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United Kingdom

MORGAN STANLEY UK GROUP

Report and financial statements

31 December 2020

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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 2020.

COMPANY OVERVIEW

The Company, governance and stakeholders

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.

The Company adopts policies and procedures consistent with the Morgan Stanley Group to the extent permissible by local law and regulation. More information on Morgan Stanley can be located on the website www.morganstanley.com.

The Company follows the core values of the Morgan Stanley Group. The core values are designed to guide decision making aligned to the expectations of stakeholders. The core values are: put clients first, do the right thing, lead with exceptional ideas, commit to diversity and inclusion and give back.

Further detail on the Board's engagement with stakeholders and the Company's section 172 (1) statement is outlined on page 7.

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.

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.

Risk factors and operating environment

Exposure to risk factors and the current business environment in which it operates may impact business results of the Company's operations.

Risk factors

The key risk of the Company is its exposure to other Morgan Stanley Group undertakings for which it charges a service fee on a cost recovery basis. 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 in the Risk Management section on page 4.

The Morgan Stanley Group Risk Appetite Statement articulates the aggregate level and type of risk that the Morgan Stanley Group is willing to accept in order to execute its business strategy.

The Morgan Stanley Group has an established Risk Management Framework, to support the identification, monitoring and management of risk.

Business environment

During the course of 2020, the Morgan Stanley Group has been impacted by a series of factors in the global environment in which it operates including the emergence of the coronavirus disease ("COVID-19") in early 2020 and the finalisation of the agreement governing the United Kingdom's (UK) withdrawal from the European Union (the "EU") ("Brexit").

STRATEGIC REPORT

COMPANY OVERVIEW (CONTINUED)

Risk factors and operating environment (continued)

COVID-19

The COVID-19 pandemic and related voluntary and government-imposed social and business restrictions has adversely impacted global economic conditions, resulting in 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 around the world have been working to develop, manufacture, and distribute COVID-19 vaccines. Moreover, governments and central banks have reacted to the economic crisis caused by the pandemic by implementing stimulus and liquidity programs and cutting interest rates. If the pandemic is further prolonged or the actions of governments and central banks are unsuccessful, including actions to facilitate the comprehensive distribution of effective vaccines, the adverse impact on the global economy will deepen, and the future results of operations and financial condition of the Morgan Stanley Group and the Company may be adversely affected.

The Morgan Stanley Group continue to be fully operational, with approximately 90% of employees working from home. Operationally, the Morgan Stanley Group have initiated a work remotely protocol and restricted business travel of the workforce, with a return-to-workplace program, which is phased based on role, location and employee willingness and ability to return. While the Morgan Stanley Group have not experienced a decrease in productivity as a result of the remote work environment, there can be no assurance that the transition will not have an adverse effect in the long term. If significant portions of the 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.

Should global market conditions worsen, or the pandemic lead to additional market disruptions, the Morgan Stanley Group could experience reduced client activity and demand for products and services. Accordingly, the level of service provided by the Company to the Morgan Stanley Group could potentially decline and impact Company revenues and costs but profitability will remain unaffected due to the contractual terms in place.

The Morgan Stanley Group and the Company continue to use their Risk Management framework, to manage the significant uncertainty in the present economic and market conditions.

UK withdrawal from the EU

On 31 January 2020, the UK withdrew from the EU under the terms of the withdrawal agreement which provided for a transition period to the end of December 2020, during which time the UK would continue to apply EU law as if it were a member state, and UK firms' passporting rights to provide financial services in EU jurisdictions continued.

On 24 December 2020, the UK and the EU announced they had reached agreement on the terms of a trade and cooperation agreement to govern the future relationship between the parties. The agreement consists of three main pillars including: trade, citizens' security, and governance, covering a variety of arrangements in several areas. The agreement is provisionally applicable with effect from 1 January 2021 pending formal ratification by the EU.

Morgan Stanley has restructured its European operations to ensure that it can continue to provide cross-border banking and investment and other services in EU member states. The Company has not been impacted by the UK withdrawal from the EU nor has it been involved in any restructurings.

STRATEGIC REPORT

COMPANY OVERVIEW (CONTINUED)

Risk factors and operating environment (continued)

Planned Replacement of London Interbank Offered Rate ("LIBOR") and Replacement or Reform of Other Interest Rates

Central banks around the world, including the Federal Reserve, the Bank of England and the European Central Bank, have commissioned committees and working groups of market participants and official sector representatives to replace LIBOR and replace or reform other interest rate benchmarks (collectively, the "IBORs").

In 2020, there have been several steps taken by the industry to encourage the transition to alternative reference rates. Certain central bank-sponsored committees have issued recommended best practices to assist market participants in transitioning away from the IBORs in various jurisdictions. These documents include recommended timelines and intermediate steps market participants can take in order to achieve a successful transition.

On 5 March 2021, Intercontinental Exchange ("ICE") Benchmark Administration, which administers LIBOR publication, announced that it will cease the publication of most LIBOR rates as of the end of December 2021, except for the publication until 30 June 2023 of the most widely used US dollar LIBOR tenors, and the UK Financial Conduct Authority ("FCA"), which regulates LIBOR publication, announced that it would not compel panel banks to submit to LIBOR beyond those dates. The United States of America ("US") banking agencies and the UK FCA have encouraged banks to cease entering into new contracts referencing LIBOR as soon as practicable and no later than 31 December 2021. The UK FCA has also announced that is consulting on whether to continue publication on a "synthetic" basis for a limited set of LIBOR settings beyond such cessation dates.

Morgan Stanley has established and are undertaking a Morgan Stanley wide and regional IBOR transition plan to promote the transition to alternative reference rates, which is overseen by a global steering committee, with senior management oversight. The transition plan is designed to identify, assess and monitor risks associated with the expected discontinuation or unavailability of one or more of the IBORs, and includes continued engagement with central bank and industry working groups and regulators (including participation and leadership on key committees), active client engagement, internal operational readiness, and risk management, among other things. Morgan Stanley are a party to a significant number of LIBOR-linked contracts, many of which extend beyond 2021 and, in the case of U.S. dollar LIBOR, 30 June 2023, comprising derivatives, floating rate notes and loans. The Company is party to a limited number of contracts related to securities purchased under agreements to resell. The review of these contracts includes assessing the impact of applicable fallbacks and any amendments that may be warranted or appropriate. Steps are also being taken to update operational processes (including to support alternative reference rates), models, and associated infrastructure through bilaterally negotiated voluntary conversions of outstanding LIBOR products where practicable.

OVERVIEW OF FINANCIAL PERFORMANCE AND CONDITION

Overview of 2020 financial results

The statement of comprehensive income for the year is set out on page 14. The Company generated a loss before tax in the current year of $8,158,000 compared with a profit of $10,630,000 in the prior year.

The scope of property services provided to Morgan Stanley Group's operating undertakings and related contractual terms have remained consistent during the current year. The Company continues to charge other Morgan Stanley Group undertakings on a cost recovery basis in accordance with applicable Morgan Stanley Group policies.

The result of the prior year includes dividends received from the Company's subsidiaries of $16,000,000 recognised within 'Net gains on investments in subsidiaries'. Excluding the impact of dividends received, the Company generated a pre-tax loss of $5,370,000 for the prior year. The pre-tax losses, excluding dividends, in both current and prior year are a result of timing differences between recognition of lease related expenses and the corresponding service charges.

STRATEGIC REPORT

OVERVIEW OF FINANCIAL PERFORMANCE AND CONDITION (CONTINUED)

Overview of 2020 financial results (continued)

Other expenses have increased by $10,253,000 to $169,196,000 driven by higher property service costs in the current year as a result of provisions taken for future service and business rate charges on unoccupied leased property. This increase has been offset by a decrease in net interest expense of $10,455,000 to $30,017,000 arising on borrowings from other Morgan Stanley Group undertakings as a result of both lower interest rates and average payable balances. Fee income comprises of service charges to other Morgan Stanley Group undertakings for recovery of costs incurred in the provision of property services, which increased by $1,883,000 due to aforementioned variances in property service costs and net interest expense as well as a $2,106,000 increase in foreign exchange losses recovered in the current year.

The statement of financial position is set out on page 16. Total assets increased by $12,247,000 to $989,200,000 due mainly to a change in secured financing held for compliance with recovery and resolution requirements of $71,779,000 offset by a reduction of $53,218,000 in property, plant and equipment and right-of-use ("ROU") assets primarily due to depreciation charges. Total liabilities increased by $20,252,000 to $934,642,000 in the current year primarily driven by an increase in net amounts owed to other Morgan Stanley Group undertakings of $22,855,000 due to movements in foreign exchange rates.

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.

RISK MANAGEMENT

The key risk to the Company is its exposure to other Morgan Stanley Group undertakings as described on page 1. 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 or systems, 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.

STRATEGIC REPORT

CARBON EMISSIONS

Greenhouse gas emissions, energy consumption and energy efficiency
The Company manages the financial risks from climate change in line with Morgan Stanley Group strategy as articulated in The Morgan Stanley Group's first report under the Taskforce on Climate-related Financial Disclosures (TCFD) published in October 2020. Central to the Morgan Stanley's strategy is the commitment, announced in September 2020, to reach net-zero financed emissions by 2050. Morgan Stanley has also committed to achieve carbon neutrality in global energy, direct emissions and corporate travel carbon footprint by 2022. For the UK office portfolio, Morgan Stanley has been procuring 100% renewable electricity across all sites since 2016.

Morgan Stanley sets global targets that are focused on climate, resource management and supply chain. As part of Morgan Stanley's global commitment to a 25% reduction in energy consumption we have implemented a number of initiatives in the UK which include:

- Continual assessment of plant and equipment run-times with operational needs.
- Replacement of lighting and control systems with energy efficient alternatives (LED).
- Upgrade of air condition and ventilation control systems with energy efficient alternatives.
- Ongoing provision of energy and environmental and energy awareness training to vendors and staff.

The Company has reported in the table below on the carbon emissions of the energy sources from its UK locations as required under the Companies Act 2006. Morgan Stanley emissions have been calculated in line with the Green House Gas Protocol Corporate Accounting and Reporting Standard (revised edition) using emission factors from the Department of Business, Energy & Industrial strategy (Greenhouse gas reporting: conversion factors for 2020 respectively).

Emissions reported relate to the UK properties only leased by the Company. Morgan Stanley affiliates use the properties and are responsible for generating the emissions. A subset of these emissions are also disclosed in the financial statements of these UK affiliates. Emissions reported excludes any emissions relating to employees working from home as such emissions cannot be quantified reliably.

The following table represents the Company's carbon emissions for the year ended 31 December 2020:

Energy consumption used to calculate emissions in kWh		90,350,875
		***CO2e Tonnes**
	Location based	**Market based**
Emission source		
Scope 1 - Combustion of fuel and operation of facilities	516	516
Scope 2 – Electricity, heat, steam and cooling purchased for own use	20,486	-
Total UK footprint	21,002	516
Intensity ratio (tCO2e/SQM) **	0.1656	0.0041

*Tonnes of carbon dioxide equivalent
** Tonnes of carbon dioxide per square metre of UK real estate

STRATEGIC REPORT

CARBON EMISSIONS (CONTINUED)

Greenhouse gas emissions, energy consumption and energy efficiency (continued)
The Company has chosen to report both location-based and market-based emission for scope 2. The location-based emissions reflect the average emissions of the grid where the energy consumption occurs and is calculated using the government-published UK electricity grid average factors. The Company has entered into a contractual arrangement for renewable electricity and as such it can report a reduced emission figure based on the specific electricity purchased under the market-based method. Morgan Stanley purchases 100% renewable electricity backed by certificates.

Reported energy and emissions data will be verified by an independent third party as part of Morgan Stanley's global greenhouse gas inventory management process later in the year. To Morgan Stanley's knowledge there are no material omissions.

Further Information about Morgan Stanley's sustainable initiatives, including the Sustainability Report, is available at www.morganstanley.com/about-us/sustainability-at-morgan-stanley.

Further information about Morgan Stanley's efforts to support climate change mitigation is available in the TCFD report at www.morganstanley.com/assets/pdfs/Morgan_Stanley_TCFD_Report_2020.pdf.

Morgan Stanley's most recent CDP Climate Change questionnaire is available at
www.morganstanley.com/pub/content/dam/msdotcom/about-us/giving-back/sustainability-at-morgan-stanley/Morgan_Stanley_2019_CDP_Climate_Change_Response.pdf

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 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 the COVID-19 pandemic and Brexit for the foreseeable future. The existing and potential effects of COVID-19 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.

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

STRATEGIC REPORT

STAKEHOLDER ENGAGEMENT AND 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 affect 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 2020 which can be obtained as detailed at note 1.

The Board receives regular reporting on relevant topics to assist in its oversight of the Company's business including updates on material service entity 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 the relevant Directors, gives the Board the information it needs to meet its duties under s172 of the Companies Act 2006 when making decisions.

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 of its decisions.

Approved by the Board on 28 April 2021 and signed on its behalf by

DocuSigned by:
Caroline.Nicholls
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C Nicholls - Director
29 April 2021

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 25 for the Company for the year ended 31 December 2020.

RESULTS AND DIVIDENDS

The loss for the year, after tax, was $8,005,000 (2019: $11,385,000 profit).

During the year, no dividends were paid or proposed (2019: $nil).

RISK MANAGEMENT AND FUTURE DEVELOPMENTS

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

COMPANIES REGULATIONS

Energy and Carbon Reporting Requirements

Energy and Carbon Reporting Requirements disclosures have been included within the Strategic report on pages 5 and 6.

DIRECTORS

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

A P Mullineaux	
J D Bendall	(resigned 31 January 2020)
S E Watts	
C Nicholls	(appointed 21 April 2020)

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 7.

EVENTS AFTER THE REPORTING DATE

There have been no significant events since the reporting date.

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 on 28 April 2021 and signed on its behalf by

DocuSigned by:
Caroline.Nicholls
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C Nicholls - Director
29 April 2021

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 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced disclosure framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of changes in equity;
- the statement of financial position; and
- the related notes 1 to 25.

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

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

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.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the Company's industry and its control environment, and reviewed the Company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the Company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act 2006 and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty.

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

We discussed among the audit engagement team including relevant internal specialists such as tax and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC.

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.

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.

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

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.

DocuSigned by:

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

29 April 2021

MORGAN STANLEY UK GROUP

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2020

	Note	2020 $'000	2019 $'000
Fee income	4	190,815	188,932
Other revenue	5	240	5,113
Total non-interest revenues		191,055	194,045
Interest income		558	2,382
Interest expense		(30,575)	(42,854)
Net interest expense	6	(30,017)	(40,472)
Net revenues		161,038	153,573
Net gains on investments in subsidiaries	7	-	16,000
Non-interest expense:			
Other expense	8	(169,196)	(158,943)
(LOSS)/ PROFIT BEFORE TAXATION		(8,158)	10,630
Income tax	9	153	755
(LOSS)/ PROFIT AND TOTAL COMPREHENSIVE (EXPENSE)/ INCOME FOR THE YEAR		(8,005)	11,385

All results were derived from continuing operations.

The notes on pages 17 to 35 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2020

	Share capital $'000	Retained earnings $'000	Total equity $'000
Balance at 1 January 2019	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
Loss and total comprehensive expense for the year	-	(8,005)	(8,005)
Balance at 31 December 2020	10,000	44,558	54,558

The notes on pages 17 to 35 form an integral part of the financial statements.

MORGAN STANLEY UK GROUP
Registered number: 01281415

STATEMENT OF FINANCIAL POSITION
As at 31 December 2020

	Note	2020 $'000	2019 $'000
ASSETS			
Cash and short-term deposits		847	576
Secured financing	10	191,179	119,400
Trade and other receivables	11	24,390	26,117
Current tax assets		559	915
Prepayments and accrued income		18,930	23,432
Investments in subsidiaries	12	78	78
Property, plant and equipment	13	222,847	248,119
Right-of-use assets	14	530,370	558,316
TOTAL ASSETS		989,200	976,953
LIABILITIES AND EQUITY			
Trade and other payables	15	910	65
Lease liabilities	16	704,275	714,932
Debt and other borrowings	17	146,489	123,634
Provisions	18	74,294	63,910
Current tax liabilities		1,912	645
Deferred tax liabilities	19	2,777	5,121
Accruals and deferred income		3,985	6,083
TOTAL LIABILITIES		934,642	914,390
EQUITY			
Share capital	22	10,000	10,000
Retained earnings		44,558	52,563
Equity attributable to owners of the Company		54,558	62,563
TOTAL EQUITY		54,558	62,563
TOTAL LIABILITIES AND EQUITY		989,200	976,953

These financial statements were approved by the Board on 28 April 2021 and authorised for issue on 29 April 2021.

Signed on behalf of the Board

DocuSigned by:
Caroline.Nicholls
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C Nicholls - Director

The notes on pages 17 to 35 form an integral part of the financial statements.

1. CORPORATE INFORMATION

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 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 2020. 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 amendments to standards relevant to the Company's operations were adopted during the year and did not have a material impact on the Company's financial statements.

Amendments to International Accounting Standard ("IAS") 1 '*Presentation of Financial Statements*' 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.

An amendment to International Financial Reporting Standard ("IFRS") 16 '*Leases*': COVID-19-Related Rent Concessions was issued by the International Accounting Standards Board ("IASB") in May 2020, for retrospective application in accounting periods beginning on or after 1 June 2020. The amendment was endorsed by the EU in October 2020. The Company has early adopted this amendment from 1 January 2020.

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

2. BASIS OF PREPARATION (CONTINUED)

Basis of measurement

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

Critical 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 Strategic report on pages 1 to 7.

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 and 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.

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'.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

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

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

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 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value

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

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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
Right-of-use assets - Property	- remaining lease term

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. 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 (loss)/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.

l. Leases

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m. Provisions and commitments

Provisions are recognised when the Company has an identified 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 that 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. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount reflects the present value of those cash flows, where the effect of discounting is material.

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

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

n. 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

	2020 $'000	2019 $'000
Revenue from contracts with customers:		
Service charges to other Morgan Stanley Group undertakings for property services provided	190,815	188,932

5. OTHER REVENUE

	2020 $'000	2019 $'000
Sublease of right-of-use assets	240	3,338
Net foreign exchange gains	-	1,775
	240	5,113

Sublease of right-of-use assets
Income in the current year represents the difference arising from incentives payable to subtenants being lower than initially forecast. Prior year income 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.

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.

	2020 $'000	2019 $'000
Financial assets not measured at FVPL		
Financial assets measured at amortised cost	272	1,757
Financial assets measured at FVPL		
Non-trading financial assets at FVPL	286	625
Total interest income	558	2,382
Financial liabilities measured at amortised cost	6,353	17,299
Interest expense on lease liabilities	21,431	22,965
Interest expense on provisions	2,791	2,590
Total interest expense	30,575	42,854

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

	2020 $'000	2019 $'000
Income from investments in subsidiaries	-	16,000

8. OTHER EXPENSE

	2020 $'000	2019 $'000
Property service costs	86,418	75,013
Impairment losses on right-of-use assets (note 14)	2,059	2,202
Depreciation on property, plant and equipment (note 13)	42,504	44,237
Depreciation on right-of-use assets (note 14)	37,788	37,367
Loss on disposal of property, plant and equipment	-	12
Net foreign exchange losses	331	-
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	75	70
Other	21	42
	169,196	158,943

A description of the Company's significant leasing arrangements is presented at note 21 Leases.

The Company employed no staff during the year (2019: 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 25).

9. INCOME TAX

Analysis of benefit in the year

	2020 $'000	2019 $'000
Current tax expense		
UK corporation tax at 19% (2019: 19%)		
- Current year	-	645
- Adjustment in respect of prior years	2,191	67
Total current tax	2,191	712
Deferred tax (benefit)/ expense		
Origination and reversal of temporary differences	(1,597)	(1,206)
Adjustment in respect of prior years	(1,316)	(236)
Effect of changes in tax rates	569	(25)
Total deferred tax	(2,344)	(1,467)
Income tax benefit	(153)	(755)

Finance (No.2) Act 2015 reduced the UK main rate of corporation tax to 17% with effect from 1 April 2020. However, Finance Act 2020 removed the reduction to 17% with effect from 1 April 2020 and the UK main rate remains 19% for the financial year 2020, which impacts the current tax charge in the current year. See Note 19 Deferred Tax Liabilities for further details. The UK main rate of corporation tax is 19% for the year.

As part of the UK Budget on 3 March 2021, the Chancellor announced a rise in the UK main rate of corporation tax from 19% to 25% with effect from 1 April 2023. While this change does not affect the income tax charge for the year, it will affect future years.

Reconciliation of effective tax rate

The current year income tax benefit is lower (2019: lower) than that resulting from applying the average standard rate of corporation tax in the UK for the year of 19% (2019: 19%). The main differences are explained below:

	2020 $'000	2019 $'000
(Loss)/ profit before taxation	(8,158)	10,630
Income tax using the average standard rate of corporation tax in the UK of 19%	(1,550)	2,020
Impact on tax of:		
Tax (over)/under provided in prior years	875	(169)
Expenses not deductible for tax purposes	3,690	3,731
Group relief received for no cash consideration	(3,737)	(3,272)
Effect of changes in tax rate	569	(25)
Tax exempt dividends	-	(3,040)
Total income tax benefit in the statement of comprehensive income	(153)	(755)

10. SECURED FINANCING

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

	2020 $'000	2019 $'000
Non-trading FVPL		
Securities purchased under agreements to resell	191,179	119,400

11. TRADE AND OTHER RECEIVABLES

	2020 $'000	2019 $'000
Trade and other receivables (amortised cost)		
Trade receivables		
Contracts with other Morgan Stanley Group undertakings	12,203	11,765
Net investment in sublease	10,878	10,336
Other receivables		
Amounts due from other Morgan Stanley Group undertakings	36	1,101
Other amounts receivable	1,273	2,915
Total trade and other receivables (amortised cost)	24,390	26,117

12. INVESTMENTS IN SUBSIDIARIES

	Subsidiary undertakings $'000
Cost	
At 1 January 2020 and 31 December 2020	78
Carrying amounts	
At 31 December 2019 and 31 December 2020	78

Details of all subsidiary undertakings of the Company at 31 December 2020 and 31 December 2019 are as follows:

Name of Company	Address of undertaking's registered office	Proportion of shares held by the Company (1)(2) 2020	2019	Nature of business
Morgan Stanley Amalthea UK Limited (In Liquidation)	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.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement $'000	Fixtures, fittings and equipment $'000	Total $'000
Cost			
At 1 January 2020	830,014	78,811	908,825
Additions	17,232	-	17,232
At 31 December 2020	847,246	78,811	926,057
Depreciation			
At 1 January 2020	581,895	78,811	660,706
Charge for the year	42,504	-	42,504
At 31 December 2020	624,399	78,811	703,210
Carrying amount			
At 31 December 2020	222,847	-	222,847

14. RIGHT-OF-USE ASSETS

	Right-of-use assets - Property $'000
Cost	
At 1 January 2020	597,724
Additions	11,901
At 31 December 2020	609,625
Depreciation	
At 1 January 2020	39,408
Charge for the year	37,788
Impairment provisions	2,059
At 31 December 2020	79,255
Carrying amount	
At 31 December 2020	530,370

Impairment provisions of $2,059,000 arise from a reassessment of the future economic benefits expected in relation to unoccupied office space leased by the Company.

15. TRADE AND OTHER PAYABLES

	2020 $'000	2019 $'000
Other payables (amortised cost)		
Amounts due to other Morgan Stanley Group undertakings	860	65
Other amounts payable	50	-
	910	65

16. LEASE LIABILITIES

	2020 $'000	2019 $'000
Lease liabilities (note 21)	704,275	714,932

17. DEBT AND OTHER BORROWINGS

	2020 $'000	2019 $'000
Debt and other borrowings (amortised cost)		
Amounts due to other Morgan Stanley Group undertakings	146,489	123,634

18. PROVISIONS

Provisions recognised under IAS 37 *'Provisions, Contingent Liabilities and Contingent Assets'*
The following table sets out the provisions recognised under IAS 37:

	Onerous lease contracts $'000	Lease reinstatement provisions $'000	Total $'000
At 1 January 2020	7,031	56,879	63,910
Additional provisions	7,994	-	7,994
Provisions utilised	(2,855)	(158)	(3,013)
Effect of unwinding discount rate	509	2,282	2,791
Foreign exchange revaluation	804	1,808	2,612
At 31 December 2020	13,483	60,811	74,294

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 13).

19. 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:

	2020 Deferred tax liability $'000	2019 Deferred tax liability $'000
At 1 January	(5,121)	(6,588)
Amount recognised in the statement of comprehensive income		
Current year timing differences	1,597	1,206
Adjustments in respect of prior years	1,316	236
Impact of change in UK corporation tax rate	(569)	25
At 31 December	(2,777)	(5,121)

19. 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 2020 $'000	Income statement 2020 $'000	Deferred tax liability 2019 $'000	Income statement 2019 $'000
Accelerated capital allowances	(2,777)	2,344	(5,121)	1,467

20. 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.

21. LEASES

Leases

The Group's leases are primarily real estate leases. The Morgan Stanley Group 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 14) and lease liabilities (note 16) separately on the statement of financial position.

The statement of comprehensive income includes income relating to the subleasing of ROU 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 $62,357,000 during the year (2019: $62,047,000).

21. 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.

	2020 $'000	2019 $'000
On demand	-	-
Less than 1 month	12,946	16,051
Equal to or more than 1month but less than 3 months	7,994	4,626
Equal to or more than 3 months but less than 1 year	50,841	48,153
Equal to or more than 1 year but less than 5 years	271,153	256,815
Equal to or more than 5 years	548,939	587,047
Total undiscounted lease liabilities	891,873	912,692
Effect of discounting lease liability at incremental borrowing rate	(187,598)	(197,760)
Total lease liability as at 31 December	**704,275**	**714,932**

Lessor disclosures

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

	2020 $'000	2019 $'000
Within one year	1,280	-
One to two years	2,050	1,244
Two and three years	2,529	1,992
Three to four years	2,529	2,457
Four to five years	2,529	2,457
After five years	705	3,143
Total undiscounted lease payments receivable	11,622	11,293
Unearned finance income	(744)	(957)
Net investment in the lease	**10,878**	**10,336**

22. EQUITY

	2020 Number	$'000	2019 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.

23. 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 2020	Less than or equal to twelve months $'000	More than twelve months $'000	Total $'000
ASSETS			
Cash and short-term deposits	847	-	847
Secured financing	191,179	-	191,179
Trade and other receivables	14,554	9,836	24,390
Current tax assets	-	559	559
Prepayments and accrued income	18,930	-	18,930
Investments in subsidiaries	-	78	78
Property, plant and equipment	-	222,847	222,847
Right-of-use assets	-	530,370	530,370
	225,510	763,690	989,200
LIABILITIES			
Trade and other payables	910	-	910
Lease liabilities	43,090	661,185	704,275
Debt and other borrowings	-	146,489	146,489
Provisions	1,764	72,530	74,294
Current tax liabilities	1,912	-	1,912
Deferred tax liabilities	555	2,222	2,777
Accruals and deferred income	3,985	-	3,985
	52,216	882,426	934,642

Total financial liabilities of $461,340,000 (2019: $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.

23. EXPECTED MATURITY OF ASSETS AND LIABILITIES (CONTINUED)

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
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

24. SEGMENT REPORTING

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

25. 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 2020 and 31 December 2019 are provided in note 12 to the financial statements.

25. 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:

	2020 $'000	2019 $'000
Total remuneration of all Directors:		
Aggregate remuneration	85	467
Long term incentive schemes	8	27
Company contributions to pension schemes	3	18
Aggregate compensation for loss of office	59	-
	155	512
Disclosures in respect of the highest paid Director:		
Aggregate remuneration	28	439
Long term incentive schemes	1	24
Company contributions to pension schemes	1	17

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 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 (2019: 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 (2019: four).

One Director has benefits accruing under the Alternative Retirement Plan, a defined benefit scheme, operated by Morgan Stanley UK Limited (2019: one).

The Company has not provided any loans or other credit advances to its Directors during the year (2019: $nil).