.
- (c) Subject to paragraphs (f) and (g) below, Registered OB OPALS may be transferred upon surrender of the relevant Registered OPALS Certificate, with the endorsed form of transfer duly completed, at the specified office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that** Registered OB OPALS may not be transferred unless the principal amount of the Registered OB OPALS transferred and (where not all of the Registered OB OPALS held by a holder are being transferred) the principal amount of the balance of Registered OB OPALS not transferred are Minimum Redeemable Amount. Where not all the Registered OB OPALS represented by the surrendered Registered OPALS Certificate are the subject of the transfer, a new Registered OPALS Certificate in respect of the balance of the Registered OB OPALS will be issued to the transferor.
- (d) Within five business days of the surrender of a Registered OPALS Certificate in accordance with paragraph (c) above, the Registrar will register the transfer in question and deliver a new Registered OPALS Certificate of a like principal amount to the Registered OB OPALS transferred to each relevant holder at its specified office or (as the case may be) the specified office of the Transfer Agent or (at the request and risk of any such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) such Transfer Agent has its specified office.
- (e) The transfer of Registered OB OPALS will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but against such indemnity as the

Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

- (f) Holders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of any amounts in respect of the Registered OB OPALS.

All transfers of Registered OB OPALS and entries on the Register are subject to the detailed regulations concerning the transfer of Registered OB OPALS scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any holder who requests in writing a copy of such regulations.

- (4) All transactions in (including transfers of) OB OPALS, in the open market or otherwise, must be effected through an account at Euroclear or Clearstream, Luxembourg. The OB OPALS in a Series may be issued on one issue date or on different issue dates. Where OB OPALS in a Series are issued on different issue dates, the Global Security representing the Series will be completed by or on behalf of the Issuer to show the number of OB OPALS issued and the Global Security will upon the issue of further OB OPALS of the Series be marked up by or on behalf of the Issuer to record such further issue. Without prejudice to Condition 12(6), the aggregate number of a Series of OB OPALS issued shall not exceed the maximum amount specified in the relevant Final Terms.

### 3. **Income on OPALS**

- (1) Unless otherwise provided in respect of a particular Series in the Final Terms for that Series, income on each Series of OB OPALS will be paid by the Issuer out of payments made by the Counterparty to the Issuer under the arrangements between the Issuer and the Counterparty. Such arrangements provide, in the case of a Series of OB OPALS in respect of which Morgan Stanley Capital (Luxembourg) S.A. is the Counterparty and in the case of a Series in respect of which MSI plc is the Counterparty and it holds, in relation to its obligations under the Counterparty Agreement, all of the Securities comprised in the Basket of Shares to which that Series of OB OPALS relates, that the payments to be made by the Counterparty to the Issuer in respect of such Series of OB OPALS shall not exceed the income received by the Counterparty in respect of the Basket of Shares to which that Series of OB OPALS relates after the deduction of all fees, taxes, charges, duties, costs and expenses which the Counterparty is entitled or required to deduct as referred below. In all cases, the payments made by the Counterparty shall be net of any taxes or administrative or other costs, plus, to the extent that the Counterparty holds, in relation to its obligations under the Counterparty Agreement, Shares comprised in the Basket of Shares to which that Series of OB OPALS relates, 50 per cent. of the Counterparty's net income from stocklending and other transactions related to such Shares.
- (2) Income on OB OPALS will be calculated by the Issuer on each Income Determination Date (subject to adjustment as referred to below), and notified by the Issuer to those holders who were holders of the relevant OB OPALS on the Record Date immediately succeeding the relevant Income Determination Date (unless such Income Determination Date is also a Record Date in which case on such Income Determination Date) and, in the case of a Series admitted to listing on the Official List and traded on the Regulated Market of the Luxembourg Stock Exchange and/or any other stock exchange, to the Luxembourg Stock Exchange and/or such other stock exchange, by reference to the dividends and other amounts payable on or in respect of the Securities which for the time being comprise the Basket of Shares to which the OB OPALS relate on or prior to the relevant Income Determination Date (to the extent not previously taken into account) and to the interest and other amounts received by the Counterparty or in respect of cash or any other amounts deriving from such Securities on or prior to the relevant Income Determination Date (to the extent not previously taken into account by the Issuer in calculating the income on the OB OPALS), in each case after deduction of all fees, taxes, charges, duties, costs and expenses which the Issuer or the Counterparty, as the case may be, or any custodian of the Counterparty is entitled or required to deduct as referred to below. For this purpose, dividends and other amounts shall be treated as being payable on or prior to the relevant Income Determination Date if the Share Record Date for the payment of such dividends and other amounts in respect of such Securities falls on or prior to the relevant Income Determination Date. Dividends and other amounts payable after the relevant

Income Determination Date shall fall to be taken into account on subsequent Income Determination Dates.

- (3) Amounts received by the Counterparty in respect of Securities will include: amounts received as a result of corporate actions in respect of such Securities including stock dividends, renounceable and non-renounceable rights, warrants, spin-off shares, tenders and offers, redemptions and where the Counterparty sells any shares, securities or rights received as a result of such corporate actions for cash, the cash so received; and fees in respect of stocklending and other transactions received by the Counterparty in respect of transactions involving Shares held by the Counterparty in connection with its obligations under the Counterparty Agreement the fees or other income in respect of which, net of expenses, will be apportioned equally between the Counterparty and the Issuer.
- (4) If the Issuer determines (in its sole discretion) that:
- (a) an amount that would otherwise fall to be taken into account in calculating the income on OB OPALS in relation to any dividend or other amount in respect of the relevant Securities is not capable of being determined with sufficient certainty as at the Income Determination Date; or
  - (b) there is a material risk, as at the Income Determination Date, that any such dividend or other amount may not be paid (or even if paid would not be received) on the scheduled or expected date for such receipt or before the next Payment Date (whether because of the length of the period between that Income Determination Date and the expected date of receipt, the creditworthiness of the person from whom the amount is to be received or any other reason whatsoever),

the Issuer may (but shall not be obliged to):

- (i) elect to exclude that amount in any calculation of income on the OB OPALS made before such time as that amount becomes capable of being so determined or is paid or received by the Counterparty; and/or
  - (ii) at any time thereafter, elect to make a payment of income on the relevant Series of OB OPALS by reference to such amount (after deducting any fees, taxes, charges, duties, costs or expenses incurred by the Issuer or the Counterparty to third parties not previously taken into account as the Issuer considers appropriate) where the date for making that payment is a date selected by it and where the date by reference to which the entitlement to that income is determined precedes the date on which the Issuer gives notice to the holders of the amount of the proposed payment.
- (5) The Issuer may (but shall not be obliged to) include in any payment of income on the OB OPALS any amount in respect of dividends or other amounts on or in respect of Securities to which the OB OPALS relate where the amount in question has not yet been paid (or even if paid has not, or would not have been, received) and in that event, the Issuer may reduce the amount of the payment of income to reflect its estimate of the costs and expenses that have been or will be incurred by it (or the Counterparty) in relation to the funding of the payment in respect of that amount (up to the date or dates on which it expects to receive that amount) and, when all or part of the amount in question is so paid to the Issuer or the Counterparty, it shall be treated as already having been taken into account in relation to the calculation of subsequent payments of income.
- (6) Income on the OB OPALS may be adjusted following notification thereof but prior to payment to holders in the absolute discretion of the Issuer to take account of (i) non-payments of dividends or other amounts on or in respect of Securities comprised in the Basket of Shares to which the OB OPALS relate or (ii) circumstances whereby dividends actually declared and paid or other amounts received on or in respect of the Securities are greater than or less than the amount taken into account in calculating the income on the relevant OB OPALS.
- (7) Income may also be reduced in connection with adjustments to the composition of a Basket of Shares. When the Issuer adjusts the Basket of Shares underlying any Series, as described below,

the Counterparty normally sells and buys Securities virtually simultaneously. To the extent the proceeds of the sales of Securities from a Basket of Shares are insufficient to pay for the Securities purchased, the shortfall will be reflected in a reduction of the income accrued in respect of the relevant Series. If such costs exceed income accrued on such Series the composition of the relevant Basket of Shares may be adjusted to reflect a sale of additional Securities sufficient to raise the required cash or the Issuer, or any affiliate of the Issuer, may also advance to the Counterparty the amount of the remaining shortfall, such advance together with borrowing costs shall be reflected in future income attributable to the relevant Basket of Shares.

- (8) The fees, taxes, charges, duties, costs and expenses which the Issuer is entitled or required to deduct from or take into account in determining the amounts payable as income on each Series of OB OPALS are those incurred by the Issuer or the Counterparty to third parties (including entities within the Morgan Stanley group of companies), as well as those charged by the Counterparty, including, without prejudice to the generality of the foregoing, execution fees for corporate actions, processing fees for tax reclaims, fees for income collection advice notices, costs of currency denomination conversion, shareholder administration fees and a proportion of any annual custody fees charged by any custodian of the Counterparty or custody services supplied by the Counterparty and those incurred in making adjustments pursuant to Condition 9 below.
- (9) In circumstances where income on the OB OPALS has (in accordance with this Condition 3) been adjusted following notification thereof but prior to payment to take account of non-payment or the fact that the amount actually declared and paid or received is greater or less than the amount originally taken into account in calculating the income on the OB OPALS or the fact that after such payment it transpires that the amount actually declared and paid or received is greater than the amount so taken into account, the Issuer may (but shall not be obliged to) elect to make a payment of income on the relevant Series in the same manner as is envisaged for payments of income pursuant to Condition 3(4)(ii) above, but by reference to the amount actually received (after deduction as aforesaid) referred to in this Condition 3(9).
- (10) If the Issuer elects to make a payment of income pursuant to Condition 3(4)(ii) or 3(9), it shall give notice to those holders who were the holders of the relevant Series of OB OPALS on the Record Date immediately succeeding the relevant Income Determination Date or the day itself if it is an Income Determination Date (and, if the relevant Series is then admitted to listing on the Official List and traded on the Regulated Market of the Luxembourg Stock Exchange and/or any other stock exchange, to the Luxembourg Stock Exchange and/or such other stock exchange) specifying the amount to be paid, the proposed date for payment and the date by reference to which the entitlement to that income is determined. Those dates shall be treated as if they were a "Payment Date" and the preceding "Record Date" in relation to that payment, respectively, for the purposes of the Terms and Conditions (and, for the purposes of Condition 3(14), the relevant income shall be treated as if it were determined on an Income Determination Date). Any amount taken into account for the purposes of such an additional payment shall not subsequently be taken into account by the Issuer in calculating income on the OB OPALS.
- (11) Income on the OB OPALS will be paid on the relevant Payment Date to each of Euroclear and Clearstream, Luxembourg with respect to that portion of the relevant Global Security held for its account. Each of Euroclear and Clearstream, Luxembourg will be requested in such circumstances to credit such income received by it to the accounts of, or designated by, the holders holding the OB OPALS on the relevant Record Date. All such payments will be made to Euroclear or Clearstream, Luxembourg in immediately available funds in the currency specified in the relevant Final Terms.
- (12) The Issuer reserves the right at any time to vary or terminate the appointment of the Calculation Agent, the Registrar, the Transfer Agent or any Paying Agent and to appoint additional or other Paying Agents in respect of the OB OPALS generally or any Series of OB OPALS in particular **provided that** the Issuer will at all times maintain (a) a Registrar so long as any Series of Registered OB OPALS is outstanding; and (b) a Paying Agent having a specified office in a city in Europe. Where the Issuer appoints additional or other Paying Agents in respect of a particular Series of OB OPALS, details of such additional or other Paying Agents shall be set out in the Final Terms for the OB OPALS.

- (13) Income payable on a Series of OB OPALS may be payable in a currency other than the currency in which amounts or by reference to which, the income is calculated or received. Subject to the next paragraph below, such amounts will be exchanged by or on behalf of the Counterparty for amounts in the currency in which the income is payable at a time or times determined by the Counterparty in its absolute discretion and any risks and costs arising from fluctuations in currency exchange rates (or in rates of exchange for a denomination of the currency) shall be passed through to the Issuer and shall be borne by the holders of the relevant OB OPALS.
- (14) If the Issuer, acting reasonably, determines that due to the imposition of any exchange or other controls by a governmental, regulatory or monetary authority, the Issuer is unable to receive from the Counterparty or pay to the holders of OB OPALS some or all of the income determined on an Income Determination Date, the Issuer's obligation to make payment to the holders of OB OPALS will be deferred until such time as the Issuer is reasonably able to perform such obligations. The Issuer will give notice to those holders who are the holders of the OB OPALS on the relevant Record Date and, so long as a Series of OB OPALS is admitted to listing on the Official List and traded on the Regulated Market of the Luxembourg Stock Exchange, to the Luxembourg Stock Exchange of the event causing the deferment of the payment to the holders of OB OPALS, and, when known, the date when the obligation to make payment will be satisfied.
- (15) If the Issuer, acting reasonably, determines that due to the imposition of any restrictions, suspension or other controls by or affecting any payment system, the Issuer is unable to receive from the Counterparty or pay to the holders of OB OPALS some or all of the income determined on an Income Determination Date, the Issuer's obligation to make payment to the holders of OB OPALS will be deferred until such time as the Issuer is reasonably able to perform such obligations. The Issuer will give notice to those holders who are holders of such OB OPALS on the relevant Record Date and, so long as a Series of OB OPALS is admitted to listing on the Official List and traded on the Regulated Market of the Luxembourg Stock Exchange, to the Luxembourg Stock Exchange of the event causing the deferment of the payment to the holders of OB OPALS and, when known, the date when the obligation to make payment will be satisfied.
- (16) In this Condition 3, in the case of Series of OB OPALS in respect of which MSI plc is the Counterparty, but in respect of which MSI plc does not, in connection with its obligations under the Counterparty Agreement, hold all of the Securities comprised in the Basket of Shares to which such Series of OB OPALS relates, references to the Counterparty paying (or receiving) income and the amount thereof and deducting costs (of whatever nature) and the amount thereof in relation to the Basket of Shares to which such Series relates shall be construed as references to (and to the amount of) the income that the Counterparty could reasonably have been expected to have paid (or received) and the costs (of whatever nature) that the Counterparty could reasonably have been expected to incur or charge in respect of the Basket of Shares to which such Series relates had it held all of the Securities comprised in that Basket of Shares.

#### 4. **Maturity**

Unless previously redeemed or purchased and cancelled, each Series of OB OPALS will mature on the date (the "**Maturity Date**") shown in the relevant Final Terms which shall not be before one year after the date on which OB OPALS of the relevant Series are first issued nor later than 5 April 2023. Notwithstanding the foregoing, the Issuer may, without the consent of holders, elect to postpone the Maturity Date of a Series of OB OPALS **provided that** the new Maturity Date is not later than 5 April 2023 and holders of OB OPALS of such Series remain entitled, in accordance with the provisions in Conditions 5 and 6, to require redemption of the OB OPALS of that Series held by them during a Redemption Period.

**Holders will not be entitled to have their OB OPALS redeemed for cash.**

#### 5. **Delivery of Securities**

- (1) The Final Terms relating to a Series of OB OPALS may specify a minimum number (the "**Minimum Redeemable Amount**") of such OB OPALS to be held by a holder in order to be entitled to require redemption during a Redemption Period of the OB OPALS held by him by calling for delivery of the Securities comprised in the Basket of Shares to which such Series of OB OPALS relates in accordance with the provisions summarised below.

- (2) *Delivery upon Maturity.* Each holder holding the Minimum Redeemable Amount of OB OPALS (or an integral multiple thereof) which have not been previously redeemed pursuant to the provisions of this Condition 5 shall deliver an instruction (a "**Redemption Instruction**") not later than 10 a.m. (Brussels or Luxembourg time, as the case may be) on or before the Maturity Date for the relevant OB OPALS to Euroclear or Clearstream, Luxembourg (as the case may be and in accordance with the rules and procedures of the relevant one of Euroclear or Clearstream, Luxembourg) for surrender to the Principal Paying Agent (in the case of Bearer OB OPALS) or to the Registrar (in the case of Registered OB OPALS), requiring the OB OPALS held by him to be redeemed by the Issuer by delivering or transferring or procuring that there is delivered or transferred into the holder's name or to the holder's order the Basket of Shares to which the OB OPALS held by the holder relate, together with the entitlement to receive the income payable on such OB OPALS as notified by the Issuer on the Maturity Date in accordance with Condition 3 above (subject to adjustment as set out in Condition 3 above), after deduction of all fees, taxes, charges, duties and expenses which the Issuer is entitled or required to deduct or take into account as referred to above. Where the Securities comprised in the Basket of Shares to which a Series of OB OPALS relates include OPALS and such OPALS are or have been redeemed on or prior to the redemption date in respect of such OB OPALS, the entitlement of the holder with respect to such OPALS on the redemption of such OB OPALS will be to call for delivery of the basket of securities delivered upon redemption of such OPALS (subject to adjustment in accordance with Condition 9). Prior to such delivery or transfer the holder shall pay to the Issuer, or to the Issuer's account at Euroclear or Clearstream, Luxembourg, such amount as shall be advised to the holder by the Issuer as is required to satisfy all relevant delivery or transfer taxes, duties, costs and charges. The holder shall specify in the Redemption Instruction all relevant instructions for delivery of the Securities.
- (3) A holder holding less than the Minimum Redeemable Amount of the relevant Series of OB OPALS shall deliver a Redemption Instruction not later than 10 a.m. (Brussels or Luxembourg time, as the case may be) on or before the Maturity Date for the relevant OB OPALS to Euroclear or Clearstream, Luxembourg, as the case may be, in accordance with the rules and procedures of the relevant one of Euroclear or Clearstream, Luxembourg for surrender to the Principal Paying Agent (in the case of Bearer OB OPALS) or to the Registrar (in the case of Registered OB OPALS), requiring such OB OPALS held by him to be redeemed by the Issuer. The Issuer's obligation to redeem such OB OPALS shall be limited to delivering or transferring or procuring that there is delivered or transferred into the holder's name or to the holder's order such part of the Basket of Shares to which the OB OPALS held by the holder relate as is referred to below, together with the entitlement to receive the income payable on such OB OPALS as notified by the Issuer on the Maturity Date in accordance with Condition 3 above, after deduction of all fees, taxes, charges, duties and expenses which the Issuer is entitled or required to deduct or take into account as referred to above. The part of the Basket of Shares to be delivered to such holder on redemption of such OB OPALS is such proportion of the Securities which are included in such Basket of Shares as most closely approximates the proportion the number of such OB OPALS bears to the Minimum Redeemable Amount for the Series of which those OB OPALS form part, **provided that** if such apportionment of the Securities results in a fraction of a Security becoming deliverable to such holder or in Securities becoming deliverable to such holder in numbers which are not deliverable in accordance with the rules of the stock exchange or other trading market (if any) on which such Securities are principally traded (an "**Undeliverable Security Quantity**"), additional Securities may be delivered to the holder so as to make the Undeliverable Security Quantity into a deliverable quantity, against payment of an amount (determined by the Issuer by reference to the market price of such additional Shares) (the "**Additional Amount**") by such holder in respect of such additional Securities to be delivered or transferred to such holder. Where such due proportion of Securities comprises OPALS and such OPALS are or have been redeemed on or prior to the redemption date in respect of such OB OPALS the entitlement of the holder with respect to such OPALS on the redemption of such OB OPALS will be to call for delivery of the basket of securities (or proportion thereof) delivered upon redemption of such OPALS (subject to adjustment in accordance with Condition 9). Prior to such delivery or transfer the holder shall pay to the Issuer, or to the Issuer's account at Euroclear or Clearstream, Luxembourg, such amount as shall be advised to the holder by the Issuer as is required to pay the Additional Amount and to satisfy all relevant delivery or transfer taxes, duties, costs and charges. The holder shall specify in the Redemption Instruction all relevant instructions for delivery of the Securities.



**As a result of the above provisions, a holder of less than the Minimum Redeemable Amount of OB OPALS may, in order to receive delivery of Securities on maturity of his OB OPALS, be required to make substantial additional payments to the Issuer.**

- (4) If a holder fails to deliver a Redemption Instruction by 10 a.m. (Brussels or Luxembourg time, as applicable) on or before the Maturity Date, but does so on a Business Day which is within thirty days of the Maturity Date, the Issuer may accept such a Redemption Instruction, but the Issuer shall not do so in any other circumstances.
- (5) *Non-Cash Redemption during Redemption Periods.* A holder holding the Minimum Redeemable Amount of OB OPALS (or an integral multiple thereof) shall be entitled, on service of a Redemption Instruction on any day during a Redemption Period (but in any event not later than 10 a.m. (Brussels or Luxembourg time, as the case may be) on the last day of the Redemption Period) for the relevant OB OPALS on Euroclear or Clearstream, Luxembourg, as the case may be, in accordance with the rules and procedures of the relevant one of Euroclear or Clearstream, Luxembourg, for surrender to the Principal Paying Agent (in the case of Bearer OB OPALS) and to the Registrar (in the case of Registered OB OPALS), to require the OB OPALS held by him to be redeemed by the Issuer in whole or in part (**provided that**, in the case of redemption in part, the OB OPALS to be redeemed equal the Minimum Redeemable Amount or an integral multiple thereof) by delivering or transferring or procuring that there is delivered or transferred into the holder's name or to the holder's order the Basket of Shares to which the OB OPALS to be redeemed relate together with the entitlement to receive the income payable on such OB OPALS as notified by the Issuer on the relevant Record Date in accordance with Condition 3 above (subject to adjustment as set out in Condition 3 above), after deduction of all fees, taxes, charges, duties and expenses relating to the delivery of the Basket of Shares to which the OB OPALS relate which the Issuer is entitled or required to deduct or take into account as referred to above. Prior to such delivery or transfer the holder shall pay to the Issuer, or to the Issuer's account at Euroclear or Clearstream, Luxembourg, such amount as shall be advised to the holder by the Issuer as is required to satisfy all relevant delivery or transfer taxes, duties, costs and charges. The holder shall specify in the Redemption Instruction all relevant instructions for delivery of the Basket of Shares to which the OB OPALS relate.
- (6) *Non-Cash Redemption at Any Time.* A holder holding the Minimum Redeemable Amount of OB OPALS (or an integral multiple thereof) shall be entitled, on service of a Redemption Instruction on any day during the term of the relevant OB OPALS (which is not a day during a Redemption Period) on Euroclear or Clearstream, Luxembourg, as the case may be, in accordance with the rules and procedures of the relevant one of Euroclear or Clearstream, Luxembourg, for surrender to the Principal Paying Agent (in the case of Bearer OB OPALS) and to the Registrar (in the case of Registered OB OPALS), to require the OB OPALS held by him to be redeemed by the Issuer in whole or in part (**provided that**, in the case of redemption in part, the OB OPALS to be redeemed equal the Minimum Redeemable Amount or an integral multiple thereof) by delivering or transferring or procuring that there is delivered or transferred into the holder's name or to the holder's order the Basket of Shares to which the OB OPALS to be redeemed relate; **provided, that** the holder may, at the option of the Issuer, be required to pay to the Issuer an administration charge (the "**Administration Charge**") of 0.50 per cent. calculated on the market value of the OB OPALS to be redeemed together with all fees, charges and expenses incurred by the Issuer or the Counterparty, as the case may be, or any custodian of the Issuer or the Counterparty, in relation to the delivery of the Basket of Shares to which the OB OPALS relate. Prior to such delivery or transfer the holder shall pay to the Issuer, or to the Issuer's account at Euroclear or Clearstream, Luxembourg, such amount as shall be advised to the holder by the Issuer as is required to satisfy the Administration Charge (if any) and all relevant delivery or transfer taxes, duties, costs and charges. The holder shall specify in the Redemption Instruction all relevant instructions for delivery of the Basket of Shares to which the OB OPALS relate.
- (7) *Non-cash Redemption at the option of the Issuer.* If in relation to a Series of OB OPALS at any time the Issuer in its absolute discretion determines that:
  - (a) the then current market value of the outstanding amount of such Series is less than U.S.\$2,000,000;
  - (b) the then outstanding number of OB OPALS in such Series is less than 20,000; or

- (c) there has been or may be any change in law, regulation, accounting or tax which, in the opinion of the Issuer, adversely affects, or may adversely affect, the Issuer's or the Counterparty's respective interests in respect of such Series,

the Issuer may, in its absolute discretion, redeem all or any of the OB OPALS in such Series by delivering or transferring or procuring that there is delivered or transferred into the holder's name or to the holder's order the Basket of Shares to which such OB OPALS relate, together with the entitlement to receive the income payable on such OB OPALS as notified by the Issuer on the relevant Record Date in accordance with Condition 3 above (subject to adjustment as set out in Condition 3 above), after deduction of all fees, taxes, charges, duties and expenses relating to the delivery of such OPALS as the Issuer is entitled or required to deduct or take into account as referred to above. Prior to such delivery or transfer, the holder shall pay to the Issuer, or to the Issuer's account at Euroclear or Clearstream, Luxembourg, such amount as shall be advised to the holder by the Issuer as is required to satisfy all relevant delivery or transfer taxes, duties, costs and charges. Notice of redemption pursuant to this Condition 5(7) will be given to the holders of the relevant Series of OB OPALS in accordance with Condition 11.

- (8) If, for any reason, upon redemption pursuant to Condition 5(7) above, the number of Securities which a holder is entitled to receive is an Undeliverable Security Quantity, additional Securities may be delivered to the holder so as to make the Undeliverable Security Quantity into a deliverable quantity against payment of an Additional Amount by such holder in respect of such additional Securities to be delivered or transferred to such holder. Prior to such delivery or transfer the holder shall pay to the Issuer, or to the Issuer's account at Euroclear or Clearstream, Luxembourg, such amount as shall be advised to the holder by the Issuer as is required to pay the Additional Amount and to satisfy all relevant delivery or transfer taxes, duties, costs and charges.
- (9) In every case, redemption is subject to compliance with the procedures specified in Condition 6 below and the provisions of Condition 8, Market Disruption Events, below.

#### **6. Redemption Procedure**

- (1) Any Redemption Instruction delivered pursuant to Condition 5 above is to be served in a form (for the time being approved by the Issuer) available from Euroclear or Clearstream, Luxembourg, as the case may be, or, in case of Bearer OB OPALS, the Principal Paying Agent or, in the case of Registered OB OPALS, the Registrar:-
  - (i) specifying the number and Series of OB OPALS the subject of the Redemption Instruction;
  - (ii) specifying the number of the account designated by the holder at Euroclear or Clearstream, Luxembourg, as the case may be;
  - (iii) including an undertaking to pay any Administration Charge or Additional Amount (if applicable) and any applicable fees, stamp duty, stamp duty reserve tax and transfer taxes or duties and any other taxes, duties, costs and charges wheresoever levied or withholdings due by reason of the redemption of the OB OPALS by, or the delivery or transfer of Securities comprised in the Basket of Shares to which such OB OPALS relate to, or to the order of, such holder or the Issuer and irrevocably instructing Euroclear or Clearstream, Luxembourg, if so directed by the Issuer, to debit on or after the next Business Day after the Redemption Date a specified account of, or designated by, the holder with the amount of such Administration Charge or Additional Amount (if applicable) and any such taxes, duties, costs and charges;
  - (iv) specifying the settlement details for the Securities comprised in the Basket of Shares to which the OB OPALS relate and giving the name and address of a person to whom such securities or documents of transfer relating thereto should be delivered;
  - (v) containing a certification as to non-U.S. beneficial ownership; and
  - (vi) in the case of Registered OPALS, attaching the relevant Registered OPALS Certificates.

- (2) Upon receipt of a Redemption Instruction, Euroclear or Clearstream, Luxembourg, as the case may be, shall verify that the person delivering the Redemption Instruction in respect of the OB OPALS specified therein is the holder, or the designee of the holder, thereof according to the books of Euroclear or Clearstream, Luxembourg, as the case may be. Subject thereto, Euroclear or Clearstream, Luxembourg, as the case may be, will, in the case of Bearer OB OPALS, notify to the Issuer and to the Principal Paying Agent (or the Principal Paying Agent on the Issuer's behalf) and, in the case of Registered OB OPALS, notify to the Issuer and to the Registrar (or the Registrar on the Issuer's behalf) the number of OB OPALS being redeemed and the instructions contained in the Redemption Instruction and will debit the account of, or designated by, the relevant holder with the OB OPALS being redeemed and any of the fees, costs and expenses which the holder is obligated to pay to the Issuer, normally within four Business Days of receipt of the Redemption Instruction.
- (3) Upon receipt of a Redemption Instruction pursuant to Condition 5(5) or 5(6), the Principal Paying Agent and the Issuer will cause the redemption, in the case of Bearer OB OPALS, of those Bearer OB OPALS to which the Redemption Instruction relates to be noted on the Schedule to the Global Bearer Security, and the Registrar and the Issuer will cause the redemption, in case of Registered OB OPALS, of the Registered OB OPALS to which the Redemption Instruction relates to be noted on the Register and, in the case of partial payment upon presentation of a Registered OPALS Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Registered OPALS Certificate and the number of OB OPALS so redeemed shall be cancelled *pro tanto*.
- (4) If the settlement details provided in the Redemption Instruction by a holder redeeming any OB OPALS (whether on maturity or otherwise) do not enable the Issuer to deliver or transfer any of Securities comprised in the Basket of Shares to which the relevant OB OPALS relate to that holder, or a person acting for its account, in the principal domestic clearance system customarily used for settling trades in the relevant securities (or, if the Issuer so notifies the holder submitting the Redemption Instruction, in Euroclear or Clearstream, Luxembourg), the Issuer may by notice to the holder postpone the Delivery Date in respect of the relevant securities until a date after it has received settlement details which enable it to do so.
- (5) The Issuer shall, as provided below, on the relevant Security Delivery Date transfer or procure the transfer of the relevant Securities to the person specified in the relevant Redemption Instruction.
- (6) All Securities delivered upon redemption of OB OPALS shall be fully-paid and non-assessable and shall entitle the holders thereof to participate in full in all dividends and other distributions paid or made on the Securities the Security Record Date for which (and if there is more than one such date relating to the same dividend or other distribution, the first in time) falls after the relevant Security Delivery Date.
- (7) Any determination as to whether a Redemption Instruction is duly completed and in proper form shall be made by Euroclear or Clearstream, Luxembourg, as the case may be, and shall be conclusive and binding on the relevant holder. Any Redemption Instruction so determined to be incomplete or not in proper form shall be null and void. If any such Redemption Instruction is subsequently corrected to the satisfaction of Euroclear or Clearstream, Luxembourg, as the case may be, it shall be deemed to be a new Redemption Instruction submitted at the time such corrected Redemption Instruction is delivered to Euroclear or Clearstream, Luxembourg, as the case may be. Euroclear or Clearstream, Luxembourg, as the case may be, shall use all reasonable efforts promptly to notify the holder submitting a Redemption Instruction if it has determined that such Redemption Instruction is invalid or incomplete.
- (8) Delivery of a Redemption Instruction shall constitute an irrevocable election, instruction and undertaking by the relevant holder to redeem the OB OPALS specified in the manner stated in the Redemption Instruction. After the delivery of such Redemption Instruction, such redeeming holder may not otherwise transfer such OB OPALS.
- (9) If the Issuer, the Counterparty or any custodian of the Issuer or the Counterparty is liable for or otherwise obliged to pay any Additional Amount, tax, duty, withholding or other payments which may arise as a result of the ownership, transfer or redemption of any OB OPALS, or Securities comprised in the Basket of Shares to which such OB OPALS relate (other than any tax on net

income), the Issuer shall have the right, but not the duty, to withhold from any amounts otherwise payable to a holder such amount as is necessary for the payment of any such Additional Amounts, taxes, duties, costs, charges or other payments, and any Administration Charge. Where the Issuer has the right to withhold an amount under this Condition 6(9), it shall also have the right, but not the duty, to adjust the composition of the Basket of Shares to which the relevant Series of OB OPALS relates by reducing such basket by a number of Securities (selected in its discretion) that it considers will generate net proceeds, when sold, to cover that amount or, in the case of amounts related to the redemption of any OB OPALS, to reduce the number of Securities to be delivered or transferred by it on such redemption by such a number.

- (10) Where the Issuer determines that it is not reasonably practicable to deliver or transfer any of the Securities comprising a Basket of Shares in the manner contemplated in this Condition 6 in compliance with, or as a result of the application of, any applicable law, regulation, rule or practice (whether or not in existence at the time of issue of a particular Series and whether by reason of the holder not satisfying, or not being able to satisfy, any conditions or requirements of any such law, regulation, rule or practice or for any other reason), the Issuer may postpone the Security Delivery Date in respect of those Securities until such time as it determines that it is reasonably practicable so to deliver or transfer the relevant Securities. Where the Issuer determines that it is not so reasonably practicable, it may by notice to the holder specify steps (including, without limitation, the execution of transactions on a stock exchange or other trading system and any related action the Issuer may consider necessary or desirable) to be taken by the holder (and steps that the Issuer will take) in order to effect such delivery or transfer with a view to putting the holder in a position that is as nearly as practicable the same as the holder would have been in had it been reasonably practicable to effect such delivery or transfer, and the taking by the Issuer of the steps so specified as to be taken by the Issuer shall discharge the Issuer's obligation to deliver or transfer the relevant Securities to the holder.

## 7. **Taxation**

Each payment of income in respect of OB OPALS by the Issuer will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer is required by applicable law or agreement with a taxing authority to make any payment of income subject to any withholding or deduction for, or on account of, any such taxes, duties or charges. In that event, the Issuer shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted.

Each payment to the Issuer by the Counterparty under the arrangements between the Issuer and the Counterparty will be made without withholding or deduction for, or on account of, any tax present or future taxes, duties or charges of whatsoever nature unless the Counterparty is required by applicable law or agreement with a taxing authority to make any payment thereunder subject to any withholding or deduction for, or on account of, any such taxes, duties or charges. In that event, the Counterparty shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted.

**Neither the Issuer nor the Counterparty will be obliged to make any additional payments to holders or the Issuer, as the case may be, in respect of any such withholding or deduction.**

If (i) the Issuer at any time would be required to make (or to increase the amount of) any withholding or deduction from, or would be obliged to account (or to account for an increased amount) in respect of, any payment of income in respect of any OB OPALS for or on account of any present or future tax, duty or charge of whatsoever nature incurred or levied by or on behalf of the Cayman Islands, any jurisdiction in which the Issuer is treated as resident for taxation purposes by that jurisdiction or any jurisdiction through which payments are made, Securities are delivered (or, in each case, any political sub-division thereof or therein or any authority thereof or therein) or (ii) the Counterparty would be required to make (or to increase the amount of) any withholding or deduction from, or would be obliged to account (or to account for an increased amount) in respect of, any payment under the arrangements between the Issuer and the Counterparty for or on account of any present or future tax, duty or charge of whatsoever nature incurred or levied by or on behalf of the jurisdiction in which the Counterparty is incorporated, any jurisdiction in which

the Counterparty is treated as resident for taxation purposes by that jurisdiction or any jurisdiction through which payments are made, Securities are delivered (or, in each case, any political sub-division thereof or therein or any authority thereof or therein), then the Issuer may, having given not more than 60 nor less than 30 days' notice to the holders in accordance with Condition 11 below, redeem such OB OPALS by delivering to the holders of the relevant OB OPALS, at the option of the Issuer, the Securities comprised in the Basket of Shares to which such OB OPALS relate, in each case subject to and in accordance with Condition 5 above.

8. **Market Disruption Events**

(1)

- (a) Except where the Issuer determines in its absolute discretion, that a Market Disruption Event (as hereinafter defined) is unlikely to have a material adverse effect on its ability to perform its obligations in respect of the OB OPALS or that such Market Disruption Event is likely to cease to be continuing within 30 days of the first occurrence of such Market Disruption Event, or the Issuer determines to effect an adjustment to the composition of the relevant Basket of Shares pursuant to Condition 9(1)(h), in all of which cases no notice need be given, upon the occurrence of a Market Disruption Event, the Issuer shall use its best efforts (i) to give notice in accordance with Condition 11 below that a Market Disruption Event has occurred and (ii) within seven days of the date of such notice, to give notice in accordance with Condition 11 below of the action which the holder shall take in connection with the Market Disruption Event. Where a Market Disruption Event has occurred and while that Market Disruption Event is continuing but the Issuer has not given notice thereof, the Issuer may (at its discretion) subsequently give such notice at any time. If, prior to the giving of any such notice in respect of a Market Disruption Event and while that Market Disruption Event is continuing, a holder delivers a Redemption Instruction, the following provisions of this Condition 8(1)(a) shall nevertheless apply and the Issuer shall notify the holder of that fact and of the action the holder shall take in connection with the Market Disruption Event (by sending the notice to Euroclear or, as the case may be, Clearstream Luxembourg for transmission to the holder). Following the giving of such notice of the occurrence of a Market Disruption Event, and subject to the provisions hereof, any OB OPALS in respect of which a Market Disruption Event has occurred may not be redeemed, and a holder of such OB OPALS shall not be entitled to receive the Securities comprised in the Basket of Shares until the Issuer gives notice to the contrary; **provided that** where a holder would have been entitled to receive such Securities but for the giving of such a notice of the occurrence of a Market Disruption Event, the Issuer may, but shall not be obliged to, deliver or transfer to such holder some or all of those Securities which the Issuer determines are not affected by such Market Disruption Event.
- (b) If the Issuer determines reasonably and in good faith on any day during a Redemption Period relating to a Series of OB OPALS or any day during the period commencing on the Maturity Date relating to a Series of OB OPALS and ending on the day 30 days after such Maturity Date that a Market Disruption Event has occurred and is continuing in relation to any OB OPALS of that Series, the Issuer shall have the right, in its reasonable discretion, to extend or postpone the Redemption Period, Maturity Date or last day of such 30 day period to such day as the Issuer shall deem appropriate or to take any other action which the Issuer reasonably deems to be appropriate in light of all of the circumstances which exist at the time.

(2) **"Market Disruption Event"** means:

- (a) suspension or material limitation of trading in any of the Securities comprising the Basket of Shares to which the relevant Series of OB OPALS relate, other than pre-announced limitations on hours or number of days of trading; or
- (b) suspension or material limitation of trading in securities generally on the principal exchange(s) on which any of the Securities comprised in the Basket of Shares to which the relevant Series of OB OPALS relates are listed or limitation on prices, other than limitations on hours or number of days of trading, for securities generally on any of such exchanges; or

- (c) any event or circumstance beyond the control of the Issuer as a result of which it is unable to perform, or is subject to material restrictions or limitations on the performance of, its obligations (or it requires any governmental, regulatory, monetary authority or similar consents to perform its obligations), whether generally or by reference to specific securities comprised in a Basket of Shares to which a Series of OB OPALS relates or holders of OB OPALS or categories thereof; or
- (d) any event, circumstances or cause which has had or reasonably could be expected to have a material adverse effect on the ability of the Issuer to perform its obligations in respect of the OB OPALS.

A limitation on trading imposed during the course of a trading session by reason of movements in price otherwise exceeding levels permitted by the Relevant Stock Exchange will constitute a Market Disruption Event.

- (3) Where a Market Disruption Event has occurred in respect of any Securities comprised in a Basket of Shares and is continuing at the time of issue of further OB OPALS, the Counterparty may exclude the relevant Securities to be acquired by it pursuant to its arrangements with the Issuer in connection with the issue of such further OB OPALS and such Securities shall be acquired by the Counterparty upon the Market Disruption Event ceasing to exist.

## 9. **Adjustments and Other Events**

- (1) The Issuer may at any time during the term of any OB OPALS issued by it make adjustments to the composition of the Basket of Shares to which the OB OPALS relate in the following circumstances and in such other circumstances as are specified in the Final Terms relating to the relevant OB OPALS:-
  - (a) to reflect changes in the composition or calculation of the relevant Benchmark Index including prospective changes which the index provider has announced;
  - (b) where the Issuer considers that an adjustment should be made either (i) to reduce the likelihood of the performance of the relevant OB OPALS ceasing to track the performance of the relevant Benchmark Index by a percentage specified in the Final Terms for the relevant OB OPALS or (ii) to increase the likelihood that the performance of the OB OPALS will track the performance of the relevant Benchmark Index more closely than would otherwise be the case;
  - (c) if and whenever a company the shares of which are included in a Basket of Shares (a "**Company**") shall sub-divide its outstanding share capital into a greater number of shares or consolidate its outstanding share capital into a smaller number of shares, in which event the number of relevant shares in the Basket of Shares shall be increased (in the case of a sub-division) or decreased (in the case of a consolidation) accordingly but no other adjustment shall be made unless the Issuer shall determine, in its absolute discretion, that some other adjustment is the most appropriate adjustment to be made in the circumstances;
  - (d) if and whenever Securities are redeemed; become the subject of a takeover, any capitalisation or rights issues are effected in respect of them or any other corporate action is effected in respect of them;
  - (e) if it is announced (i) that any Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the relevant Company is the surviving corporation in a merger) or (ii) that any Company is to or may sell or transfer all or substantially all of its assets or (iii) that any Company is to enter into voluntary or involuntary liquidation, is to be dissolved, is insolvent, is to seek or become subject to the appointment of an administrator, receiver, trustee, custodian or other similar official for it or for all or substantially all of its assets or that any other event is to occur which under the applicable laws of any jurisdiction has an analogous effect to any of such events or (iv) that any of the events referred to in (i), (ii) or (iii) above has occurred in relation to a Company, in which event the rights attaching to the relevant OB OPALS may in the

absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (as determined by the Issuer);

- (f) to preserve the economic effect of the composition of the relevant Basket of Shares to which the OB OPALS relate upon the occurrence of any event relating to the economic and monetary union of the European Community, including, without limitation, the redenomination of any Shares into Euros;
- (g) where a Benchmark Index ceases to exist (as to which see (2) below);
- (h) upon the occurrence of a Market Disruption Event in which case the Issuer may determine the fair market value of the relevant Securities comprised in the Basket of Shares (the "**Disrupted Securities**") at that time and require the Counterparty to replace such Securities in the Basket of Shares to which the OB OPALS relate with an amount equal to such fair market value (net of costs) incurred or liable to be incurred as a result of the Counterparty replacing such Securities or apply such amount in acquiring other Securities which will be comprised in such Basket of Shares in place of the Disrupted Securities; or
- (i) in such other circumstances as the Issuer believes (in its absolute discretion and notwithstanding any adjustment previously made by the Issuer) should, in the context of the issue of the relevant OB OPALS and its obligations thereunder, give rise to such adjustment, **provided that** such adjustment is considered by the Issuer to be fair and desirable for the relevant holders generally (without considering the individual circumstances of any holder or the tax or other consequences of such adjustment in any particular jurisdiction).

Under the Counterparty Agreement to which MSI plc is a party, MSI plc may adjust the basket of securities by reference to which its obligations under the Counterparty Agreement in respect of a particular Series of OB OPALS are determined in circumstances which correspond to those indicated in paragraphs (a) to (i) above (in the case of paragraph (i) treating references to the Issuer as if they were references to MSI plc in its capacity as Counterparty). In the case of such Series of OB OPALS, the Issuer may treat the making of an adjustment by MSI plc as evidence of the existence of circumstances warranting an adjustment in respect of the relevant Basket of Shares and the Issuer may make a corresponding adjustment.

- (2) In the event that the Benchmark Index relating to a Series of OB OPALS ceases to exist (each a "**Disbanded Index**") or experiences an Administrator/Benchmark Event (each a "**Non-Compliant Index**"), the Issuer shall have the discretion to:
  - (a) alter the composition of the relevant Basket of Shares with a view to replicating fully, or based on portfolio optimisation techniques, tracking the performance of a different Benchmark Index which, in the opinion of the Issuer, closely corresponds to the Disbanded Index or Non-Compliant Index, as applicable, provides an investment performance which corresponds to that of the Disbanded Index or Non-Compliant Index, as applicable, immediately before it ceased to exist or supersedes the Disbanded Index or Non-Compliant Index, as applicable; or
  - (b) in relation to a Disbanded Index, maintain or adjust, as it considers appropriate, the existing composition of the relevant Basket of Shares with a view, during the remainder of the term of such Series, to replicating fully, or, based on portfolio optimisation techniques, tracking the performance of the Disbanded Index as if it continued to exist in the form it had immediately prior to it ceasing to exist.
  - (c) in relation to a Non-Compliant Index, maintain or adjust, as it considers appropriate, the existing composition of the relevant Basket of Shares with a view, during the remainder of the term of such Series, to replicating fully, or, based on portfolio optimisation techniques, tracking the performance of the Non-Compliant Index as if the Administrator/Benchmark Event had not occurred, without using such Benchmark Index

to determine amounts due in relation to the relevant Series of OPALS in a way that is not permitted under applicable laws and regulations.

Under the Counterparty Agreement to which MSI plc is party, MSI plc may, in the event that the Benchmark Index relating to a particular Series of OB OPALS has ceased to exist, or experiences an Administrator/Benchmark Event, adjust the basket of securities by reference to which its obligations under the Counterparty Agreement in respect of a particular Series of OB OPALS are determined. In the case of such Series of OB OPALS, the Issuer may treat the making of an adjustment by MSI plc as evidence of the existence of circumstances warranting an adjustment in respect of the relevant Basket of Shares and the Issuer may make a corresponding adjustment.

- (3) In the event that the Issuer exercises its discretion under Condition 9(2) above, it shall also have discretion to change the name of the affected Series of OB OPALS.
- (4) The Issuer is under no obligation in any circumstances to adjust the composition of a Basket of Shares. The Issuer shall determine any adjustment or amendment and its determination shall be conclusive and binding on the relevant holders save in the case of manifest error. Notice of any adjustments or amendments shall be given, in accordance with Condition 11 below, to the relevant holders as soon as practicable after the determination thereof; **provided that** notice of any adjustment pursuant to Condition 9(1)(b) shall not be given and notice of any adjustment pursuant to Condition 9(1)(c) shall not be given to the relevant holders unless the Issuer shall determine that an adjustment other than a corresponding increase or decrease in the number of Securities in the Basket of Shares to which the OB OPALS relate in the most appropriate adjustment to be made in the circumstances. Notwithstanding the foregoing, no notice of adjustment need be given to the relevant holders or otherwise as provided in Condition 11 where the adjustment to the composition of a Basket of Shares is made to reflect changes in the composition or calculation of the relevant Benchmark Index or to deal with Market Disruption. No events occurring after delivery of a Redemption Instruction in relation to, or the Maturity Date of, OB OPALS will give rise to any adjustments in relation to the Basket of Shares to which the OB OPALS relate following delivery of such Redemption Instruction or the occurrence of the Maturity Date.
- (5) Where (a) the Issuer or any affiliate of the Issuer has made an advance to cover a shortfall arising on the purchase of any Securities consequent upon an adjustment to the composition of a Basket of Shares or the Issuer or the Counterparty has incurred fees, taxes, charges, duties, costs and expenses which the Issuer is entitled or required to take into account in determining the amounts payable as income on the relevant Series of OB OPALS and any amount of the advance, fees, taxes, charges, duties, costs or expenses has not been recovered from income attributable to the relevant Basket of Shares and (b) the Issuer is required to redeem any OB OPALS of the relevant Series, the Issuer shall be entitled to reduce the number of Securities to be delivered or transferred by it on such redemption by a number of Securities (selected in its discretion) that it considers will generate sufficient net proceeds, when sold, to cover all those amounts insofar as attributable to the OB OPALS being redeemed. Where MSI plc is the Counterparty and it does not hold all of the Securities in the Basket of Shares, the provisions of this Condition 9(5) shall be applied by reference to the position that would have applied had it held all of such Securities.
- (6) Where there has been an adjustment to the composition of a Basket of Shares and the net proceeds of the sale of the Securities removed from the Basket of Shares exceeds (or, where MSI plc is the Counterparty, would have exceeded, had it held and adjusted the Basket of Shares) the net cost of the Securities purchased in order to effect the relevant adjustment, the composition of the Basket of Shares may be further adjusted to reflect an application of that excess in the purchase of additional Securities or such excess may be treated as income on the relevant Series.

#### 10. **Depository Receipts**

A Basket of Shares to which a Series of Underlying OPALS relates may include depository receipts. Notwithstanding the other provisions of these Conditions, where a Basket of Shares to which any Series of OB OPALS relates includes any depository receipts, then, in relation to the relevant Series of OB OPALS:

- (a) references in these Conditions to "**shares**" or "**securities**" shall include a reference to depository receipts;



- (b) where any fees, taxes, charges, duties, costs and expenses are deducted from any dividend or other amount payable on or in respect of the depositary receipts, for the purposes of Condition 3, the relevant dividend or other amount payable shall be treated as if the amount of it had been equal to the net amount after all such deductions;
- (c) the Issuer may, upon redemption of any OB OPALS in respect of that Series pursuant to Condition 5, elect to deliver or transfer or procure that there is delivered or transferred into the holder's name or to the holder's order, instead of those depositary receipts, a number of shares equal to the number of underlying shares in relation to those depositary receipts;
- (d) for the purposes of Condition 8, and the definition of "**Relevant Stock Exchange**", references to the Shares shall include a reference to depositary receipts and to the underlying shares in relation to those depositary receipts.

For these purposes, "**depositary receipts**" means certificates or other instruments that confer property rights in respect of shares or under which the holder has the right to call for delivery of shares and, in relation to any depositary receipts, references to the "**underlying shares**" are references to the shares in respect of which the depositary receipts confer property rights or which the holder has the right to call for delivery.

## 11. Notices

The Issuer will cause all notices to holders to be sent to Euroclear and Clearstream, Luxembourg for transmission by Euroclear and Clearstream, Luxembourg to holders. Any notices so sent shall be conclusively presumed to have been received by the relevant holders.

In addition, if a Series of OB OPALS is admitted to listing on the Official List and traded on the Regulated Market of the Luxembourg Stock Exchange, any notice to holders of that Series will be published (i) in a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) and/or (ii) on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)) and, if a Series of OB OPALS is listed on any other stock exchange, any notice to holders of that Series will be published in accordance with the requirements for the time being in force of that other stock exchange.

## 12. General

- (1) In no event shall the Issuer have any liability for indirect, incidental or consequential damages (whether or not it has been advised of the possibility of such damages) other than interest until the date of payment on any sums not paid when due. Holders are entitled to damages only and are not entitled to the remedy of specific performance in respect of OB OPALS held by them.
- (2) The OB OPALS are direct and unsecured obligations of the Issuer ranking *pari passu* and without preference among themselves and with all other unsecured and unsubordinated obligations of the Issuer, subject to any statutory exceptions.
- (3) The OB OPALS shall be governed by and construed in accordance with English law. The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the OB OPALS, and accordingly any suit, action or proceeding (together referred to as "**Proceedings**") arising out of or in connection with the OB OPALS shall be brought in such courts. The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary. The Issuer agrees that process in connection with Proceedings in the courts of England will be validly served on it if served upon MSI plc as its agent for service of process at its office for the time being (being at the date hereof 25 Cabot Square, Canary Wharf, London E14 4QA).
- (4) Should any of the provisions contained in the terms and conditions of any OB OPALS be or become invalid, the validity of the remaining provisions shall not be affected in any way.
- (5) The Issuer may modify these Terms and Conditions of OB OPALS and any other terms and conditions relating to an issue of OB OPALS, without the consent of the relevant holders, for purposes of curing the ambiguity of, correcting or supplementing any provision contained herein or therein or in any other manner which the Issuer may deem necessary or desirable **provided that**

such modification is not materially prejudicial to the interests of the relevant holders. The Issuer may at any time without the consent of the relevant holders substitute any other company in place of the Issuer as obligor under an issue of OB OPALS, substitute another company in place of the Counterparty as counterparty in relation to a Series of OB OPALS, subject to such amendment of the Programme Agreement and other documents relating to the OB OPALS as the Issuer may deem appropriate and **provided that** such substitution and amendment, in the reasonable opinion of the Issuer, is not materially prejudicial to the interests of the relevant holders. In connection with any such modification, substitution or amendment as aforesaid, the Issuer shall not have regard to the consequences of such modification, substitution or amendment for individual holders of OB OPALS resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. Notice of any such modification or substitution will be given to the relevant holders in accordance with Condition 11 above but failure to give, or non-receipt of, such notice will not affect the validity of such modification or substitution.

If the Issuer substitutes another entity in place of the Issuer as obligor under an issue of OB OPALS, the tax consequences (including the withholding tax consequences) of holding the OB OPALS may change. Except as otherwise set out in these Terms and Conditions, if withholding is required on the OB OPALS, no additional amounts will be required to be paid.

- (6) The Issuer is at liberty from time to time without the consent of the relevant holders to create and issue further OB OPALS so that the same shall be consolidated and form a single series with an existing Series of OB OPALS, but upon such terms as to issue price and otherwise as the Issuer may determine. Following the creation of such further OPALS, for the purposes of Condition 2(4), the maximum amount of the relevant Series shall be the aggregate of the maximum amount specified in the Final Terms relating to such further issue and the maximum amount(s) specified in the Final Terms(s) relating to such Series then in existence, **provided that** in the event that the Maximum Amount of such Series is not issued on the Initial Issue Date and the relevant Series of OPALS is, or is to be, admitted to listing on the Official List and traded on the Regulated Market of the Luxembourg Stock Exchange, further OPALS of such Series shall only be issued at a time when there is in existence a base prospectus or other prospectus which is current for the purpose of admission to the Official List and admission to trading on the Regulated Market of the Luxembourg Stock Exchange of such further OPALS.
- (7) The Issuer or any of its affiliates may at any time and from time to time purchase OB OPALS at any price in the open market or otherwise (including from MSI plc and its affiliates). Such OB OPALS may, at the option of the Issuer or, as the case may be, the affiliate, be held, resold or cancelled or otherwise dealt with. No OB OPALS which has been redeemed or purchased and cancelled by the Issuer may be re-issued and sold by the Issuer.
- (8) Payments in respect of OB OPALS are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment.
- (9) If any payment of income on OB OPALS is due to be made or any notice or instruction is due to be given on any day which is not a business day in the place from which, or to which, payment is to be made or to which notice is to be given, such payment shall be made or notice shall be given on the next succeeding day which is a business day in such place.
- (10) Claims against the Issuer for the payment of income in respect of OB OPALS or the delivery of Securities upon maturity of OB OPALS will become void upon the expiry of three years from the date on which such payment first became due or the Maturity Date of the relevant OB OPALS, as the case may be.
- (11) The occurrence or non-occurrence of an EMU Event will not have the effect of altering any term of, or discharging or excusing performance under, any OB OPALS or, in and of itself, give rise to a Market Disruption Event or otherwise be the basis for the early redemption of any OB OPALS.
- (12) Each of the Issuer and the Counterparty may enter into borrowing arrangements from time to time for any reason in its discretion including, but not limited to, for the purposes of funding payments of income to holders.

- (13) The Issuer may, without the consent of any holders of OB OPALS, employ any person or persons, including MSI plc or any of its affiliates, to act as its agent, custodian, fiduciary or other representative, pursuant to a written agreement or otherwise.
- (14) No person shall have any right to enforce any of these conditions or any of the provisions of a Global Security under the Contracts (Rights of Third Parties) Act 1999.

13. **Meetings of holders of OB OPALS**

The Agency Agreement contains provisions for the convening of meetings of holders (or, if applicable, the holders of OB OPALS of any Series) by the Issuer to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of these Terms and Conditions of OB OPALS requiring such sanction.

A resolution which in the opinion of the Issuer affects the interests of the holders of one Series only of the OB OPALS shall be deemed to have been duly passed if passed at a separate meeting of the holders of the OB OPALS of that Series.

A resolution which in the opinion of the Issuer affects the interests of the holders of more than one Series of the OB OPALS but does not give rise to a conflict of interest between the holders of the OB OPALS of any of the Series so affected shall be deemed to have been duly passed if passed at a single meeting of the holders of the OB OPALS of the Series so affected.

A resolution which in the opinion of the Issuer affects the interests of the holders of more than one Series of the OB OPALS and gives or may give rise to a conflict of interest between the holders of the OB OPALS of any of the Series so affected shall be deemed to have been duly passed only if in lieu of being passed at a single meeting of the holders of the OB OPALS of all such Series it shall be duly passed at separate meetings of the holders of the OB OPALS of each Series so affected.

The quorum at any meeting of holders (or, if applicable, holders of the OB OPALS of the relevant Series) for passing an Extraordinary Resolution shall be two or more persons holding or representing over 50 per cent. in principal amount of the OB OPALS (or, if applicable, the OB OPALS of the relevant Series) or at any adjourned meeting, two or more persons being or representing holders (or, if applicable, holders of the OB OPALS of the relevant Series) whatever the aggregate principal amount of the OB OPALS (or, if applicable, the OB OPALS of the relevant Series) so held or represented.

## APPENDIX C

### Appendix to the Base Prospectus Relating to Cash Redemption

#### MORGAN STANLEY CAPITAL (CAYMAN ISLANDS) LIMITED

*(Incorporated with limited liability in the Cayman Islands)*

#### UP TO U.S.\$50,000,000,000 OPTIMISED PORTFOLIOS AS LISTED SECURITIES ("OPALS®") PROGRAMME

*For the issuance of OPALS due from one year  
after the date on which OPALS of the relevant Series are first issued to any date on or before 5 April  
2023*

This Appendix forms part of the Base Prospectus dated 17 July 2020 as the same may be supplemented from time to time (the "**Base Prospectus**") issued in relation to the OPALS Programme of Morgan Stanley Capital (Cayman Islands) Limited (the "**Issuer**"). Unless otherwise defined herein, terms defined in the Base Prospectus have the same meaning in this Appendix.

The Issuer confirms that the statements contained in this Appendix relating to it and OPALS are true and accurate in all material respects and not misleading in any material respect.

#### 1. AMENDMENTS TO THE TERMS AND CONDITIONS OF OPALS

In the case of each Series of OPALS in respect of which (i) the initial issue date is on or after 1 October 2001; and (ii) the relevant Final Terms indicates that cash redemption at the option of the Issuer is to apply, the Terms and Conditions of OPALS shall be deemed to have been amended by the inclusion of: new Conditions 5(8)(A), 6(1)(iv)(A), 6(4)(A), 6(5)(A), 6(10)(A), 7(A), 8(1)(a)(A) and 12(10)(A), each in the form set out below.

- "5(8)(A) (a) Notwithstanding anything to the contrary in the Conditions (and in particular notwithstanding the statement in Condition 4 that holders will not be entitled to have their OPALS redeemed for cash), in the case of each Series of OPALS in respect of which the Final Terms indicates that cash redemption at the option of the Issuer is to apply, the Issuer shall have the right, in its absolute discretion, to elect to effect such redemption on the Maturity Date by paying the holder of the relevant OPALS an amount (the "**cash redemption amount**") which shall be determined in accordance with the following paragraph instead of delivering, transferring or procuring that there is transferred into the holder's name or to the holder's order the Shares to which that holder would otherwise have been entitled under Condition 5. If in the case of any Series of OPALS the Issuer so elects to pay a cash redemption amount it will notify relevant holders in accordance with Condition 11 no later than five Business Days prior to the Maturity Date for that Series unless, in the Issuer's absolute discretion, it determines that circumstances exist which prevent it from making such an election by such date, in which case the Issuer will make such notification to the relevant holders in accordance with Condition 11 as soon as it is practicable to do so.
- (b) The cash redemption amount shall, subject to the following sentences, be the price at which the Shares to which the holder would otherwise have been entitled under Condition 5 are sold by the Counterparty on the Maturity Date or any Business Day selected by the Counterparty during the period of three Business Days prior to the Maturity Date. In the case of Series of OPALS in respect of which MSI plc is the Counterparty, but in respect of which MSI plc does not, in connection with its obligations under the Counterparty Agreement, hold all of the Shares comprised in

the Basket of Shares to which such Series of OPALS relates, the cash redemption amount shall be: (i) the amount realised by MSI plc on the Maturity Date or any Business Day selected by MSI plc during the period of three Business Days prior to the Maturity Date upon the sale of such Shares (if any) as it holds in connection with its obligations under the Counterparty Agreement; (ii) to the extent it has put in place hedging arrangements other than those described in (i) in connection with its obligations under the Counterparty Agreement, the amount realised by MSI plc on the Maturity Date or any Business Day selected by MSI plc during the period of three Business Days prior to the Maturity Date by virtue of the unwinding of such hedging arrangements; and (iii) where MSI plc has not fully hedged its obligations under the Counterparty Agreement, to the extent it is unhedged, the amount that it could reasonably have been expected to realise on the Maturity Date or any Business Day selected by MSI plc during the period of three Business Days prior to the Maturity Date by virtue of the unwinding of such hedging arrangements as it believes it could reasonably have put in place in relation to that unhedged portion. In each case, the cash redemption amount shall be converted into the currency specified in the relevant Final Terms (if not already in such currency) and there shall be deducted therefrom all fees, taxes, charges, duties, costs and expenses (together "**Costs**") of the Counterparty and the Issuer arising from the sale of the Shares to which the cash redemption amount relates, any currency conversion and the payment of any amount. In the case of a Series of OPALS in respect of which MSI plc is the Counterparty, but in respect of which MSI plc does not, in connection with its obligations under the Counterparty Agreement, hold all of the Shares comprised in the Basket of Shares to which such Series relates, Costs shall include the costs incurred by MSI plc in connection with the unwinding of the relevant portion of such other hedging arrangements (or to the extent it is unhedged in relation to such obligations, the amount that it could reasonably have been expected to incur had it unwound such hedging arrangements as MSI plc believes it could reasonably have put in place in respect of that unhedged portion).

- (c) If the Issuer, acting reasonably, determines that due to the imposition of (i) any restrictions, suspension or other controls by or affecting any payment system, or (ii) any exchange or other controls by a governmental, regulatory or monetary authority, the Issuer is unable to receive from the Counterparty or pay to the holders of OPALS some or all of, or any amount in respect of, the cash redemption amount, the Issuer may:
  - (aa) satisfy its obligation to make such payment to the affected holders of OPALS by the payment of the cash redemption amount in a currency other than the currency in which it would otherwise have been payable by the Counterparty. In which case, relevant amounts may be exchanged by or on behalf of the Counterparty for amounts in the currency which the Issuer has determined it will pay the cash redemption amount, at a time or times determined by the Counterparty in its absolute discretion and any risks and costs arising from fluctuations in currency exchange rates (or in the rates of exchange for a denomination of the currency) shall be passed through to the Issuer and shall be borne by the holders of the relevant OPALS; or
  - (bb) defer its obligation to pay some or all of, or any amount in respect of, the cash redemption amount until such time as the Issuer is reasonably able to perform such obligations. If the Issuer elects to defer such payment it will give notice to the affected holders and, so long as a Series of OPALS is admitted

to listing on the Official List and traded on the Regulated Market of the Luxembourg Stock Exchange, to the Luxembourg Stock Exchange of the event causing the deferment of the payment to the holders of OPALS and, when known, the date when the obligation to make payment will be satisfied.

- (d) The cash redemption amount will be paid on the cash redemption payment date to Euroclear or Clearstream, Luxembourg, as the case may be, for the account of the relevant holder. All such payments will be made to Euroclear or Clearstream, Luxembourg in immediately available funds in the currency specified in the relevant Final Terms (subject as provided above). If any payment of a cash redemption amount in respect of any OPALS is due to be made by the Issuer on any day which is not a Business Day in the place of, from or through which payment is to be made, such payment shall be made on the next succeeding day which is a Business Day in such places. For the purposes of Conditions 5(8)(A), 6(4)(A) and 6(10)(A) "**cash redemption payment date**" means in respect of any OPALS in respect of which the Issuer has exercised its rights under Condition 5(8)(A)(a), the day for payment of the cash redemption amount, being such day which is as soon as practicable, in the opinion of the Issuer, after the Maturity Date in respect of such OPALS.
- (e) For the avoidance of doubt, the sums received by the Issuer from the Counterparty in relation to the cash redemption amount shall not be treated as income for the purposes of Condition 3."

"6(1)(iv)(A) specifying the settlement details for the payment of the cash redemption amount and giving the name and address of a person to whom the cash redemption amount should be paid. (Such information shall be acted upon by the Issuer only in the event that it elects to pay a cash redemption amount under Condition 5(8)(A)(a));"

"6(4)(A) If the settlement details provided in a Redemption Instruction by a holder redeeming any OPALS do not enable the Issuer to pay the cash redemption amount (or make any other payment) to that holder, or a person acting for its account, in the principal domestic payment centre customarily used for settling payments (or, if the Issuer so notifies the holder submitting the Redemption Instruction, in Euroclear or Clearstream, Luxembourg), the Issuer may by notice to the holder postpone the cash redemption payment date until a date after it has received settlement instructions which enable it to do so."

"6(5)(A) In the case of OPALS in respect of which the Issuer has elected to pay a cash redemption amount under Condition 5(8)(A)(a), Condition 6(5) shall not apply and the Issuer shall pay the cash redemption amount to the person specified in the relevant Redemption Instruction."

"6(10)(A) Where the Issuer determines that it is not reasonably practicable to pay any cash redemption amount in the manner contemplated in Condition 6 in compliance with, or as a result of the application of, any applicable law, regulation, rule or practice (whether or not in existence at the time of issue of a particular Series and whether by reason of the holder not satisfying, or not being able to satisfy, any conditions or requirements of any such law, regulation, rule or practice or for any other reason), the Issuer may postpone the cash redemption payment date until such time as it determines that it is reasonably practicable so to make such payment. Where the Issuer determines that it is not so reasonably practicable, it may by notice to the holder specify steps to be taken by the holder (and steps that the Issuer will take) in order to effect such payment with a view to putting the holder in a position that is as nearly as practicable the same as the holder would have been in had it been reasonably practicable to effect such payment, and the taking by the Issuer of the steps so specified as to be taken by the Issuer shall

discharge the Issuer's obligation to pay the cash redemption amount to the holder."

"7(A) The provisions of Condition 7 shall apply to payments of cash redemption amounts as if references in that Condition to income were references to cash redemption amounts."

"8(1)(a)(A) Following the giving of a notice of the occurrence of a Market Disruption Event pursuant to Condition 8(1)(a) in circumstances in which the Issuer has exercised its rights under Condition 5(8)(A)(a) in respect of any OPALS, and subject to the provisions hereof, a holder of the relevant OPALS shall not be entitled to receive a cash redemption amount until the Issuer gives notice to the contrary **Provided that** where a holder would have been entitled to receive a cash redemption amount relating to the OPALS held by him but for the giving of such a notice of the occurrence of a Market Disruption Event, the Issuer may, but shall not be obliged to, pay to such holder such proportion of the cash redemption amount as relates to those Shares which the holder would, but for the Issuer electing to pay a cash redemption amount under Condition 5(8)(A)(a), have been entitled to receive and which the Issuer determines are not affected by such Market Disruption Event."

"12(10)(A) Claims against the Issuer for the payment of a cash redemption amount will become void upon the expiry of three years from the date on which such payment first becomes due or the Maturity Date of the relevant OPALS, as the case may be."

## 2. AMENDMENTS TO THE TERMS AND CONDITIONS OF OB OPALS

In the case of each Series of OB OPALS to which the Terms and Conditions of OB OPALS apply and in respect of which (i) the initial issue date is on or after the date of this Appendix and (ii) the relevant Final Terms indicates that cash redemption at the option of the Issuer is to apply, the Terms and Conditions of OB OPALS shall be deemed to have been amended by the inclusion of: new Conditions 5(8)(A), 6(1)(iv)(A), 6(4)(A), 6(5)(A), 6(10)(A), 7(A), 8(1)(a)(A) and 12(10)(A), each in the form set out below.

- "5(8)(A) (a) Notwithstanding anything to the contrary in the Conditions (and in particular notwithstanding the statement in Condition 4 that holders will not be entitled to have their OB OPALS redeemed for cash), in the case of each Series of OB OPALS in respect of which the Final Terms indicates that cash redemption at the option of the Issuer is to apply, the Issuer shall have the right, in its absolute discretion, to elect to effect such redemption on the Maturity Date by paying the holder of the relevant OB OPALS an amount (the "**cash redemption amount**") which shall be determined in accordance with the following paragraph instead of delivering, transferring or procuring that there is transferred into the holder's name or to the holder's order the Securities to which that holder would otherwise have been entitled under Condition 5. If in the case of any Series of OB OPALS the Issuer so elects to pay a cash redemption amount it will notify relevant holders in accordance with Condition 11 no later than five Business Days prior to the Maturity Date for that Series unless, in the Issuer's absolute discretion, it determines that circumstances exist which prevent it from making such an election by such date, in which case the Issuer will make such notification to the relevant holders in accordance with Condition 11 as soon as it is practicable to do so.
- (b) The cash redemption amount shall, subject to the following sentences, be the price at which the Securities to which the holder would otherwise have been entitled under Condition 5 are sold by the Counterparty on the Maturity Date or any Business Day selected by the Counterparty during the period of three Business Days prior to the Maturity Date. In the case

of Series of OB OPALS in respect of which MSI plc is the Counterparty, but in respect of which MSI plc does not, in connection with its obligations under the Counterparty Agreement, hold all of the Securities comprised in the Basket of Shares to which such Series of OB OPALS relates, the cash redemption amount shall be: (i) the amount realised by MSI plc on the Maturity Date or any Business Day selected by MSI plc during the period of three Business Days prior to the Maturity Date upon the sale of such Securities (if any) as it holds in connection with its obligations under the Counterparty Agreement; (ii) to the extent it has put in place hedging arrangements other than those described in (i) in connection with its obligations under the Counterparty Agreement, the amount realised by MSI plc on the Maturity Date or any Business Day selected by MSI plc during the period of three Business Days prior to the Maturity Date by virtue of the unwinding of such hedging arrangements; and (iii) where MSI plc has not fully hedged its obligations under the Counterparty Agreement, to the extent it is unhedged, the amount that it could reasonably have been expected to realise on the Maturity Date or any Business Day selected by MSI plc during the period of three Business Days prior to the Maturity Date by virtue of the unwinding of such hedging arrangements as it believes it could reasonably have put in place in relation to that unhedged portion. In each case, the cash redemption amount shall be converted into the currency specified in the relevant Final Terms (if not already in such currency) and there shall be deducted therefrom all fees, taxes, charges, duties, costs and expenses (together "**Costs**") of the Counterparty and the Issuer arising from the sale of the Securities to which the cash redemption amount relates, any currency conversion and the payment of any amount. In the case of a Series of OB OPALS in respect of which MSI plc is the Counterparty, but in respect of which MSI plc does not, in connection with its obligations under the Counterparty Agreement, hold all of the Securities comprised in the Basket of Shares to which such Series relates, Costs shall include the costs incurred by MSI plc in connection with the unwinding of the relevant portion of such other hedging arrangements (or to the extent it is unhedged in relation to such obligations, the amount that it could reasonably have been expected to incur had it unwound such hedging arrangements as MSI plc believes it could reasonably have put in place in respect of that unhedged portion).

- (c) If the Issuer, acting reasonably, determines that due to the imposition of (i) any restrictions, suspension or other controls by or affecting any payment system, or (ii) any exchange or other controls by a governmental, regulatory or monetary authority, the Issuer is unable to receive from the Counterparty or pay to the holders of OB OPALS some or all of, or any amount in respect of, the cash redemption amount, the Issuer may:
  - (aa) satisfy its obligation to make such payment to the affected holders of OB OPALS by the payment of the cash redemption amount in a currency other than the currency in which it would otherwise have been payable by the Counterparty. In which case, relevant amounts may be exchanged by or on behalf of the Counterparty for amounts in the currency which the Issuer has determined it will pay the cash redemption amount, at a time or times determined by the Counterparty in its absolute discretion and any risks and costs arising from fluctuations in currency exchange rates (or in the rates of exchange for a denomination of the currency) shall be passed through to the Issuer and shall be borne by the holders of the relevant OB OPALS; or
  - (bb) defer its obligation to pay some or all of, or any amount in respect of, the cash redemption amount until such time as the



Issuer is reasonably able to perform such obligations. If the Issuer elects to defer such payment it will give notice to the affected holders and, so long as a Series of OB OPALS is admitted to listing on the Official List and traded on the Regulated Market of the Luxembourg Stock Exchange, to the Luxembourg Stock Exchange of the event causing the deferment of the payment to the holders of OB OPALS and, when known, the date when the obligation to make payment will be satisfied.

- (d) The cash redemption amount will be paid on the cash redemption payment date to Euroclear or Clearstream, Luxembourg, as the case may be, for the account of the relevant holder. All such payments will be made to Euroclear or Clearstream, Luxembourg in immediately available funds in the currency specified in the relevant Final Terms (subject as provided above). If any payment of a cash redemption amount in respect of any OB OPALS is due to be made by the Issuer on any day which is not a Business Day in the place of, from or through which payment is to be made, such payment shall be made on the next succeeding day which is a Business Day in such places. For the purposes of Conditions 5(8)(A), 6(4)(A) and 6(10)(A) "**cash redemption payment date**" means in respect of any OB OPALS in respect of which the Issuer has exercised its rights under Condition 5(8)(A)(a), the day for payment of the cash redemption amount, being such day which is as soon as practicable, in the opinion of the Issuer, after the Maturity Date in respect of such OB OPALS.
- (e) For the avoidance of doubt, the sums received by the Issuer from the Counterparty in relation to the cash redemption amount shall not be treated as income for the purposes of Condition 3."

- "6(1)(iv)(A) specifying the settlement details for the payment of the cash redemption amount and giving the name and address of a person to whom the cash redemption amount should be paid. (Such information shall be acted upon by the Issuer only in the event that it elects to pay a cash redemption amount under Condition 5(8)(A)(a));"
- "6(4)(A) If the settlement details provided in a Redemption Instruction by a holder redeeming any OB OPALS do not enable the Issuer to pay the cash redemption amount (or make any other payment) to that holder, or a person acting for its account, in the principal domestic payment centre customarily used for settling payments (or, if the Issuer so notifies the holder submitting the Redemption Instruction, in Euroclear or Clearstream, Luxembourg), the Issuer may by notice to the holder postpone the cash redemption payment date until a date after it has received settlement instructions which enable it to do so."
- "6(5)(A) In the case of OB OPALS in respect of which the Issuer has elected to pay a cash redemption amount under Condition 5(8)(A)(a), Condition 6(5) shall not apply and the Issuer shall pay the cash redemption amount to the person specified in the relevant Redemption Instruction."
- "6(10)(A) Where the Issuer determines that it is not reasonably practicable to pay any cash redemption amount in the manner contemplated in Condition 6 in compliance with, or as a result of the application of, any applicable law, regulation, rule or practice (whether or not in existence at the time of issue of a particular Series and whether by reason of the holder not satisfying, or not being able to satisfy, any conditions or requirements of any such law, regulation, rule or practice or for any other reason), the Issuer may postpone the cash redemption payment date until such time as it determines that it is reasonably practicable so to make such payment. Where the Issuer determines that it is not so reasonably practicable, it may by notice to the holder specify steps to be taken by the holder (and steps that

the Issuer will take) in order to effect such payment with a view to putting the holder in a position that is as nearly as practicable the same as the holder would have been in had it been reasonably practicable to effect such payment, and the taking by the Issuer of the steps so specified as to be taken by the Issuer shall discharge the Issuer's obligation to pay the cash redemption amount to the holder."

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- "12(10)(A) Claims against the Issuer for the payment of a cash redemption amount will become void upon the expiry of three years from the date on which such payment first becomes due or the Maturity Date of the relevant OB OPALS, as the case may be."

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**REGISTERED OFFICE OF MORGAN STANLEY CAPITAL  
(CAYMAN ISLANDS) LIMITED**

Maples Corporate Services Limited  
P.O. Box 309  
Ugland House  
Grand Cayman  
KY1-1104  
Cayman Islands

**DEALER AND CALCULATION AGENT**

Morgan Stanley & Co. International plc  
25 Cabot Square  
Canary Wharf  
London E14 4QA  
United Kingdom

**PRINCIPAL PAYING AGENT**

Citibank, N.A., London Branch  
6<sup>th</sup> Floor Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB  
United Kingdom

**ADDITIONAL PAYING AGENT AND TRANSFER AGENT**

CITIBANK EUROPE PLC  
1 North Wall Quay  
Dublin 1  
Ireland

**REGISTRAR**

CITIGROUP GLOBAL MARKETS EUROPE AG  
5<sup>th</sup> Floor  
Reuterweg 16  
60323 Frankfurt  
Germany

**LEGAL ADVISERS TO THE DEALER**

Clifford Chance LLP  
10 Upper Bank Street  
London E14 5JJ  
United Kingdom

**LEGAL ADVISERS TO THE ISSUER AS TO CAYMAN ISLANDS LAW**

Maples and Calder Europe  
7 Princes Street  
London  
EC2R 8AQ  
United Kingdom

**LUXEMBOURG LISTING AGENT**

Banque Internationale à Luxembourg S.A.  
69, Route d'Esch  
L-2953 Luxembourg