Registered number: 01281415

Registered office:
25 Cabot Square
Canary Wharf
London
E14 4QA
United Kingdom

MORGAN STANLEY UK GROUP

Report and financial statements

31 December 2019

MORGAN STANLEY UK GROUP

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STRATEGIC REPORT

The Directors present their Strategic report for Morgan Stanley UK Group (the "Company") for the year ended 31 December 2019.

PRINCIPAL ACTIVITY

The Company's principal activity is to provide property services to other Morgan Stanley Group undertakings and to act as an intermediate holding company.

The Company's ultimate parent undertaking and controlling entity is Morgan Stanley, which, together with the Company and Morgan Stanley's other subsidiary undertakings, form the "Morgan Stanley Group". The Company's immediate parent undertaking is Morgan Stanley International Limited ("MSI"), which, together with its subsidiaries forms the "MSI Group".

The Company is designated a material service entity in the recovery and/or resolution plans of the Morgan Stanley Group and the MSI Group.

Further information on the Morgan Stanley Group is available in the public documents available at www.morganstanley.com/investorrelations.

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

The Company provides support services to Morgan Stanley Group's operating undertakings. The scope of services provided and contractual arrangements of the Company may continue to evolve as a normal consequence of changes to the recovery and resolution planning requirements or other regulatory changes impacting the Morgan Stanley Group or the MSI Group (including but not limited to the impact of United Kingdom's (the "UK") decision to leave the European Union (the "EU"). The Company manages these potential impacts on its business by maintaining a constant planning dialogue with all Morgan Stanley Group undertakings supported and accordingly management does not expect any significant impact on the operations and business of the Company arising from these external factors.

Overview of 2019 performance

The statement of comprehensive income for the year is set out on page 10. The Company generated a profit before tax in the current year of $10,630,000 compared with $2,000,000 in the prior year. Results of both years include dividends received from the Company's subsidiaries recognised within 'Net gains on investments in subsidiaries'. Excluding for the impact of dividends received, the Company generated a pre-tax loss of $5,370,000 for the current year compared with a pre-tax profit of $1,391,000 in the prior year. The Company continues to charge other Morgan Stanley Group undertakings on a cost recovery basis in accordance with applicable Morgan Stanley Group policies which has resulted in current year losses arising from differences in timing of recognising lease related expenses and the corresponding management charges following adoption of International Financial Reporting Standard ("IFRS") 16 '*Leases*' ("IFRS 16"). Prior year profits primarily represented government grant income for capital expenditure in which no further award was received in the current year.

Fee income comprises of management charges to other Morgan Stanley Group undertakings for recovery of costs incurred in the provision of property services, which decreased by $12,550,000 primarily due to additional provisions recognised for onerous lease contracts in the prior year offset by higher lease costs in the current year. As a result of IFRS 16, the Company has recognised interest expense on lease liabilities of $22,965,000 and depreciation on right-of-use assets of $37,367,000 in the current year compared to operating lease rentals of $53,879,000 in the prior year.

The statement of financial position is set out on page 12. Total assets increased by $230,971,000 and total liabilities increased by $219,586,000 in the current year primarily due to the recognition of right-of-use ("ROU") assets of $558,316,000 and lease liabilities of $714,932,000, as well as decreases in provisions of $47,975,000 and accruals and deferred income of $67,850,000 following the implementation of IFRS 16. These movements are offset by repayments of amounts due from other Morgan Stanley Group undertakings of $371,750,000 in which proceeds have been used to reduce borrowings from other Morgan Stanley Group undertakings.

STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

Overview of 2019 performance (continued)

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.

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 closures 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 and the MSI Group will be adversely affected.

Since the emergence of the pandemic each business segment of Morgan Stanley and the business of the MSI Group 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 and the MSI Group 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 or the MSI Group'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 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 and the MSI Group, 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 MSI Group 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.

STRATEGIC REPORT

Risk management

The key risk of the Company is its exposure to other Morgan Stanley Group undertakings. The Morgan Stanley Group has established a global network of material service entities, and as a material service entity, the Company is subject to additional operational oversight and governance. This additional governance is designed to support the continuity of support services in business as usual and recovery and resolution scenarios. The risks of the Company, expressed in terms of the Morgan Stanley Group risk categories are set out below. Further information on how the Morgan Stanley Group manages these risks is available in the public documents available at www.morganstanley.com/investorrelations.

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. As noted above, the primary credit risk of the entity is the concentration of exposure to other Morgan Stanley Group undertakings.

Liquidity risk
Liquidity and funding risk refers to the risk that the Company will be unable to finance its operations. The company sources its financing from other Morgan Stanley Group undertakings.

As a material service entity the Company maintains minimum liquidity, which is monitored on an ongoing basis to ensure compliance with recovery and resolution requirements as established by Morgan Stanley Group's regulators as described above.

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).

The Company acknowledges its responsibility in the management of its own and its customer's operational risks to comply with the contractual provisions of its services. The Company applies the Morgan Stanley Group's globally established procedures which are based on legal and regulatory requirements on a worldwide basis 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.

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) 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. The Company has access to further Morgan Stanley capital and liquidity as required.

Taking the above factors into consideration, the Directors believe it is reasonable to assume that the Company will have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

STRATEGIC REPORT

SECTION 172(1) STATEMENT

The Directors of the Company are required to act in a way that they consider, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole, and in so doing have regard, among other matters to: the likely consequences of any decision in the long term; the interests of the Company's employees (if any), the need to foster the Company's business relationships with suppliers, customers and others; the impact of the Company's operations on the community and the environment; the desirability of the Company maintaining a reputation for high standards of business conduct; and the need to act fairly as between members of the Company.

The Board is comprised of senior executives from relevant infrastructure divisions of the MSI Group. Engagement with the stakeholders listed in s172 of the Companies Act 2006 generally takes place at an operational level with each Director able to provide the Board with insights into the views of stakeholders relevant to them in their executive capacity. In addition, stakeholder engagement activities also take place at MSI Group level, particularly when matters are of MSI Group-wide significance or may have the potential to effect the reputation of the MSI Group. For more information on key stakeholders and stakeholder engagements activities undertaken by MSI in the current year see MSI's annual report and financial statements for the year ended 31 December 2019 which can be obtained as detailed at note 1.

The Board receives regular reporting on a variety of topics to assist in its oversight of the Company's business including updates on MSE Governance (including the activities of the relevant management committees, regulatory matters, resilience, communications, reporting and service monitoring), together with metrics regarding financials. This, along with insights into the views of key stakeholders provided by individual Directors, gives the Board the information it needs to meet its duties under s172 of the Companies Act 2006 when making decisions.

The Board considers the insights obtained through relevant stakeholder engagement activities as well as the need to maintain a reputation for high standards of business conduct and the long term consequences when making decisions. A principal decision taken by the Board in the current year was to review a proposal to transfer a number of its assets to another Morgan Stanley Group undertaking as a first step in reducing the number of Morgan Stanley Group material service entities and associated costs. The Board considered the proposal and having regard to the interests of key stakeholders decided not to proceed with it at this time.

Approved by the Board and signed on its behalf by

DocuSigned by:
Sue Watts
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S E Watts
21 April 2020

DIRECTORS' REPORT

The Directors present their report and financial statements (which comprise the statement of comprehensive income, the statement of changes in equity, the statement of financial position and the related notes, 1 to 27) for the Company for the year ended 31 December 2019.

RESULTS AND DIVIDENDS

The profit for the year, after tax, was $11,385,000 (2018: $2,805,000).

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:

A P Mullineaux	(appointed 23 January 2019)
J D Bendall	(resigned 31 January 2020)
K M Lazaroo	(resigned 24 January 2019)
S E Watts	

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 and its subsidiary undertakings.

DIRECTORS' INDEMNITY

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

STAKEHOLDER RELATIONSHIPS AND ENGAGEMENT

Details of engagement activities undertaken by the Board in the current year with suppliers, clients and other stakeholders and how they inform decision making is provided in the s172(1) statement on page 4.

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 2 of the Strategic report.

DIRECTORS' REPORT

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.

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), including Financial Reporting Standard ("FRS") 101 *Reduced disclosure framework* ("FRS 101"). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101, have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Approved by the Board and signed on its behalf by

DocuSigned by:
Sue Watts
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S E Watts
21 April 2020

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Morgan Stanley UK Group (the "Company"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced disclosure framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of changes in equity;
- the statement of financial position; and
- the related notes 1 to 27.

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

Basis for opinion

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

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

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

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

Other information

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

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

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Cowley, C.A. (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom
21 April 2020

MORGAN STANLEY UK GROUP

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Fee income	4	188,932	201,482
Other revenue	5	5,113	1,070
Total non-interest revenues		194,045	202,552
Interest income		2,382	13,000
Interest expense		(42,854)	(23,599)
Net interest expense	6	(40,472)	(10,599)
Net revenues		153,573	191,953
Net gains on investments in subsidiaries	7	16,000	609
Non-interest expense:			
Other expense	8	(158,943)	(190,562)
PROFIT BEFORE TAXATION		10,630	2,000
Income tax	9	755	805
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		11,385	2,805

All results were derived from continuing operations.

The notes on pages 13 to 33 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2019

	Share capital $'000	Retained earnings $'000	Total equity $'000
Balance at 1 January 2018	10,000	38,373	48,373
Profit and total comprehensive income for the year	-	2,805	2,805
Balance at 31 December 2018	10,000	41,178	51,178
Profit and total comprehensive income for the year	-	11,385	11,385
Balance at 31 December 2019	10,000	52,563	62,563

The notes on pages 13 to 33 form an integral part of the financial statements.

MORGAN STANLEY UK GROUP
Registered number: 01281415

STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Note	2019 $'000	2018 $'000
ASSETS			
Cash and short-term deposits		576	18,397
Secured financing	10	119,400	50,995
Loans and advances	11	-	371,750
Trade and other receivables	12	26,117	13,059
Current tax assets		915	933
Prepayments and accrued income		23,432	23,365
Investments in subsidiaries	13	78	78
Property, plant and equipment	14	248,119	267,405
Right-of-use assets	15	558,316	-
TOTAL ASSETS		976,953	745,982
LIABILITIES AND EQUITY			
Trade and other payables	16	65	1,815
Lease liabilities	17	714,932	-
Debt and other borrowings	18	123,634	493,331
Provisions	19	63,910	111,885
Current tax liabilities		645	7,252
Deferred tax liabilities	20	5,121	6,588
Accruals and deferred income		6,083	73,933
TOTAL LIABILITIES		914,390	694,804
EQUITY			
Share capital	23	10,000	10,000
Retained earnings		52,563	41,178
Equity attributable to owners of the Company		62,563	51,178
TOTAL EQUITY		62,563	51,178
TOTAL LIABILITIES AND EQUITY		976,953	745,982

These financial statements were approved by the Board and authorised for issue on 20 April 2020.

Signed on behalf of the Board

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Sue Watts
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S E Watts - Director

The notes on pages 13 to 33 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

1. CORPORATE INFORMATION

The Company is incorporated and domiciled in England and Wales, UK, at the following registered address: 25 Cabot Square, Canary Wharf, London, E14 4QA, UK. The Company is a private company and is unlimited by shares. The registered number of the Company is 01281415.

The Company's immediate parent undertaking is Morgan Stanley International Limited, which has its registered office at 25 Cabot Square, Canary Wharf, London, E14 4QA and is registered in England and Wales, UK. Copies of its financial statements can be obtained from the Registrar of Companies for England and Wales, Companies House, Crown Way, Cardiff, CF14 3UZ.

The Company's ultimate parent undertaking and controlling entity and the largest and smallest group of which the Company is a member and for which group financial statements are prepared is Morgan Stanley which, together with the Company and Morgan Stanley's other subsidiary undertakings, form the Morgan Stanley Group. Morgan Stanley has its registered office c/o The Corporation Trust Company, The Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, United States of America and is incorporated in the state of Delaware, in the United States of America. Copies of its financial statements can be obtained from www.morganstanley.com/investorrelations.

2. BASIS OF PREPARATION

The Company is not required to prepare consolidated financial statements by virtue of the exemption under Section 401 of the Companies Act 2006. The results of the Company are included within the financial statements of Morgan Stanley, which has prepared consolidated financial statements for the year ended 31 December 2019. The financial statements therefore present information about the Company as an individual entity and not about its group.

Statement of compliance

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

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

Where relevant, equivalent disclosures have been provided in the group accounts of Morgan Stanley, in which the Company is consolidated. Copies of Morgan Stanley's accounts can be obtained as detailed at note 1.

New standards and interpretations adopted during the year

The following standards, amendments to standards and interpretations 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 16 '*Leases*' was issued by the IASB in January 2016. The standard was endorsed by the EU in November 2017. This accounting update requires lessees to recognise in the statement of financial position all leases with terms exceeding one year, and results in the recognition of a ROU asset and corresponding lease liability for all such leases, including those previously classified as operating leases.

The Company adopted this standard using the modified retrospective method of adoption, which resulted in the recognition of additional ROU assets and lease liabilities for leases existing at, or entered into after, January 1, 2019. As a result of the transition to IFRS 16, the following line items were impacted:

2. BASIS OF PREPARATION (CONTINUED)

New standards and interpretations adopted during the year (continued)

Impact as at 1 January 2019	**At 31 December 2018 $'000**	**Impact of adoption of IFRS 16 $'000**	**At 1 January 2019 $'000**
Right-of-use assets (adjusted by the amount of related onerous lease provisions, accruals and deferred income)	-	594,936	594,936
	-	594,936	594,936
Lease liabilities	-	712,764	712,764
Provisions	111,885	(48,154)	63,731
Accruals and deferred income	73,933	(69,674)	4,259
	185,818	594,936	780,754

No other line items were impacted and there was no impact to net assets or retained earnings as a result of the implementation of IFRS 16 at the date of initial application. Comparative amounts have not been restated and comparative amounts in relation to leasing activity reflect those determined and disclosed in accordance with International Accounting Standard 17 '*Leases*' ("IAS 17"). There was no resultant cumulative effect adjustment arising on adoption of the standard.

Adoption of the standard required the Company to make certain judgements and elect certain other practical expedients. The Company applied the following practical expedients when applying IFRS 16 on the transition date:

- application of IFRS 16 only to contracts that were previously identified as leases. Contracts that were not previously identified as leases were not reassessed for the existence of a lease;
- the opening ROU asset was reduced by the carrying amount of the IAS 37 onerous lease provision of $48,154,000 that had existed before the date of initial application and was not subject to an impairment review at the time of adoption;

When measuring the lease liabilities, the Company discounted lease payments using its incremental borrowing rate determined as at 1 January 2019. The weighted average rate applied as of this date is 3.3748%.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Company; and
- payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

The operating leases' minimum lease payments disclosed as at 31 December 2018 in the Company's financial statements differ from the lease liabilities recognised as at 1 January 2019 primarily because IFRS 16 requires the lease payments to be discounted when measuring the lease liabilities.

2. BASIS OF PREPARATION (CONTINUED)

New standards and interpretations adopted during the year (continued)

The accounting for leases where the Company is the lessor is largely unchanged, except that subleases that were previously accounted for as operating leases are now classified as operating or finance leases by reference to the remaining contractual terms and conditions of the head lease of the ROU asset. Accordingly, certain subleases that were previously accounted for as operating leases were reclassified as finance leases on adoption of IFRS 16, resulting in the derecognition of the relevant ROU assets and the recognition of an asset representing the net investment in the lease.

As part of the 2015-2017 Annual Improvements Cycle published in December 2017, the IASB made amendments to the following standards that are relevant to the Company's operations: IAS 12 *'Income Taxes'* and IAS 23 *'Borrowing Costs'*, for application in accounting periods beginning on or after 1 January 2019. The amendments were endorsed by the EU in March 2019.

IFRIC 23 '*Uncertainty over Income Tax Treatments*' was issued by the IASB in June 2017 for application in accounting periods beginning on or after 1 January 2019. The interpretation was endorsed by the EU in October 2018.

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

Basis of measurement

The financial statements of the Company are prepared under the historical cost basis, except for certain financial instruments that have been measured at fair value as explained in the accounting policies below, and in accordance with applicable UK Accounting Standards, including FRS 101, and UK company law.

Critical 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, are reflected in the Business Review section of the Strategic report on pages 1 to 3.

As set out in the Strategic report, retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Company's strategy.

Taking 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 and Strategic and Directors' reports are rounded to the nearest thousand US dollars.

b. Foreign currencies

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments

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

Non-trading financial assets at fair value through profit or loss

Non-trading financial assets at FVPL include secured financing transactions related to securities purchased under agreements to resell.

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 these instruments, interest is not included as a component of fair value, and is therefore included within 'Interest income' or 'Interest expense'.

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'.

ii) Investments in subsidiaries

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

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

iii) Financial assets and financial liabilities at amortised cost

Financial assets at amortised cost include cash and short-term deposits, loans and advances and trade and 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 solely payments of principal and interest ("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 expected credit losses ("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 are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. 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.

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.

iv) Secured financing

The Company enters into arrangements which involve the purchase of securities with resale agreements.

Securities received by the Company under resale arrangements are generally not recognised on the statement of financial position.

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.

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

- Level 2 – Valuation techniques using observable inputs

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

- Level 3 – Valuation techniques with significant unobservable inputs

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

Valuation techniques
Fair value for financial instruments is derived using pricing models. Pricing models take into account the contract terms, as well as multiple inputs including, where applicable, 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.

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.

Valuation process
Valuation Control ("VC") within the Financial Control Group 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, 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.

e. Derecognition of financial assets and liabilities

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

If the asset has been transferred, and the Company neither transfers nor retains substantially all of the risks and rewards of the asset, then the Company 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 Company derecognises financial liabilities when the Company's obligations are discharged or cancelled or when they expire.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Impairment of financial instruments

The Company recognises loss allowances for ECL for its financial assets classified at amortised cost. ECLs 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. ECL is recognised in the statement of comprehensive income within 'Net impairment loss on financial instruments' and is presented as an ECL allowance. The allowance reduces the net carrying amount on the face of the statement of financial position. Where there has been a reduction in ECL, this will be recognised within 'Net reversal of impairment loss on financial instruments'.

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

g. Revenue recognition and contract assets and liabilities

Revenues are recognised when property services are provided to other Morgan Stanley Group undertakings, in an amount that is based on the consideration the Company expects to receive in exchange for those services when such amounts are not probable of significant reversal. Fee income in the statement of comprehensive income comprises of management fees charged to Morgan Stanley Group undertakings for the provision of the related services.

Receivables from contracts with other Morgan Stanley Group undertakings are recognised within 'Trade and other receivables' in the statement of financial position when the underlying performance obligations have been satisfied and the Company has the right per the contract to bill the respective group undertaking. Contract assets are recognised when the Company has satisfied its performance obligations, however, payment is conditional, and are presented within 'Prepayments and accrued income'. Contract liabilities are recognised when the Company has collected payment based on the terms of the contract, but the underlying performance obligations are not yet satisfied, and are presented within 'Accruals and deferred income'.

Incremental costs to obtain the contract are expensed as incurred. Revenues are not discounted when payment is expected within one year.

h. Property, plant and equipment

Property, plant and equipment are stated at cost net of depreciation and any provision for impairment in value (see note 3(i) below) which are included within 'Other expense' in the statement of comprehensive income.

For premises held under leases, a reinstatement provision is recognised for the estimated cost to reinstate the premises at the end of the lease period. When the reinstatement provision is established and included within 'Provisions' in the statement of financial position, an equivalent asset is recognised and included in the cost of leasehold improvements at the initial present value of the reinstatement obligations. The discount effect included in the reinstatement provision is reversed over time using a constant effective yield method and included within 'Interest expense' in the statement of comprehensive income. The reinstatement asset is depreciated over the useful economic life of the relevant leasehold improvement asset and the depreciation charge is included within 'Other expense' in the statement of comprehensive income.

Depreciation is provided on property, plant and equipment at rates calculated to write off the cost of the assets on a straight line basis over their expected useful lives as follows:

Leasehold improvements, including reinstatement assets	- shorter of remaining lease term and 15 years
Fixtures, fittings and equipment	- 3 to 9 years

The carrying amount of an item of property, plant and equipment shall be derecognised on disposal or when no further economic benefits are expected from its use or disposal.

Gains and losses on disposals are determined by comparing proceeds with carrying amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Impairment of non-financial assets

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

j. Cash and cash equivalents

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

k. Grants

Grants received in respect of capital expenditure are treated as deferred income and released to 'Other revenue' in the statement of comprehensive income over the expected useful lives of the related asset on a straight line basis.

l. Income tax

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is reflected within other comprehensive income or equity, respectively.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m. Leases

Applicable from 1 January 2019

For leases whose original lease term exceeds one year, ROU assets and lease liabilities are initially recognised based on the present value of the lease payments over the lease term. The discount rate used in determining the present value is the Company's incremental borrowing rate. The ROU asset also includes any prepaid lease payments and initial direct costs incurred and is reduced to reflect lease incentives received. The interest on lease liabilities is accrued at a constant periodic rate of interest on the remaining balance of the lease liability. The liability is remeasured when there is a change in future lease payments arising from a change in an index or rate or from a market rent review. Additionally, the lease liability is remeasured if the Company changes its assessment of whether it will exercise an extension or termination option or undertakes certain modifications of the lease. The ROU asset is depreciated on a straight line basis from the lease commencement date to the earlier of the end of its useful life or the end of the lease term. Depreciation of ROU assets is presented within 'Other expenses'. In addition, the ROU asset is tested for impairment losses where there is an impairment event.

The Company evaluates contracts greater than one year to determine whether they contain lease components at inception. Where contracts contain both lease and non-lease components, they are accounted for as a single lease.

The Company presents ROU assets and lease liabilities separately on the statement of financial position.

Subleases are classified by reference to the ROU asset arising from the head lease. Where the sublease transfers substantially all of the risks and rewards incidental to the underlying ROU asset then it is accounted for as a finance lease. Otherwise, the sublease is accounted for as an operating lease. The net investment in the lease that arises from finance leases are subsequently measured at amortised cost.

Applicable until 31 December 2018

Rentals payable under operating leases are charged to 'Other expense' in the statement of comprehensive income on a straight line basis over the lease term. Lease incentives are allocated on a straight line basis over the lease term as a reduction to rental expense.

n. Provisions and commitments

Provisions are recognised when the Company has a present obligation as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the year end date, taking into account the risks and uncertainties surrounding the obligation.

A commitment is any legal obligation to potentially make or receive cash payments or transfer cash.

Commitments are not recognised in the financial statements. However, disclosure is made unless the probability of settlement is remote.

o. Offsetting of financial assets and financial liabilities

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

4. FEE INCOME

	2019 $'000	2018 $'000
Revenue from contracts with customers:		
Management charges to other Morgan Stanley Group undertakings for property services provided	188,932	201,482

5. OTHER REVENUE

	2019 $'000	2018 $'000
Sublease of right-of-use assets	3,338	-
Government grants	-	1,070
Net foreign exchange gains	1,775	-
	5,113	1,070

Sublease of right-of-use assets
Income from the sublease of ROU assets relates to differences between the carrying value of ROU assets derecognised at the inception of a sublease and the measurement of the net investment in sublease.

Government grants
Income from government grants in the prior year relates to a Regional Selective Assistance grant awarded towards capital expenditure. The related expense is recognised in 'Other expense'. There is no equivalent income in the current year.

6. INTEREST INCOME AND INTEREST EXPENSE

The table below presents interest income and expense by accounting classification. Interest income and expense is calculated using the effective interest method for financial assets and financial liabilities measured at amortised cost. Interest income includes realised interest on financial assets measured at FVPL.

	2019 $'000	2018 $'000
Financial assets not measured at FVPL		
Financial assets measured at amortised cost	1,757	12,985
Financial assets measured at FVPL		
Non-trading financial assets at FVPL	625	15
Total interest income	2,382	13,000
Financial liabilities measured at amortised cost	17,299	18,492
Interest expense on lease liabilities	22,965	-
Interest expense on provisions	2,590	5,107
Total interest expense	42,854	23,599

6. INTEREST INCOME AND INTEREST EXPENSE (CONTINUED)

Prior year interest expense arising on provisions of $5,107,000 was presented under 'Financial liabilities at amortised cost' in the prior year financial statements.

No other gains or losses have been recognised in respect of financial assets measured at amortised cost other than as disclosed as 'Interest income' and foreign exchange differences disclosed in 'Other revenue' (note 5) and 'Other expense' (note 8).

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 revenue' (note 5) and 'Other expense' (note 8).

7. NET GAINS ON INVESTMENTS IN SUBSIDIARIES

	2019 $'000	2018 $'000
Income from investments in subsidiaries	16,000	609

8. OTHER EXPENSE

	2019 $'000	2018 $'000
Property service costs	75,013	89,434
Operating lease rentals	-	53,879
Impairment losses on right-of-use assets	2,202	-
Depreciation on property, plant and equipment (note 14)	44,237	46,792
Depreciation on right-of-use assets (note 15)	37,367	-
Loss on disposal of property, plant and equipment	12	1
Net foreign exchange losses	-	389
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	70	67
Other	42	-
	158,943	190,562

A description of the Company's significant leasing arrangements is presented at note 22 Leases.

The Company employed no staff during the year (2018: nil).

The amount of remuneration received by Directors in respect of their qualifying services to the Company is disclosed in the Related Party disclosures note (note 26).

MORGAN STANLEY UK GROUP

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

9. INCOME TAX

Analysis of benefit in the year

	2019 $'000	2018 $'000
Current tax expense		
UK corporation tax at 19%		
- Current year	645	-
- Adjustment in respect of prior years	67	182
Total current tax	712	182
Deferred tax (benefit)/ expense		
Origination and reversal of temporary differences	(1,206)	(1,239)
Adjustment in respect of prior years	(236)	351
Effect of changes in tax rates	(25)	(99)
Total deferred tax	(1,467)	(987)
Income tax benefit	(755)	(805)

The UK main rate of corporation tax is 19% for the period. Finance (No.2) Act 2015 reduced the UK main rate of corporation tax to 17% with effect from 1 April 2020. However, following the UK Budget on 11 March 2020 and subsequent resolutions given statutory effect under the Provisional Collection of Taxes Act 1968, for the financial year 2020 the UK statutory rate is 19%. While this change does not affect the income tax charge for the period, it will affect future periods. See Note 20 Deferred Tax Liabilities for further details.

Reconciliation of effective tax rate

The current year income tax expense is lower (2018: lower) than that resulting from applying the average standard rate of corporation tax in the UK for the year of 19% (2018: 19%). The main differences are explained below:

	2019 $'000	2018 $'000
Profit before taxation	10,630	2,000
Income tax using the average standard rate of corporation tax in the UK of 19%	2,020	380
Impact on tax of:		
Tax (over)/under provided in prior years	(169)	533
Expenses not deductible for tax purposes	3,731	3,482
Group relief received for no cash consideration	(3,272)	(4,985)
Effect of changes in tax rate	(25)	(99)
Tax exempt dividends	(3,040)	(116)
Total income tax benefit in the statement of comprehensive income	(755)	(805)

10. SECURED FINANCING

The following table provides an analysis of secured financing by measurement classification:

	2019 $'000	2018 $'000
Non-trading FVPL		
Securities purchased under agreements to resell	119,400	50,995

11. LOANS AND ADVANCES

	2019 $'000	2018 $'000
Loans and advances at amortised cost		
Amounts due from other Morgan Stanley Group undertakings	-	371,750

12. TRADE AND OTHER RECEIVABLES

	2019 $'000	2018 $'000
Trade and other receivables (amortised cost)		
Trade receivables		
Contracts with other Morgan Stanley Group undertakings	11,765	12,349
Net investment in sublease	10,336	-
Other receivables		
Amounts due from other Morgan Stanley Group undertakings	1,101	710
Other amounts receivable	2,915	-
Total trade and other receivables (amortised cost)	26,117	13,059

13. INVESTMENTS IN SUBSIDIARIES

	Subsidiary undertakings $'000
Cost	
At 1 January 2019 and 31 December 2019	78
Carrying amounts	
At 31 December 2018 and 31 December 2019	78

13. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Details of all subsidiary undertakings of the Company at 31 December 2019 and 31 December 2018 are as follows:

Name of company	Address of undertaking's registered office	Proportion of shares held by the Company (1)(2) 2019	2018	Nature of business
Morgan Stanley Amalthea UK Limited	20 Bank Street, Canary Wharf, London, E14 4AD, UK	100%	100%	Financial services
Morgan Stanley Services (UK) Limited	25 Cabot Square, Canary Wharf, London, E14 4QA, UK	100%	100%	Financial services
Morgan Stanley Wertpapiere GmbH	Junghofstrasse 13-15, 60311, Frankfurt am Main, Germany	100%	100%	Financial services

Notes:

(1) The proportion of voting rights held by the Company is the same as the proportion of shares held by the Company.
(2) All shares held in each Company are ordinary shares.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement $'000	Fixtures, fittings and equipment $'000	Total $'000
Cost			
At 1 January 2019	816,846	78,811	895,657
Additions	25,393	-	25,393
Disposals	(12,225)	-	(12,225)
At 31 December 2019	830,014	78,811	908,825
Depreciation			
At 1 January 2019	549,441	78,811	628,252
Charge for the year	44,237	-	44,237
Disposals	(11,783)	-	(11,783)
At 31 December 2019	581,895	78,811	660,706
Carrying amount			
At 31 December 2019	248,119	-	248,119

15. RIGHT-OF-USE ASSETS

	Right-of-use assets - Property $'000
Cost	
At 1 January 2019	-
Impact of adoption of IFRS 16 (see note 2)	594,936
Additions	7,447
Disposals	(4,659)
At 31 December 2019	597,724
Depreciation	
At 1 January 2019	-
Charge for the year	37,367
Impairment provisions	2,202
Disposals	(161)
At 31 December 2019	39,408
Carrying amount	
At 31 December 2019	558,316

16. TRADE AND OTHER PAYABLES

	2019 $'000	2018 $'000
Other payables (amortised cost)		
Amounts due to other Morgan Stanley Group undertakings	65	1,811
Other amounts payable	-	4
	65	1,815

17. LEASE LIABILITIES

	2019 $'000
Lease liabilities	714,932

18. DEBT AND OTHER BORROWINGS

	2019 $'000	2018 $'000
Debt and other borrowings (amortised cost)		
Amounts due to other Morgan Stanley Group undertakings	123,634	493,331

19. PROVISIONS

Provisions recognised under IAS 37

The following table sets out the provisions recognised under IAS 37:

	Onerous lease contracts $'000	Lease reinstatement provisions $'000	Total $'000
At 1 January 2019	59,262	52,623	111,885
Impact of adoption of IFRS 16 (see note 2)	(48,154)	-	(48,154)
Additional provisions	416	888	1,304
Provisions utilised	(4,391)	(1,015)	(5,406)
Unused provisions reversed	(777)	-	(777)
Effect of unwinding discount rate	392	2,198	2,590
Foreign exchange revaluation	283	2,185	2,468
At 31 December 2019	7,031	56,879	63,910

Onerous lease contracts

The onerous lease contracts represent the net present value of expected future costs of excess office space (net of expected sublease income).

Lease reinstatement provisions

Lease reinstatement provisions represent the net present value of expected future costs of reinstating leasehold improvements at the end of the lease term. Lease reinstatement provisions are released when the reinstatement obligations have been fulfilled. The related asset for lease reinstatement provisions is included in 'Leasehold improvements' within 'Property, plant and equipment' (note 14).

20. DEFERRED TAX LIABILITIES

Deferred taxes are calculated on all temporary differences under the liability method. The movement in the deferred tax account is as follows:

	2019 Deferred tax liability $'000	2018 Deferred tax liability $'000
At 1 January	(6,588)	(7,575)
Amount recognised in the statement of comprehensive income		
Current year timing differences	1,206	1,239
Adjustments in respect of prior years	236	(351)
Impact of change in UK corporation tax rate	25	99
At 31 December	(5,121)	(6,588)

20. DEFERRED TAX LIABILITIES (CONTINUED)

The deferred tax included in the statement of financial position and changes recorded in 'Income tax expense' are as follows:

	Deferred tax liability 2019 $'000	Income statement 2019 $'000	Deferred tax liability 2018 $'000	Income statement 2018 $'000
Accelerated capital allowances	(5,121)	1,467	(6,588)	987

Finance (No.2) Act 2015 reduced the UK main rate of corporation tax to 17% with effect from 1 April 2020. However, following the UK Budget on 11 March 2020 and subsequent resolutions given statutory effect under the Provisional Collection of Taxes Act 1968, for the financial years 2020 and 2021 the UK statutory rate is 19%. Had this change in rate been effective at the balance sheet date for 2020 and subsequent years, due to revaluation the deferred tax liability recognised at 31 December 2019 would have been $6,000,000.

21. COMMITMENTS AND CONTINGENCIES

The Company guaranteed certain obligations of another Morgan Stanley Group undertaking under a lease agreement with an unrelated third party. The Company's ultimate parent undertaking, Morgan Stanley, will provide sufficient financial support to the Company to allow it to pay the relevant guaranteed sums in the event that the Company itself cannot timeously do so from its own resources.

22. LEASES

Leases

The Group's leases are primarily real estate leases. The firm has made the election to include the non-lease component when computing the ROU asset and liability.

Extension and termination options

Certain real estate leases contain extension and termination options to provide additional operational flexibility. Extension and termination options that are at the option of the lessee are included in the assessment of the lease term where the extensions are considered reasonably certain of being exercised or where termination options are considered reasonably certain not to be exercised. Where the option is controlled by the lessor, the lease term assumes that extension options will be exercised and that termination options will not be exercised.

Lessee disclosures

The Company presents ROU assets (note 15) and lease liabilities (note 17) separately on the statement of financial position.

The statement of comprehensive income includes income relating to the subleasing of right-of-use assets within 'Other revenue' (note 5); depreciation of right-of-use assets and short-term lease expenses within 'Other expense' (note 8) and interest expense on lease liabilities within 'Interest expense' (note 6).

The total cash outflow relating to leases was $62,047,000 during the year.

22. LEASES (CONTINUED)

Maturity analysis of lease liabilities

In the following maturity analysis, undiscounted lease payments due on lease liabilities should be allocated to the earliest period in which the entity can be required to pay the cash. The following table represents the undiscounted lease payments analysed according to their earliest contractual maturities.

	2019
	$'000
On demand	-
Less than 1 month	16,051
Equal to or more than 1month but less than 3 months	4,626
Equal to or more than 3 months but less than 1 year	48,153
Equal to or more than 1 year but less than 5 years	256,815
Equal to or more than 5 years	587,047
Total undiscounted lease liabilities	912,692
Effect of discounting lease liability at incremental borrowing rate	(197,760)
Total lease liability as at 31 December 2019	**714,932**

Future minimum lease payments under non-cancellable operating leases at 31 December 2018 are as follows:

	2018
	$'000
Within one year	61,813
In the second to fifth years inclusive	245,880
After five years	627,273
	934,966

Lessor disclosures

Undiscounted lease payments receivable under finance subleases as at 31 December 2019 are as follows:

	2019
	$'000
Within one year	-
One to two years	1,244
Two and three years	1,992
Three to four years	2,457
Four to five years	2,457
After five years	3,143
Total undiscounted lease payments receivable	11,293
Unearned finance income	(957)
Net investment in the lease	**10,336**

23. EQUITY

	2019 Number	$'000	2018 Number	$'000
Allotted and fully paid				
Ordinary shares of $1 each	10,000,000	10,000	10,000,000	10,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled, on a show of hands, to one vote and, on a poll, one vote per share at meetings of the shareholders of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

24. 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 or equal to twelve months $'000	More than twelve months $'000	Total $'000
ASSETS			
Cash and short-term deposits	576	-	576
Secured financing	119,400	-	119,400
Loans and advances	-	-	-
Trade and other receivables	26,117	-	26,117
Current tax assets	-	915	915
Prepayments and accrued income	23,432	-	23,432
Investments in subsidiaries	-	78	78
Property, plant and equipment	-	248,119	248,119
Right-of-use assets	-	558,316	558,316
	169,525	807,428	976,953
LIABILITIES			
Trade and other payables	65	-	65
Lease liabilities	42,286	672,646	714,932
Debt and other borrowings	-	123,634	123,634
Provisions	2,280	61,630	63,910
Current tax liabilities	645	-	645
Deferred tax liabilities	1,024	4,097	5,121
Accruals and deferred income	6,083	-	6,083
	52,383	862,007	914,390

Total financial liabilities of $489,319,000 included in the above and relating to lease obligations, fall due for payment after more than five years from the reporting date.

24. EXPECTED MATURITY OF ASSETS AND LIABILITIES (CONTINUED)

At 31 December 2018	Less than or equal to twelve months $'000	More than twelve months $'000	Total $'000
ASSETS			
Cash and short-term deposits	18,397	-	18,397
Secured financing	50,995	-	50,995
Loans and advances	371,750	-	371,750
Trade and other receivables	13,059	-	13,059
Current tax assets	-	933	933
Prepayments and accrued income	23,365	-	23,365
Investments in subsidiaries	-	78	78
Property, plant and equipment	-	267,405	267,405
	477,566	268,416	745,982
LIABILITIES			
Trade and other payables	1,815	-	1,815
Debt and other borrowings	-	493,331	493,331
Provisions	14,782	97,103	111,885
Current tax liabilities	7,252	-	7,252
Deferred tax liabilities	-	6,588	6,588
Accruals and deferred income	8,627	65,306	73,933
	32,476	662,328	694,804

25. SEGMENT REPORTING

The principal activity of the Company is to provide property services to other Morgan Stanley Group undertakings in the UK.

26. RELATED PARTY DISCLOSURES

Parent and subsidiary relationships

Parent and ultimate controlling entities

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

Subsidiary relationships

The Company's subsidiary undertakings at 31 December 2019 and 31 December 2018 are provided in note 13 to the financial statements.

26. RELATED PARTY DISCLOSURES (CONTINUED)

Directors' remuneration

The Company paid no remuneration to its Directors during the current or prior year. The charges in respect of Directors' qualifying services to the Company have been borne by another Morgan Stanley Group undertaking. The amount of remuneration received by Directors in respect of their qualifying services to the Company is disclosed below:

	2019 $'000	2018 $'000
Total remuneration of all Directors:		
Aggregate remuneration	467	650
Long term incentive schemes	27	27
Company contributions to pension schemes	18	18
	512	695
Disclosures in respect of the highest paid Director:		
Aggregate remuneration	439	636
Long term incentive schemes	24	26
Company contributions to pension schemes	17	18

Directors' remuneration has been calculated as the sum of cash, bonuses, and benefits in kind.

All Directors who are employees of the Morgan Stanley Group are eligible for shares and share options of the parent company, Morgan Stanley, awarded under the Morgan Stanley Group's equity-based long term incentive schemes. In accordance with Schedule 5 paragraph 1(3)(a) of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the above disclosures do not include the value of shares awarded. During the year three Directors received restricted stock unit awards in respect of qualifying services (2018: three).

The value of assets (other than shares) awarded under other long term incentive schemes has been included in the above disclosures when the awards vest, which is generally within three years from the date of the award.

The Morgan Stanley Group operates a defined contribution pension scheme, the Morgan Stanley UK Group Pension Plan. There are four Directors to whom retirement benefits are accruing under this defined contribution scheme (2018: three).

One Director has benefits accruing under the Alternative Retirement Plan, a defined benefit scheme, operated by Morgan Stanley UK Limited (2018: one).

The Company has not provided any loans or other credit advances to its Directors during the year (2018: $nil).

27. 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 2 of the Strategic Report.