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MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

Report and financial statements

31 December 2019

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

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MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

STRATEGIC REPORT

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

INTRODUCTION

The principal activity of the Company is the provision of investment management services to clients.

There have not been any significant changes in the Company's principal activity in the year under review. The provision of certain services is expected to be impacted by the United Kingdom ("UK")'s decision to leave the European Union ("EU"), however this is not expected to result in any significant change to the Company's principal activity.

In relation to the Morgan Stanley Group's preparation for the UK withdrawal from the EU, on 1 January 2019 the Company transferred the operations of its Luxembourg branch, including property, plant and equipment, lease commitments and employee contracts to MSIM Fund Management (Ireland) Limited ("MSIM FM"), another Morgan Stanley Group undertaking.

The Company has continued to operate branches in the Netherlands, Italy and Germany during the year, as well as a representative office in the Dubai International Financial Centre ("DIFC").

The Company is authorised and regulated by the Financial Conduct Authority ("FCA").

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".

BUSINESS ENVIRONMENT AND PERFORMANCE

Business environment

Global market and economic conditions

During 2019, global economic growth slowed to 3.0% from 3.7% in 2018. The slowdown was broad-based across both developed and emerging markets, with growth in developed markets slowing to 1.7% in 2019 from 2.1% in 2018, while in emerging markets, growth softened to 3.9% in 2019 from 4.8% in 2018. Trade tensions weighed heavily on global growth through the year via its impact on corporate sentiment and capital spending, as well as on the manufacturing and trade sectors. In response to the growth headwinds, both monetary and fiscal policies were eased. In particular, the Federal Reserve cut interest rates by 75bps in the second half of the year and resumed an expansion of its balance sheet in response to tightening liquidity conditions. The European Central Bank ("ECB") announced a series of easing measures in the second half of the year, cutting rates by 10bps, introducing a two-tier system for excess reserve holdings, and restarting quantitative easing. The Bank of England ("BOE") held rates unchanged against a backdrop of weak global growth and Brexit uncertainties. China's policymakers implemented both fiscal and monetary easing measures throughout the year, including government bond issuance and interest rate reform. Other major central banks, including the Central Bank of Russia, the Reserve Bank of India, the Central Bank of Brazil ("BCB"), and the Bank of Korea ("BoK"), also cut interest rates to multi-year lows.

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

STRATEGIC REPORT

BUSINESS ENVIRONEMENT AND PERFORMANCE (CONTINUED)

Business environment (continued)

Global market and economic conditions (continued)

The strong start to 2020 following fading trade tensions and sizeable policy easing has been quickly superseded by the impact of COVID-19 (coronavirus). The 2020 global economic growth forecast is now a contraction of 1.9% for the year, versus the pre-COVID-19 growth forecast of 3.2% for the year, followed by a recovery in 2021. The sharp deterioration of economic growth in 2020 is broad-based in both developed markets and emerging markets. In developed markets, 2020 growth is expected to contract by 4.6% for the year versus the pre-COVID-19 forecast of an expansion of 1.3% for the year. In emerging markets, 2020 growth is forecasted to contract by 0.1% for the year versus the pre-COVID-19 forecasted expansion of 4.4%. In response to this sharp deterioration in the growth outlook, both monetary and fiscal policies are on a further easing path. In particular, the Federal Reserve has cut interest rates by 150bps to the zero lower bound, restarted quantitative easing of at least $700 billion, opened up swap lines with the world's major central banks and established various lending facilities. The ECB announced additional quantitative easing of €120 billion on 12 March and announced again one week later the €750 billion Pandemic Emergency Purchase Program. The Bank of Japan expanded its quantitative easing program with more proactive purchase of exchange-traded funds and Japanese Real Estate Investment Trusts and increased its purchase of commercial paper and corporate bonds. The BoE has also cut interest rates to the lower bound and started quantitative easing of £200 billion. Other world major central banks, such as the BoK and the BCB, have cut interest rates to multi-year lows as well. On the fiscal side, governments around the globe have announced aggressive fiscal stimulus, including both direct spending and liquidity injection. China's policy-makers pre-approved another local government bond issuance of around Rmb850 billion ahead of the annual National People's Conference meeting, and in the US, a large fiscal stimulus of around $2 trillion was also announced.

Emergence of COVID-19

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

Since the emergence of the pandemic each business segment of Morgan Stanley and the business of the Company has been impacted and such impact will likely be greater in the future if conditions persist (e.g., decline and volatility of asset prices, reduction in interest rates, widening of credit spreads, credit deterioration, market volatility and reduced investment banking advisory activity). Operationally, although Morgan Stanley and the Company 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 Company'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.

BUSINESS ENVIRONMENT AND PERFORMANCE (CONTINUED)

Business environment (continued)

Emergence of COVID-19 (continued)

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 Company, will depend on future developments that are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and any recovery period, future actions taken by governmental authorities, central banks and other third parties in response to the pandemic, and the effects on our customers, counterparties, employees and third-party service providers. Morgan Stanley and the Company continue to use their Risk Management framework, including Stress testing, to understand the attendant uncertainties and their potential impact on our operations, liquidity and capital. Morgan Stanley is maintaining an active dialogue with all its relevant global regulators during this period.

UK withdrawal from the EU

On January 31, 2020, the UK withdrew from the EU under the terms of a withdrawal agreement between the UK and the EU. The withdrawal agreement provides for a transition period to the end of December 2020, during which time the UK will continue to apply EU law as if it were a member state, and UK firms' passporting rights to provide financial services in EU jurisdictions will continue. Under the terms of the withdrawal agreement the UK and the EU may agree to an extension of the transition period for up to two years.

With respect to financial services, the withdrawal agreement provides that the UK and the EU will endeavour to conclude whether they will grant each other equivalence under European financial regulations. Equivalence would provide a degree of access to EU markets for UK financial firms such as the Company, although the extent and duration of such access remains subject to negotiation. If equivalence (or any alternative arrangement) is not agreed, the Morgan Stanley Group's UK licensed entities, including the Company, may be unable to provide regulated services in many EU jurisdictions from the end of December 2020.

Potential effects of the UK exit from the EU and potential mitigation actions may vary considerably depending on the nature of the future trading arrangements between the UK and the EU.

The Morgan Stanley Group has prepared its European operations to be able to do business with its clients in the EU regardless of whether or not equivalence (or an alternative arrangement for financial services) is granted. Changes have been made to European operations in an effort to ensure that the Morgan Stanley Group can continue to provide cross-border investment management services in EU member states from within the EU where necessary.

These changes include the establishment of a new management company in Ireland, MSIM FM, authorised under both the Undertakings for Collective Investment in Transferable Securities Directive and the Alternative Investment Fund Managers Directive. Since 1 January 2019 this entity has acted as management company to the majority of Morgan Stanley's European domiciled funds. In addition an Irish domiciled investment firm, Morgan Stanley Investment Management (Ireland) Limited ("MSIM Ireland"), has been established to provide distribution and separately managed account services to clients where required.

The Morgan Stanley Group is continuing to build out the capabilities of these entities, including engagement with clients and local regulators. The Morgan Stanley Group also expects to continue to add personnel to certain existing offices in the EU. Certain of these personnel may be transferred from the Company, including its EU branches.

Certain investment management activities (including provision of separately managed account services to EU domiciled clients) performed by the Company may in the future move from the Company to MSIM Ireland. The extent and timing of these moves will depend on client preferences and on whether the EU and the UK grant each other equivalence.

BUSINESS ENVIRONMENT AND PERFORMANCE (CONTINUED)

Business environment (continued)

UK withdrawal from the EU (continued)

Following the reorganisations mentioned above, the Company's principal activity and risks remain unchanged and the majority of current profitability and balance sheet remain within the Company.

As a result of the political uncertainty described above, it is currently unclear what the final post-Brexit structure of European operations will be for the Morgan Stanley Group overall. Given the potential negative disruption to regional and global financial markets, results of Morgan Stanley's operations and business prospects could be negatively affected.

Financial performance indicators

The Board of Directors monitors the results of the Company by reference to a range of performance and risk based metrics, including, but not limited to, those listed below. Where the Company is the investment manager for funds, the performance of these funds is closely monitored using various measures such as benchmarking, peer analysis and net inflows/ outflows.

Assets under management

Assets under management ("AUM") contracted with the Company increased from $121.9 billion to $159.1 billion from 31 December 2018 to 31 December 2019.

Profitability metrics

Return on assets: The Company's return on assets (profit for the year as a percentage of total assets at the end of the financial year) was 32% (2018: 19%).

Return on equity: The Company's return on equity (profit for the year as a percentage of total equity at the end of the financial year was 52% (2018: 36%).

Capital

Tier 1 regulatory capital: The Company's Tier 1 capital was $171 million (2018: $186 million) and its Tier 1 capital ratio was 21.0% (2018: 27.7%), which is in excess of the required minimum regulatory ratio. Tier 1 capital ratio is defined as Tier 1 capital divided by risk-weighted assets ("RWAs").This is calculated in accordance with FCA rules which are based on the fourth EU Capital Requirements Directive ("CRD") and the EU Capital Requirements Regulation ("CRR"), collectively known as "CRD IV".

Overview of 2019 financial results

The income statement for the year is set out on page 22. The profit after tax for the financial year was $184,598,000 compared to profit after tax of $104,876,000 in 2018.

Net revenues have increased compared to 2018 primarily due to an increase in the Company's average AUM, which drove an increase in fee and commission income of $23,794,000 mainly relating to investment management and administration fees.

During the year the Company received dividend income of $22,360,000 from its subsidiary, Morgan Stanley Investment Management (ACD) Limited ("MSIM (ACD)"). No dividend income was received during 2018.

Income tax for the year is a credit of $11,887,000 compared to a charge of $22,479,000 in 2018. The effective tax rate is lower than the statutory rate of 19% due to group relief received for no consideration and the reversal of prior year overprovided tax.

BUSINESS ENVIRONMENT AND PERFORMANCE (CONTINUED)

Overview of 2019 financial results (continued)

The statement of financial position is set out on page 25 of the financial statements.

Total assets increased by $13,711,000 to $579,981,000 at 31 December 2019. Amounts due from other Morgan Stanley Group undertakings recognised in trade and other receivables increased by $46,482,000 due to the timing of settlements. Other assets increased by $5,551,000 driven by an increase in accrued fee and commission income of $10,377,000 partially offset by a $5,069,000 decrease in the carrying amount of the deferred commission asset driven by amortisation. Amounts due from other Morgan Stanley Group undertakings recognised in loans and advances decreased by $32,739,000 due to the timing of settlements.

Total liabilities decreased by $50,528,000 to $224,564,000 at 31 December 2019. Current tax liabilities decreased by $32,132,000 due to group relief received for no consideration. Amounts due to other Morgan Stanley Group undertakings within trade and other payables decreased by a total of $21,042,000 due to the timing of settlements.

LIQUIDITY AND CAPITAL RESOURCE MANAGEMENT AND REGULATION

The Company is an agency business that manages money on behalf of its clients and has a fiduciary responsibility to those clients. As a result, the Company is not required to finance its activities through the global capital markets.

The Company continues to actively manage its capital and liquidity position to ensure adequate resources are available to support its activities, to enable it to withstand market stresses and to meet regulatory stress testing requirements proposed by its regulators globally.

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

In line with the Morgan Stanley Group's capital management policies, the Company manages its capital position based upon among other things, business opportunities, risks, capital availability and rates of return together with internal capital policies and regulatory requirements and, therefore, in the future may expand or contract its capital base to address the changing needs of its businesses.

The Company and MSIM (ACD), the Company's direct subsidiary (together the "MSIM Group"), conduct an Internal Capital Adequacy Assessment Process ("ICAAP") at least annually in order to meet its obligations under CRD IV which the FCA review through its Supervisory Review and Evaluation Process ("SREP"). .

MSIM Group capital is managed to ensure capital requirements assessed through the ICAAP and SREP are met. Internal capital ratio minima are set by the Company's Board of Directors to ensure the Company has sufficient capital to meet its regulatory requirements at all times.

See note 30 for further details on the Company's capital management.

LIQUIDITY AND CAPITAL RESOURCE MANAGEMENT AND REGULATION (CONTINUED)

Regulatory developments

The Senior Managers and Certification Regime

From 9 December 2019, the Senior Managers and Certification Regime (SMCR) replaced the Approved Persons Regime for all FCA solo-regulated firms authorised under the Financial Services and Markets Act 2000, as well as EEA and third-country branches of those firms.

Resolution and recovery planning

Both the Morgan Stanley Group and the MSI Group, of which the Company is a part, prepare, on an annual basis, a recovery plan which identifies mitigation tools available to both groups in times of severe stress.

The Morgan Stanley Group has developed a resolution plan in accordance with the requirements of Section 165(d) of Title I of the Dodd-Frank Wall Street Reform and Consumer Protection Act and its implementing regulations adopted by the Federal Reserve Board and the Federal Deposit Insurance Corporation. The resolution plan presents the Firm's strategy for resolution of the Firm upon material financial distress or failure in a severely adverse macroeconomic environment. The Company is a Material Operating Entity of the Morgan Stanley Group and is within the scope of the single point of entry resolution strategy adopted by the Morgan Stanley Group.

The EU Bank Recovery and Resolution Directive ("BRRD") has established a recovery and resolution framework for EU credit institutions and investment firms. The MSI Group produces information required by the UK Resolution Authority in the form of a resolution pack and ad hoc regulatory submissions, as necessary under BRRD and UK regulatory requirements.

European financial regulation reform

In June 2019, the European Commission published, in the Official Journal of the European Union, a comprehensive regulatory reform package that aims to continue the reforms that the EU implemented in the wake of the financial crisis. The final rules amend the existing prudential regime implemented through the Capital Requirements Directive and the Capital Requirements Regulation ("CRD IV" and "CRR") with the amendments to those regulations known as CRDV and CRRII, the BRRD and the Single Resolution Mechanism ("SRM").

Aspects of CRDV and CRRII entered into force on the 27 June 2019, however in the main (with the notable exception of the market risk revisions) the effective date of the revisions is 28 June 2021.

Prudential regime for investment firms

On 27 November 2019, the European Commission published new rules for EU investment firms. These new rules are covered in the Investment Firms Directive ("IFD") and Investment Firms Regulation ("IFR"), which set out a revised prudential framework for certain investment firms, as well as amendments to CRD IV. The effective date of the majority of these new requirements is 26 June 2021.

The IFR and IFD are expected to provide the basis of UK legislation governing certain investment firms. However, there remains some uncertainty over how and when these requirements will be implemented in the UK following the UK's withdrawal from the EU. If, as expected, the IFD and IFR are broadly implemented, the CRD IV and CRR, as amended, will cease to be relevant for the company's stand-alone capital position.

Finalising Basel III reforms

On 7 December 2017, the Basel Committee released the final part of its Basel III reform package. The key amendments provide updates to the standardized measures for calculating capital requirements and include a risk-weighted asset ("RWA") floor calculated as 72.5% of total standardized RWA. Neither the European Commission or the UK regulators have yet published draft rules (expected to be referred to as CRRIII); as such there is some uncertainty as to the final content or time of application. To the extent the CRD IV and CRR have ceased to apply to the company then these changes will not be relevant.

LIQUIDITY AND CAPITAL RESOURCE MANAGEMENT AND REGULATION (CONTINUED)

Regulatory developments (continued)

Regulatory requirements upon withdrawal from the EU

The Company is currently subject to EU regulatory requirements based on the implementation of EU directives by the UK and through EU regulations that apply directly. As a result of the UK's decision to leave the EU, there is uncertainty around what EU regulatory requirements will continue to apply in the UK. EU regulatory requirements in effect at the withdrawal date may continue to apply to the Company directly. Alternatively, the UK may implement equivalent standards for a period of time, including introducing equivalent standards for evolving regulation being introduced by the EU, that would apply to the Company. This may include additional proposals made by the Basel Committee in its Basel III reform package as discussed above.

RISK MANAGEMENT

Risk is an inherent part of the Company's business activity. The Company seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities, in accordance with defined policies and procedures. The Company is an agency business that manages money on behalf of its clients and has a fiduciary responsibility to those clients. The Company has developed its own risk management policy framework, which leverages the risk management policies and procedures of the Morgan Stanley Group where appropriate. The risk management policy framework includes escalation to the Company's Board of Directors and to appropriate senior management of the Company, as well as oversight through a dedicated Risk Committee of non-executive directors that reports to the Board of Morgan Stanley International Limited ("MSI"), the Company's ultimate UK parent undertaking.

The Board is satisfied that the Risk Management function is appropriately separated from the operating units, including the Portfolio Management function.

The Company uses a combination of direct monitoring from its own risk management systems and management information from the delegated portfolio manager to identify, measure, manage and monitor all risks relevant to its business activities.

Risk strategy and appetite

The Company's Risk Appetite Statement articulates the aggregate level and type of risk that the Company is willing to accept to execute its business strategy and is set to be within the resource capacity constraints.

The Risk Appetite Statement aims to ensure that the Company's business activities are carried out in line with the risk appetite approved by the Company's Board of Directors, and to protect the Company's reputation in both normal and stressed environments.

The Company has no risk appetite for Conduct Risk or Reputational Risk. It acknowledges, however, that Conduct Risk or Reputational Risk remains inherent in doing business and thus cannot be entirely eliminated.

The Company's Risk Appetite Statement is set by the Company's Board of Directors in conjunction with the Company's Strategy and Capital and Liquidity resource adequacy framework.

Risk management framework

The Risk Management Framework includes a well-defined comprehensive risk governance structure with appropriate risk management expertise, including processes for periodically assessing the efficacy of the Risk Management Framework.

RISK MANAGEMENT (CONTINUED)

Risk policies and processes

The Company has a number of well-established policies and processes which establish the standards that govern the identification, assessment, monitoring, management and mitigation of the various types of risks involved in its business activities. Specific risk management policies have been implemented to address local business and regulatory requirements where appropriate.

The policies are approved by the Company's Board of Directors and reviewed annually.

Control framework

The Company operates a control framework consistent with the "three lines of Defence" model, with the Business Unit being the first line, Independent Risk Management being the second and Internal Audit Department ("IAD") the third. This structure creates clear delineation of responsibilities between the Business Unit (1st Line), the Control Functions such as Independent Risk Management (2nd Line) and IAD (3rd Line).

Business Unit Management has primary responsibility and accountability for managing all the business unit risks, including Investment Risk, Market, Credit, Liquidity and Operational Risk, as well as ensuring compliance with applicable laws, rules and regulations, for every legal entity which may book exposures on to the MSI Group.

Independent Risk Management, which includes functions performed by the Europe, Middle East and Africa ("EMEA") Risk Division and the EMEA Compliance Department, identify, measure, monitor and control risks. It also provides governance and oversight of activities carried out by the business units, as well as ensuring effective communication of risk matters to Senior Management and the Company's Board of Directors.

The EMEA Chief Risk Officer ("CRO") is responsible for the leadership and management of the EMEA Risk Division. The EMEA CRO reports to the MSI CEO, the Chair of the MSI Risk Committee, and globally to Morgan Stanley's Global CRO. The EMEA CRO is supported by senior risk executives with clear delineation of responsibilities which are documented in job descriptions.

The IAD are the 3rd Line of defence, and are an independent source of assurance to the Company's Board of Directors on the adequacy and operational effectiveness of internal controls. EMEA IAD reports to the MSI Audit Committee and is independent of the Business Units, Support and Control Functions and Risk Management. The IAD independently verifies that the Risk Management Framework has been implemented as intended and is functioning effectively, including opining on the adequacy of the framework and the associated governance processes, as well as the design and operating effectiveness of the supporting controls.

Risk limits, tolerances, monitoring and reporting

The Company uses a combination of direct monitoring from its own Risk Management systems and management information from the delegated Portfolio Manager to identify, measure, manage and monitor all risks relevant to its business activities.

The EMEA Risk Division maintains Risk Limits and Tolerances to support the links between the Company's overall Risk Appetite, which is determined by the Company's and its subsidiary's Boards, and more granular risk-taking decisions and activities. Risk Limits represent quantitative boundaries around risk-taking.

Comprehensive MSI Group Risk Limit and Tolerance Frameworks have been established and are embedded within the Company, covering Market Risk and Operational Risk. These Risk Limit Frameworks are approved and monitored by the Company's Board, the MSI Risk Committee, the EMEA Risk Committee, and the independent Risk Management functions.

Risk Limits, once established, are reviewed and updated on an annual basis, at a minimum, with more frequent updates as necessary. The aggregate monetary Risk Tolerance level for Operational Risk is set by the Company's Board and reviewed at least annually.

RISK MANAGEMENT (CONTINUED)

Risk governance

The MSI Group has a comprehensive Risk Management Governance Framework, which includes Board approved Policies and defined Senior Management risk oversight and escalation processes.

The Company's Board of Directors is ultimately responsible for Company's risk management. The Board is supported in performing these responsibilities by internal committees, which are responsible for overseeing the Risk Management Framework to ensure compliance with risk regulation and establishing Policies and Procedures to measure, monitor and manage the material risks of the Company's business activities.

In addition to internal committees specific to the Company's investment management business, the Company, as part of the MSI Group, is supported by the following:

Board committees

MSI Risk Committee is appointed by the MSI Board to assist and provide guidance to the Company Board on the management of financial and non-financial risks.

MSI Audit Committee is appointed by the MSI Board to assist and provide guidance to the Company in monitoring financial reporting, internal controls, legal and regulatory compliance, internal audit and external audit.

Executive and risk focused management committees

EMEA Operating Committee is the forum for key decisions regarding matters affecting the operations and performance of the MSI Group and is responsible for the execution of strategy.

EMEA Risk Committee ("ERC") assists in the oversight of the MSI Group's management of risk including both financial and non-financial risks.

Management committees (associated with risk governance)

EMEA Franchise Committee assists in the oversight of potentially significant franchise risks including by reviewing relevant activities, transactions and clients, and reviewing the franchise implications of situations that involve suitability or conflicts of interest concerns.

EMEA Asset and Liability Committee assists the ERC to oversee the capital adequacy, including the risk of excessive leverage, and liquidity risk management of the MSI Group.

EMEA Operational Risk Oversight Committee provides guidance to the ERC in relation to the oversight of the management of operational risk of the MSI Group.

EMEA Client Assets Governance Committee provides support for the MSI Group's compliance with Client Assets Sourcebook ("CASS") requirements, and acts as the principal body for providing governance of CASS related issues, being responsible for co-ordinating the approach to managing Client Money and Client Assets.

EMEA Conduct Risk Committee assists the ERC in the oversight and management of conduct risk within the MSI Group.

Management committees (associated with financial reporting

EMEA Financial Statement Review Committee is appointed to review the external financial reporting of MSI and its regulated subsidiaries, including the Company.

Set out below is an overview of the Company's policies for the management of significant operational and financial risks. More detailed qualitative and quantitative disclosures about the Company's management of and exposure to financial risks are included in note 27 to the financial statements.

RISK MANAGEMENT (CONTINUED)

Operational risk

Operational Risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes, from human factors or from external events (e.g. fraud, theft, legal and compliance risks, cyber attacks or damage to physical assets).

Operational risk relates to the following risk event categories as defined by Basel Capital Standards: internal fraud; external fraud; employment practices and workplace safety; clients, products and business practices; business disruption and system failure; damage to physical assets; and execution, delivery and process management. The Company may incur operational risk across the full scope of its business activities, including revenue-generating activities (e.g. investment management) and support and control group (e.g. information technology). Legal and compliance risk is included in the scope of operational risk and is discussed below under "Legal, regulatory and compliance risk".

The Company has established an operational risk framework to identify, measure, monitor and control risk. This framework is consistent with the framework established by the Morgan Stanley Group and includes escalation to the Company's Board of Directors and appropriate senior management personnel. Effective operational risk management is essential to reducing the impact of operational risk incidents and mitigating legal and reputational risks. The framework is continually evolving to reflect changes in the Company and to respond to the changing regulatory and business environment.

The Company has implemented operational risk data and assessment systems to monitor and analyse internal and external operational risk events, to assess business environment and internal control factors and to perform scenario analysis. The collected data elements are incorporated into the operational risk capital model. The model encompasses both qualitative and qualitative elements. Internal loss data and scenario analysis results are direct inputs to the capital model, while external operational incidents, business environment and internal control factors are evaluated as part of the scenario analysis process.

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

Primary responsibility for the management of operational risk is with the Business Unit, the control groups and the Business Managers therein. The Business Managers maintain processes and controls designed to identify, assess, manage, mitigate and report operational risk. The Business Unit has a designated Operational Risk Coordinator. The Operational Risk Coordinator regularly reviews operational risk issues and reports to the Company's senior management. Each control group also has a designated Operational Risk Coordinator and a forum for discussing operational risk matters with the Company's senior management.

The Operational Risk Department provides independent oversight of operational risk and assesses, measures and monitors operational risk against tolerance. The Operational Risk Department works with the Business Unit and Control Functions to help ensure a transparent, consistent and comprehensive framework for managing operational risk within the Business Unit and across the Company.

The Operational Risk Department scope includes oversight of technology risk, cybersecurity risk, information security risk, the fraud risk management and prevention program and the third party risk management (supplier and affiliate risk oversight and assessment) program. Furthermore, the Operational Risk Department supports the collection and reporting of operational risk incidents and the execution of operational risk assessments; provides the infrastructure needed for risk measurement and risk management and ensures ongoing validation and verification of the MSI Group's Operational Risk Capital Model.

RISK MANAGEMENT (CONTINUED)

Operational risk (continued)

Conduct risk

Conduct risk is defined within the MSI Group, of which the Company is a part, as the risk of an adverse impact on clients, markets or Morgan Stanley's reputation as a consequence of the conduct of Morgan Stanley and/ or its employees. Conduct includes both intentional and unintentional behaviours.

The MSI Group has an approved Conduct Risk Management Policy. The Policy covers the two main strands of Morgan Stanley's Conduct Risk management:

- Managing the risk posed by the MSI Group's business activity, for example risks posed by the MSI Group strategy or risks created in the execution of that strategy; and
- Managing the risk that employees of the MSI Group pose, for example risks arising from poor culture or failure to consider Morgan Stanley's values when conducting duties.

The policy sets out four statements outlining what the MSI Group must do to manage Conduct Risk:

- *Identification and Assessment*: Business and Support units must identify and assess the Conduct Risks which arise from their current or planned strategies and activities.
- *Management*: Internal controls and processes must be implemented to manage Conduct Risks identified. Reasonable steps must be taken to ensure effectiveness.
- *Incidents*: Areas must identify and record Conduct Risk Incidents ("CRIs").
- *Escalation & Reporting*: Processes must be established to report risks and incidents, ensuring prompt escalation and appropriate notification.

Furthermore, the policy sets out key roles and responsibilities and a framework identifying key functions and processes for the good management of Conduct Risk. The framework also sets out various key support and governance mechanisms, such as the production of key metrics and management information, and the establishment of a Conduct Risk Committee to oversee the management of Conduct Risk and the implementation of the framework.

Legal, regulatory and compliance risk

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

The Company, principally through the Morgan Stanley Group's Legal and Compliance Division, has established procedures based on legal and regulatory requirements on a worldwide basis that are designed to facilitate compliance with applicable statutory and regulatory requirements and to require that the Company's policies relating to business conduct, ethics and practices are followed globally. The Company has also established procedures that are designed to facilitate compliance with regulatory rules that apply to the Company's investment management activities, such as those contained within the Undertakings for Collective Investments in Transferable Securities ("UCITS") Directives, and contractual investment guidelines that may be agreed with clients.

RISK MANAGEMENT (CONTINUED)

Operational risk (continued)

Legal, regulatory and compliance risk (continued)

The Company employs the three lines of defence model to organise and execute risk oversight activities and seek to ensure the Company acts in accordance with its legal and regulatory obligations. The first line of defence is comprised of the individuals involved in the Company's fee generating activities. These individuals have primary accountability for managing risks arising from their business activities, as well as compliance with applicable law, regulation, policies and procedures. As part of the second line of defence, the Company's Risk, Compliance and Financial Control functions are responsible for the independent identification, analysis, reporting, management and escalation of risks arising from the Company's activities. The third line of defence is the Morgan Stanley Group's Internal Audit Department, which tests compliance and provides independent assurance regarding the adequacy and effectiveness of the risk management framework and controls.

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

Cyber and information security risk management

As a general matter, the financial services industry faces increased global regulatory focus regarding cyber and information security risk management practices. Many aspects of the businesses are subject to cybersecurity legal and regulatory requirements enacted by US federal and state governments and other non-US jurisdictions in Europe and Asia. These laws are aimed at codifying basic cybersecurity protections and mandating data breach notification requirements.

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

Certain of the Morgan Stanley Group's businesses are also subject to privacy and data protection information security legal requirements concerning the use and protection of certain customer information. For example, the General Data Protection Regulation ("GDPR") became effective in the EU on 25 May 2018. The GDPR imposes mandatory privacy and data protection obligations, including providing for individual rights, enhanced governance and accountability requirements and significant fines and litigation risk for noncompliance. In addition, other jurisdictions have adopted or are proposing GDPR or similar standards, such as Australia, Singapore, Japan, Argentina, India, Brazil, Switzerland, and the Cayman Islands.

Market risk

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

Market risk management policies and procedures for the Company are in place to ensure that investment strategies are in line with investment objectives, which are set out at a product and strategy level. The Company is not directly exposed to the market risk of funds managed, as it does not normally hold any equity interest in these funds. The policies and procedures are consistent with those of the Morgan Stanley Group and include escalation to the Company's Board of Directors and appropriate senior management personnel.

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

STRATEGIC REPORT

RISK MANAGEMENT (CONTINUED)

Credit risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company. The Company primarily incurs credit risk exposure through its investment management activities to third party debtors, other Morgan Stanley Group undertakings and credit institutions where the Company holds operating or surplus cash.

The Company follows the Morgan Stanley Investment Management Counterparty Risk Policy (the "Policy") which sets forth the broad principles that serve as the foundation for managing counterparty risk for all investment management business globally. The objective of the Policy is to avoid or mitigate risk of loss arising from the default or inability of a counterparty to meet its financial obligations.

Liquidity risk

Liquidity risk refers to the risk that the Company will be unable to finance its operations in a timely manner due to difficulty in liquidating its assets. Liquidity risk also encompasses the Company's ability (or perceived ability) to meet its financial obligations without experiencing significant business disruption, and the associated funding risks triggered by the market or idiosyncratic stress events that may negatively affect the Company's liquidity.

The primary goal of the Morgan Stanley Group's liquidity risk management framework is to ensure that the Morgan Stanley Group, including the Company, has access to adequate funding across a wide range of market conditions and time horizons. The framework is designed to enable the Morgan Stanley Group to fulfil its financial obligations and support the execution of the Company's business strategies. The framework is further described in note 27.

The Liquidity Risk Department ("LRD") is a distinct area in Risk Management, which oversees and monitors Liquidity Risk. LRD ensures transparency of material liquidity risks, compliance with established risk limits and escalation of risk concentrations to appropriate senior management. The framework is further described in note 27.

CORPORATE RESPONSIBILITY

Culture, values and conduct of employees

All employees of the Morgan Stanley Group are accountable for conducting themselves in accordance with the Morgan Stanley Group's core values *Putting Clients First, Doing the Right Thing, Leading with Exceptional Ideas,* and *Giving Back.* The Morgan Stanley Group is committed to reinforcing and confirming adherence to the core values through our governance framework, tone from the top, management oversight, risk management and controls, and the three lines of defence model referred to on page 8.

The Morgan Stanley Group's Board is responsible for overseeing the Morgan Stanley Group's practices and procedures relating to culture, values and conduct, as set forth in the Morgan Stanley Group's Corporate Governance Policies. The Morgan Stanley Group's Culture, Values and Conduct Committee is the senior management committee that oversees the Firm-wide culture, values and conduct program. A fundamental building block of this program is the Morgan Stanley Group's Code of Conduct (the "Code") which establishes standards for employee conduct that further reinforce the Morgan Stanley Group's commitment to integrity and ethical conduct. Every new hire and every employee annually must attest to their understanding of and adherence to the Code of Conduct. The Morgan Stanley UK Group's Conduct Risk Management Policy also sets out a consistent framework for managing Conduct Risk (i.e. the risk arising from misconduct by employees or contingent workers) and Conduct Risk incidents.

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

STRATEGIC REPORT

CORPORATE RESPONSIBILITY (CONTINUED)

Culture, values and conduct of employees (continued)

The annual employee performance evaluation process includes an evaluation of employee conduct related to risk management practices and the Morgan Stanley Group's expectations. The Morgan Stanley Group also has several mutually reinforcing processes to identify employee conduct that may have an impact on employment status, current year compensation and/ or prior year compensation. For example, the Global Incentive Compensation Discretion Policy sets forth standards for managers when making annual compensation decisions and specifically requires managers to consider whether their employees effectively managed and/ or supervised risk control practices during the performance year. Management committees from control functions periodically meet to discuss employees whose conduct does not meet the Firm's standards. These results are incorporated in the employees' performance evaluation, which links to compensation and promotion decisions.

The Morgan Stanley Group's clawback and cancellation provisions, which permit recovery of deferred incentive compensation and cover a broad scope of employee conduct, including any act or omission (including with respect to direct supervisory responsibilities) that constitutes a breach of obligation to the Morgan Stanley Group or causes a restatement of the Morgan Stanley Group's financial results, constitutes a violation of the Morgan Stanley Group's global risk management principles, policies and standards, or causes a loss of revenue associated with a position on which the employee was paid and the employee operated outside of internal control policies.

STAKEHOLDER ENGAGEMENT AND SECTION 172(1) STATEMENT

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;
- 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.

To assist them in discharging their duty under s172 Companies Act 2006, directors undertake stakeholder engagement activities to provide them with the information they need to understand the views and interests of stakeholders. This information helps directors to have regard to stakeholder interests, and the likely long term consequences, including to the Company's reputation, when making decisions. The Company's key stakeholders were considered in 2019, they are listed below with examples of the stakeholder engagement activities that took place in 2019.

Employees: During the year, a number of directors took part in a programme of "open door" sessions at which MSI Group employees, including those working in the Company's business, were encouraged to ask questions about the business. Board director Ruairi O'Healai, in his role as Chief Operating Officer of EMEA Morgan Stanley Investment Management, hosted quarterly Town Hall meetings to update employees and answer their questions. These sessions provided directors with the opportunity to gather feedback from employees. The Chair of the Board sits on the Board of Directors of Morgan Stanley International Limited. In this role, she receives the results of the MSI Group employee engagement survey which is used to inform Board priorities. In 2019 the Board has focused on improving diversity among employees working in the business.

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

STRATEGIC REPORT

STAKEHOLDER ENGAGEMENT AND SECTION 172(1) STATEMENT (CONTINUED)

Suppliers: During the year, the Board received regular information on key suppliers to the business as part of its quarterly update on the performance of third party vendors. The Board received reports on the risks associated with key supplier relationships, with a particular focus on cyber risk and operational resiliency. These updates provided the Board with insights into how these risks are managed as part of key supplier relationships.

Clients: Throughout the year, the Board received regular updates on fund performance and distribution. These reports provided insights into client behaviour, focus areas and concerns and have driven management actions to address them, including a focus on sustainability and enhancements to IT.

Community and Environment: Morgan Stanley is committed to giving back to the communities in which it operates. Board members also engage directly with the local community as part of the Morgan Stanley's Global Volunteering month.

Regulators: During the year, the Board received regular updates on interactions with its key regulator and the regulators of its funds, including the FCA, Commission de Surveillance du Secteur Financier and Central Bank of Ireland. It also received updates on the implementation of the Senior Manager's and Certification regime to the Company in preparation for its launch on 9 December 2019.

Investors: The Company is a wholly owned subsidiary of MSI. The Chair of the Board is a member of the MSI Board and the Chief Executive Officer ("CEO") of the Company is a member of the EMEA Operating Committee. Through these appointments, the Chair and CEO of the Company are able to provide the Board with insights on MSI's views and priorities.

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. During 2019, the Board made decisions in relation to a MSI Group reorganisation to implement changes required for Morgan Stanley's European operations in preparation for the UK's withdrawal from the EU. When making these decision and overseeing implementation, the views of the Company's clients and the Firm's ability to meet them now and in the longer term, post-Brexit, were important considerations as were the long-term consequences of the decisions and potential impact on the reputation of the Company and Morgan Stanley. The interests of employees, suppliers, shareholders and regulators were also considered.

Approved by the Board and signed on its behalf by

DocuSigned by:
Ruairi O'Healai
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R O'Healai

Director

22 April 2020

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

DIRECTORS' REPORT

The Directors present their report and financial statements (which comprise the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of financial position, and the related notes, 1 to 34) for the Company for the year ended 31 December 2019.

Results and dividends

The profit for the year, after tax, was $184,598,000 (2018: $104,876,000 profit after tax).

During the year, the Company paid a dividend of $120,000,000 (2018: $145,000,000).

Regulations, risk management and future developments

Information regarding regulation, risk management and future developments has been included in the Strategic Report.

Stakeholder relationships and engagement

Details of engagement activities undertaken by the Board in 2019 with suppliers, clients and other stakeholders and how they inform decision making are provided in the s172 (1) statement on pages 14 and 15.

Pillar 3 disclosures

The regulatory disclosures made in order to comply with the EU Directive and Regulation implementing the Basel capital framework ("the Pillar 3 disclosures") are available on the Morgan Stanley website (see note 30 for further details).

Country-by-country reporting

The disclosures made in order to comply with the Capital Requirements (Country-by-Country Reporting) Regulations 2013 in respect of the year ended 31 December 2019 will be made available on the Morgan Stanley website (see note 30 for further details).

Directors

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

T L Duhon (Chairman)	
D J Hosie	(appointed 30 October 2019)
F C Kelly	
R A Lockwood	
R O'Healai	
D P Price	(resigned 9 December 2019)

Directors' and officers' liability insurance

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

Directors' indemnity

Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 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.

Audit committee

MSI, the Company's ultimate UK parent undertaking, has an Audit Committee which assists the Boards of MSI, the Company and other MSI regulated subsidiary undertakings in meeting their responsibilities in ensuring an effective system of internal control and compliance, and in meeting their external financial reporting obligations. The Audit Committee meets regularly and reports to the MSI Board on a quarterly basis.

Events after the reporting date

Since the balance sheet date the emergence of the coronavirus disease (COVID-19) pandemic has, and will likely continue to, severely impact global economic conditions, resulting in substantial volatility in the global financial markets and operational challenges. The extent of the impact is highly uncertain and cannot be predicted and could adversely affect the future operations and financial condition of Morgan Stanley and the Company. For further detail, refer to the 'Emergence of COVID-19' section on pages 2 and 3 of the Strategic Report.

Going concern

Business risks associated with the uncertain market and economic conditions are being actively monitored and managed by the Company. Retaining sufficient capital and liquidity to withstand these market pressures remains central to the Company's strategy. In particular, the Company's capital and liquidity is deemed sufficient to exceed regulatory minimums under both a normal and in a stressed market environment, including the current and potential stresses of COVID-19 (coronavirus) and Brexit for the foreseeable future. The existing and potential effects of COVID-19 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 Group capital and liquidity as required.

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

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.

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

DIRECTORS' REPORT

Directors' responsibility 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 Practicc (UK Accounting Standards and applicable law), including Financial Reporting Standard 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 United Kingdom 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:

Ruairi O'Healai

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R O'Healai

Director

22 April 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion the financial statements of Morgan Stanley Investment Management Limited (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 income statement;
- the statement of comprehensive income;
- the statement of changes in equity;
- the statement of financial position; and
- the related notes 1 to 34.

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 (the "FRC's") 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 INVESTMENT MANAGEMENT LIMITED

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 INVESTMENT MANAGEMENT LIMITED

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.

Andrew Partridge (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Glasgow, United Kingdom

22 April 2020

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

INCOME STATEMENT
Year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Fee and commission income	4	896,092	872,298
Other revenue	5	525	-
Total non-interest revenues		896,617	872,298
Interest income		10,564	12,624
Interest expense		(5,064)	(4,622)
Net interest income	6	5,500	8,002
Net revenues		902,117	880,300
Net gains on investment in subsidiary	7	22,360	-
Non-interest expense:			
Other expense	8	(751,766)	(752,945)
PROFIT BEFORE TAXATION		172,711	127,355
Income tax credit / (expense)	9	11,887	(22,479)
PROFIT FOR THE YEAR		184,598	104,876

All operations were continuing in the current and prior year.

The notes on pages 26 to 67 form an integral part of the financial statements.

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2019

	2019 $'000	2018 $'000
PROFIT FOR THE YEAR	184,598	104,876
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of net defined benefit liability	(151)	-
Items that may be reclassified subsequently to profit or loss:		
Currency translation reserve:		
Foreign currency translation differences arising on foreign operations	(208)	(1,117)
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX	(359)	(1,117)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	184,239	103,759

The notes on pages 26 to 67 form an integral part of the financial statements.

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2019

	Note	Share capital $'000	Currency translation reserve $'000	Pension Reserve $'000	Retained earnings $'000	Total equity $'000
Balance at 1 January 2019		1,000	(2,231)	(3)	292,412	291,178
Profit for the year		-	-	-	184,598	184,598
Other comprehensive income for the year:						
Remeasurement of net defined benefit liabilities		-	-	(151)	-	(151)
Currency translation reserve:						
Foreign currency translation differences arising on foreign operations		-	(208)	-	-	(208)
Total comprehensive income for the year		-	(208)	(151)	184,598	184,239
Transactions with owners:						
Dividends	24	-	-	-	(120,000)	(120,000)
Balance at 31 December 2019		1,000	(2,439)	(154)	357,010	355,417

	Note	Share capital $'000	Currency translation reserve $'000	Pension reserve $'000	Available-for-sale reserve $'000	Retained earnings $'000	Total equity $'000
Balance at 1 January 2018		1,000	(1,114)	(3)	3	333,960	333,846
Impact of adoption of new accounting standards		-	-	-	(3)	(1,424)	(1,427)
Profit for the year		-	-	-	-	104,876	104,876
Other comprehensive income for the year:							
Currency translation reserve:							
Foreign currency translation differences arising on foreign operations		-	(1,117)	-	-	-	(1,117)
Total comprehensive income for the year		-	(1,117)	-	-	104,876	103,759
Transactions with owners:							
Dividends	24	-	-	-	-	(145,000)	(145,000)
Balance at 31 December 2018		1,000	(2,231)	(3)	-	292,412	291,178

The notes on pages 26 to 67 form an integral part of the financial statements.

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

Registered number: 1981121

STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Note	2019 $'000	2018 $'000
ASSETS			
Cash and short-term deposits		126,752	126,743
Loans and advances	11	207,238	239,977
Investment securities	12	4	4
Trade and other receivables	13	99,046	58,732
Current tax assets		-	538
Deferred tax assets	21	1,269	1,238
Other assets	14	130,909	125,358
Investments in subsidiaries	15	13,440	13,440
Property, plant and equipment	17	1,323	240
TOTAL ASSETS		579,981	566,270
LIABILITIES AND EQUITY			
Trade and other payables	18	63,424	83,620
Debt and other borrowings	19	56,512	66,508
Provisions	20	156	190
Current tax liabilities		8,191	40,323
Other liabilities		95,579	84,172
Post-employment benefit obligations	32	702	279
TOTAL LIABILITIES		224,564	275,092
Share capital	23	1,000	1,000
Currency translation reserve	23	(2,439)	(2,231)
Pension reserve	23	(154)	(3)
Retained earnings		357,010	292,412
TOTAL EQUITY		355,417	291,178
TOTAL LIABILITIES AND EQUITY		579,981	566,270

These financial statements were approved by the Board and authorised for issue on 22 April 2020.

Signed on behalf of the Board

DocuSigned by:

Ruairi O'Healai

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R O'Healai

Director

The notes on pages 26 to 67 form an integral part of the financial statements.

1. CORPORATE INFORMATION

The Company is incorporated and domiciled in England and Wales, United Kingdom, at the following registered address: 25 Cabot Square, Canary Wharf, London, England, E14 4QA. The Company is a private company and is limited by shares. The registered number of the Company is 1981121.

The Company's immediate parent undertaking is Morgan Stanley Investments (UK), which has its registered office at 20 Bank Street, Canary Wharf, London, England, E14 4AD and is registered in England and Wales. 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 smallest and largest 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, 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. The financial statements therefore present information about the Company as an individual entity and not about its group.

Statement of compliance

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

The Company meets the definition of a qualifying entity and is a Financial institution as defined in Financial Reporting Standard 100 *'Application of Financial Reporting Requirements'* ("FRS 100"). The Company has taken advantage of the disclosure exemptions available under FRS 101 in relation to share-based payments, fair value measurement (as applicable to assets and liabilities other than financial instruments), revenue from contracts with customers, presentation of comparative information in respect of certain assets and shares outstanding, presentation of a cash-flow statement, accounting standards not yet effective, related party transactions and leases.

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.

2. BASIS OF PREPARATION (CONTINUED)

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 and amendments to standards 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 right of use ("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. 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.

An amendment to IAS 19 '*Plan Amendment, Curtailment or Settlement*' was issued by the IASB in February 2018, for retrospective application to plan amendments, curtailments or settlements occurring on or after 1 January 2019. The amendment was endorsed by the EU in March 2019.

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 United Kingdom Accounting Standards, including FRS 101, and UK company law.

2. BASIS OF PREPARATION (CONTINUED)

Critical accounting judgements and key sources of estimation uncertainty

In preparing the financial statements, the Company considers judgements and estimates that affect the application of accounting policies and reported amounts.

Critical accounting judgements are key decisions made by management in the application of the Company's accounting policies, other than those involving estimations, which have the most significant effects on the amounts recognised in the financial statements. Critical accounting estimates represent assumptions and estimations made by management that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

The critical judgement in applying the Company's accounting policies is the consolidation of structured entities. The Company determines whether it controls, and therefore should consolidate a structured entity upon its initial involvement and reassess on an ongoing basis for as long as it has any continuing involvement with the structured entity. See note 16.

There are no key sources of estimation uncertainty 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 Company evaluates the critical accounting judgements and key sources of estimation uncertainty on an ongoing basis and believes that these are reasonable.

The going concern assumption

The Company's business activities, together with the factors likely to affect its future development, performance and position, and the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk and liquidity risk, are reflected in the Strategic report on pages 1 to 15, and 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.

Specifically, the existing and potential effects of COVID-19 (coronavirus) on the operational capacity of the business, access to liquidity and capital, contractual obligations, asset valuations and other critical accounting judgements and key sources of estimation uncertainty have been considered on pages 2 and 3. Additionally, the specific impact of Brexit on the business of the Company has been considered on pages 3 and 4. The notes to the financial statements provide further information, not included in the Strategic Report, on its credit risk and liquidity risk.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Functional currency

Items included in the financial statements are measured and presented in US dollars, the currency of the primary economic environment in which the Company operates.

All currency amounts in the financial statements 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.

Assets and liabilities of foreign operations are translated into US dollars using the closing rate method. Translation differences arising from the net investments in the foreign operations are taken to the 'Currency translation reserve'. All other translation differences are taken through the income statement. Exchange differences recognised in the income statement are presented in 'Other revenue' or 'Other expense', except where noted in 3(c) below.

On disposal of a foreign operation, the related cumulative gain or loss in the 'Currency translation reserve' attributable to the owners of the Company is reclassified to the income statement and recorded within 'Gain/ (loss) on disposal of branch'.

c. Financial instruments

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

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

Non-trading financial assets at FVPL include certain investment securities (unlisted equities).

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, foreign exchange differences and unrealised interest are reflected in the income statement in 'Net income from other financial instruments held at fair value'.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

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.

In certain cases, the Company may exercise control over another entity on behalf of investors or other parties. In such cases it is necessary, as part of the assessment of whether it should consolidate the entity, for the Company to determine whether it exercises such control primarily as an agent for the other investors or whether it does so primarily as principal on its own behalf. In making such a determination, Management will consider all relevant factors, including in particular:

- The scope of the Company's decision-making authority over the investee;
- The rights, including removal rights, held by other parties;
- The remuneration to which the Company is entitled;
- The significance of the Company's exposure to variability of returns from its interests in 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 income statement in 'Net gains/ (losses) on investments in subsidiaries.

iii) Financial assets and financial liabilities at amortised cost

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 ECL allowance. Interest is recognised in the income statement 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 income statement in 'Net impairment loss on financial instruments'.

Financial assets at amortised cost include cash and short-term deposits, trade and other receivables and loans and advances.

Financial liabilities 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 income statement 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.

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

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

Valuation process

Valuation Control ("VC") within Finance is responsible for the Company's fair value valuation policies, processes and procedures. VC is independent of the business units and reports to the Chief Financial Officer of the Morgan Stanley Group ("CFO"), who has final authority over the valuation of the Company's financial instruments. VC implements valuation control processes designed to validate the fair value of the Company's financial instruments measured at fair value including those derived from pricing models.

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.

Upon derecognition of a financial asset, the difference between the previous carrying amount and the sum of any consideration received is recognised in the income statement within 'Net gains/ (losses) on derecognition of financial assets measured at amortised cost'.

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 financial assets measured at amortised cost.

Measurement of ECL

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Impairment of financial instruments

Assessment of significant increase in credit risk

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

The probability of default ("PD") is derived from internal credit rating grades (based on available information about the borrower) and multiple forward-looking macroeconomic scenarios which are probability weighted. Credit risk is considered to have increased significantly if the PD has significantly increased at the reporting date relative to the PD of the facility, at the date of initial recognition. The assessment of whether a change in PD is "significant" is based both on a consideration of the relative change in PD and on qualitative indicators of the credit risk of the facility, which indicate whether a loan is performing or in difficulty.

The Company's accounting policy is to not use the 'low' credit risk practical expedient. As a result, the Company monitors all financial instruments which do not have a significant financing component that are subject to impairment for SICR, with the exception of trade receivables and contract assets arising from transactions within the scope of IFRS 15 which do not have a significant financing component, for which a lifetime ECL is always calculated.

Where there is a history of no credit losses, and where this is expected to persist into the future for structural or other reasons, such as credit enhancements, it may be determined that the ECL for a financial instrument is de minimis (highly immaterial) and recognition of the ECL may not be necessary.

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

Presentation of ECL

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

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 income statement 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Revenue recognition and contract assets and liabilities

Fees and commissions classified within 'Fee and commission income' in the income statement include investment management, distribution, administration, performance and sub-advisory fees. These are generally recognised when services are performed and the fees become known, except for performance fees as noted below.

- Investment management fees are primarily based on pre-determined percentages of the market value of AUM.
- Distribution fees are received on certain funds managed by the Company and are primarily priced at pre-determined percentages, dependent on share class.
- Administration fees are received on certain funds managed by the Company to reimburse any costs, charges, fees and expenses incurred in relation to the administration of the funds. These are primarily priced at pre-determined fixed percentages.
- Performance fees are received from certain investment products. These are earned upon exceeding specified relative and/ or absolute investment return thresholds. Performance fees are recognised only when the performance obligation is satisfied, upon completion of the measurement period, which varies by product or account, and could be monthly, quarterly, annually or longer.
- Sub-advisory revenues in respect of investment management services are received from other Morgan Stanley Group undertakings and represent various fee types where another Morgan Stanley Group undertaking is designated as the initial contracted entity but the Company is the sub-contracted entity. The Company receives a portion of the revenue on an arm's length basis.

Other items

Receivables from contracts with customers 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 customer. Contract assets are recognised when the Company has satisfied its performance obligations and customer payment is conditional, and are presented within 'Others assets'. Contract liabilities are recognised when the Company has collected payment from a customer based on the terms of the contract, but the underlying performance obligations are not yet satisfied, and are presented within 'Other liabilities'.

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

h. Fee and commission expense

Fees and commissions classified within 'Other expense' in the income statement include fee sharing and distribution expenses.

- Fee sharing expenses are primarily based on specified percentages of the management fees received, dependent on share class, and are recognised as the services are performed.
- Distribution expenses are based on the distribution fees received and are recognised either as the services are performed or across a number of years, dependent on fee type.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. 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(j) below) which are included within 'Other expense' in the income statement.

For premises held under operating 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 income statement. 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 income statement.

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	- over the remaining lease term
Fixtures, fittings and equipment	- 3 to 8 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.

j. Impairment of non-financial assets

Non-financial assets that are subject to depreciation or amortisation 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 "CGU"). Such impairment losses are recognised in the income statement within 'Other expense' and are recognised against the carrying amount of the impaired asset on the statement of financial position. Non-financial assets, other than goodwill, that have suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

k. Cash and cash equivalents

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l. Income tax expense

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 income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date. Current tax is charged or credited in the income statement, except when it relates to items charged or credited directly to other comprehensive income 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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. Deferred tax is charged or credited in the income statement, 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 are 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 within the 'Property, plant and equipment' line and lease liabilities within the 'Trade and other payables' line of the statement of financial position.

Applicable until 31 December 2018

Rentals payable under operating leases are charged to 'Other expense' in the income statement 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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o. Employee compensation plans

i) Equity-settled share-based compensation plans

Morgan Stanley issues awards in the form of restricted stock units ("RSUs") to employees of the Morgan Stanley Group for services rendered to the Company. Awards are equity-settled and the cost of the equity-based transactions with employees is measured based on the fair value of the equity instruments at grant date. The fair value of RSUs is based on the market price of Morgan Stanley common stock on the date the award is granted, measured as the volume-weighted average price on the date of grant ("VWAP") The fair value of RSUs not entitled to dividends until conversion is measured at VWAP reduced by the present value of dividends expected to be paid on the underlying shares prior to scheduled conversion date.

Awards generally contain clawback and cancellation provisions. Certain awards provide Morgan Stanley the discretion to cancel all or a portion of the award under specified circumstances. Compensation expense for these awards is adjusted for changes in the fair value of the Morgan Stanley's common stock until conversion.

The Company recognises compensation cost over the relevant vesting period for each separately vesting portion of the award. An estimation of awards that will be forfeited prior to vesting due to the failure to satisfy service conditions is considered in calculating the total compensation cost to be amortised over the relevant vesting period.

Under Group chargeback agreements, the Company pays Morgan Stanley for the procurement of shares. The Company pays Morgan Stanley the grant date fair value and any subsequent movement in fair value up to the time of delivery to the employees.

Share based compensation expense is recorded within 'Other expense' in the income statement.

ii) Deferred cash-based compensation plans

Morgan Stanley awards deferred cash-based compensation on behalf of the Company for the benefit of employees, providing a return to the participating employees based upon the performance of various referenced investments. Compensation expense for deferred cash-based compensation awards is calculated based on the notional value of the award granted, adjusted for changes in the fair value of the referenced investments that employees select.

The Company recognises compensation cost over the relevant vesting period for each separately vesting portion of the award. Forfeitures due to failure to satisfy service conditions are accounted for as they occur.

Deferred cash-based compensation expense is recorded within 'Other expense' in the income statement. The liability for the awards is measured at fair value and is included within 'Other liabilities' in the statement of financial position.

Although changes in compensation expense resulting from changes in the fair value of the referenced investments will generally be offset by changes in the fair value of derivative transactions entered into by the Company, there is typically a timing difference between the immediate recognition of gains and losses on the derivatives and the deferred recognition of the related compensation expense over the vesting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p. Post-employment benefits

The Company operates defined contribution and defined benefit post-employment plans.

Contributions due in relation to the Company's defined contribution post-employment plan are recognised in 'Other expense' in the income statement when payable.

For the Company's defined benefit post-employment plan, the plan obligations are measured on an actuarial basis in accordance with the advice of an independent qualified actuary using the projected unit credit method and discounted at a rate that reflects the current rate of return on a high quality corporate bond of equivalent term and currency to the plan liabilities. Plan assets are measured at their fair value at the reporting date. A surplus or deficit of plan assets over liabilities is recognised in the statement of financial position as an asset or a liability respectively. If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The current service cost and any past service costs together with the net interest on the net defined benefit obligation/ asset is charged to 'Staff costs' within 'Other expense' in the income statement.

Remeasurements that arise in calculating the Company's obligation in respect of a plan are recognised in other comprehensive income, in the period in which they occur.

Details of the plans are given in note 32 to these financial statements.

q. Deferred commission asset

The Company pays up-front costs to third party distributors on certain classes of fund units on which it may earn fees (such as management fees) from the underlying fund whilst its fund units remain in issuance. Additionally, the Company earns a contingent deferred sales charge ("CDSC") on such units if the fund unitholders redeem before a specified time. CDSC income is reported in 'Investment management fees' within 'Fee and commission income' on the income statement. Accordingly such upfront distribution costs are deferred and amortised over the expected life of the contract where the contract duration exceeds one year and costs are expected to be recovered. The deferred costs are reported in the 'Deferred commission asset' within 'Other assets' in the statement of financial position.

The deferred commission asset is assessed for impairment at each reporting date. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds the future revenues expected to be earned from the relevant fund units, less the future costs that relate directly to providing the related services. Such impairment losses are recognised in the income statement within 'Other expense' and are recognised against the carrying amount of the impaired asset on the statement of financial position. Deferred commission assets that have suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

4. FEE AND COMMISSION INCOME

	2019 $'000	2018 $'000
Investment management fees	751,740	704,615
Distribution fees	46,743	64,250
Administration fees	51,578	48,204
Performance fees	9,948	14,109
Sub-advisory revenues	36,083	41,120
Total fee and commission income	896,092	872,298
Of which, revenue from contracts with customers	980,982	956,299

Total fee and commission income is stated after the adjustment for certain arrangements which do not relate to contracts with customers, including revenues totalling $84,913,000 (2018: $84,077,000) transferred to other Morgan Stanley Group undertakings as a result of intra-group policies which ensure that revenues and related costs are matched.

Included within revenue from contracts with customers are revenues from other Morgan Stanley Group undertakings of $837,297,000 (2018: $820,833,000).

Contract assets from contracts with customers, included within 'Other assets' total $44,300,000 (2018: $33,923,000). There are no contract liabilities from contracts with customers (2018: none).

5. OTHER REVENUE

	2019 $'000	2018 $'000
Net foreign exchange gains	525	-

Other income for the year ending December 2019 relates to foreign exchange income. Foreign exchange loss has been disclosed in other expense (note 8) for the year ending December 2018.

6. INTEREST INCOME AND INTEREST EXPENSE

'Interest income' represents total interest generated from financial assets at amortised cost whilst 'Interest expense' represents total interest arising on financial liabilities at amortised cost. All interest income and expense is calculated using the EIR method (see accounting policy 3(c)(iii)).

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

7. NET GAINS ON INVESTMENT IN SUBSIDIARY

	2019 $'000	2018 $'000
Dividend income from investment in subsidiary	22,360	-

8. OTHER EXPENSE

	2019 $'000	2018 $'000
Fee and commission expense:		
Fee sharing and distribution expenses	366,202	365,555
Direct staff costs	15,330	15,498
Management charges from other Morgan Stanley Group undertakings relating to staff costs	193,495	191,488
Management charges from other Morgan Stanley Group undertakings relating to other services	175,775	178,083
Operating lease rentals	-	474
Depreciation on property, plant and equipment	396	69
Net foreign exchange losses	-	1,335
Auditor's remuneration:		
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	73	96
Fees payable to the Company's auditor and its associates for other assurance services to the Company	18	16
Other	477	331
	751,766	752,945

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

Direct staff costs

The average number of employees of the Company is analysed below:

	2019 Number	2018 Number
Investment Management – Support Services	-	13
Investment Management	28	26
	28	39

8. OTHER EXPENSE (CONTINUED)

The costs of direct staff are analysed below:

	2019 $'000	2018 $'000
Wages and salaries	13,442	13,648
Social security costs	1,090	1,238
Pension costs	798	612
	15,330	15,498

On 1 January 2019, all (13) Investment Management support services staff were transferred from the Company to MSIM FM.

The amount of remuneration received by Directors in respect of their qualifying services to the Company is disclosed in note 33 'Related Party Disclosures'.

9. INCOME TAX EXPENSE

Analysis of expense in the year	**2019 $'000**	**2018 $'000**
Current tax expense		
UK corporation tax at 19% (2018: 19%)		
- Current year	(509)	21,678
- Adjustments in respect of prior years	(14,464)	7
Foreign tax		
- Current year	3,143	2,109
- Adjustments in respect of prior years	(75)	(1,145)
Total current tax	(11,905)	22,649
Deferred tax expense		
Origination and reversal of temporary differences	(84)	404
Adjustments in respect of prior periods	-	(574)
Effect of changes in tax rates	102	-
Total deferred tax	18	(170)
Income tax expense	(11,887)	22,479

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 year, it will affect future periods. See note 21 Deferred Tax Assets for further details.

9. INCOME TAX EXPENSE (CONTINUED)

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	172,712	127,355
Income tax using the average standard rate of corporation tax in the UK of 19% (2018: 19%)	32,815	24,197
Impact on tax of:		
Expenses not deductible for tax purposes	407	-
Group relief received for no cash consideration	(26,419)	-
Foreign tax prior year adjustments	-	(1,145)
Effect of tax rates in foreign jurisdictions	(57)	367
Other permanent differences	426	-
Tax (over)/ under provided in prior years	(14,539)	7
Recognition of previously unrecognised deferred tax	-	(574)
Currency translation on tax	(484)	(144)
Income not subject to taxes	(4,248)	(229)
Chargeable gain	212	-
Total income tax expense in the income statement	(11,887)	22,479

10. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY

All financial assets and financial liabilities are measured at amortised cost, with the exception of 'Investment securities' which are mandatorily measured at fair value through profit or loss.

11. LOANS AND ADVANCES

	2019 $'000	2018 $'000
Amounts due from other Morgan Stanley Group undertakings	207,238	239,977

MORGAN STANLEY INVESTMENT MANAGEMENT LIMITED

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Year ended 31 December 2019

12. INVESTMENT SECURITIES

	2019 $'000	2018 $'000
Investment securities (FVPL – non-trading)		
Corporate equities	4	4

All investments classified as 'Investment securities (FVPL – non-trading)' are unlisted.

13. TRADE AND OTHER RECEIVABLES

	2019 $'000	2018 $'000
Trade receivables	14,920	21,753
Other receivables		
Amounts due from other Morgan Stanley Group undertakings	80,229	33,747
Other amounts receivable	3,897	3,232
	99,046	58,732

14. OTHER ASSETS

	2019 $'000	2018 $'000
Deferred commission asset	85,715	90,784
Accrued income	44,300	33,923
Other assets	894	651
	130,909	125,358

The following table shows distribution costs deferred and amortised over the expected life of contracts, where their duration exceeds one year and the costs are expected to be recovered:

Deferred commission asset	2019 $'000	2018 $'000
Carrying amount		
At 1 January	90,784	100,704
Additions	48,296	48,337
Amortisation	(53,365)	(58,257)
At 31 December	85,715	90,784

Contract assets from contracts with customers, included within accrued income represent investment management and performance fees recognised but not yet billed. Contract assets recognised at the end of each reporting period are billed in full during the following year.

15. INVESTMENTS IN SUBSIDIARIES

	Subsidiary undertakings $'000
Cost and net book value	
At 1 January 2019 and 31 December 2019	13,440

Details of all investments in subsidiaries of the Company at 31 December 2019 and 31 December 2018 are as follows:

Name of Company	Address of undertaking's registered office	Type of shares held	Proportion of shares held		Proportion of voting rights held		Nature of business
			2019	2018	2019	2018	
Morgan Stanley Investment Management (ACD) Limited	25 Cabot Square, Canary Wharf, London, United Kingdom, E14 4QA	Ordinary	100%	100%	100%	100%	Investment Management

Information regarding interests in structured entities is included in note 16.

16. INTERESTS IN STRUCTURED ENTITIES

The Company is involved with various special purpose entities in the normal course of business. In most cases, these entities are considered to be structured entities.

The Company has interests in structured entities in the form of fee and commissions income from investment management funds via delegation of investment management services from the Company's subsidiary, MSIM (ACD) and another Morgan Stanley Group undertaking, MSIM FM. These funds are primarily UCITS and United Kingdom authorised open-ended investment companies ("OEICs"). The Company does not hold any equity interest in these funds. Where equity interests are held, they are held by another Morgan Stanley Group undertaking.

The power to make the most significant economic decisions may take a number of different forms. In fund structures, the power to appoint or direct the fund manager is generally the most significant power.

Consolidated structured entities

As at 31 December 2019 the Company did not have any structured entities that it consolidated (2018: nil).

16. INTERESTS IN STRUCTURED ENTITIES (CONTINUED)

Sponsored unconsolidated structured entities

The Company considers itself the sponsor of certain non-consolidated structured entities where it has been involved in the establishment of a structured entity and where the Company is involved in providing investment management services to the entity.

The gain related to sponsored entities during the year was $793,377,000 (2018: $744,015,000), which is received via the Company's subsidiary, MSIM (ACD) and another Morgan Stanley Group undertaking, MSIM FM. Gains or losses are reported under 'Fee and commission income' in the income statement. During the current and prior years, no assets transferred to those sponsored entities.

17. PROPERTY, PLANT AND EQUIPMENT

2019	Leasehold improvements $'000	Fixtures, fittings and equipment $'000	Right-of-use assets-Property $'000	Total $'000
Cost				
At 1 January 2019	437	361	-	798
Initialisation	-	-	853	853
Additions	717	1	-	718
Disposals	(274)	(44)	-	(318)
Foreign exchange revaluation	(16)	(6)	-	(22)
At 31 December 2019	864	312	853	2,029
Depreciation				
At 1 January 2019	367	190	-	557
Charge for the year	-	-	184	184
Impairment provisions	192	20	-	212
Disposals	(203)	(44)	-	(247)
At 31 December 2019	356	166	184	706
Carrying amount				
At 31 December 2019	508	146	669	1,323

18. TRADE AND OTHER PAYABLES

	2019 $'000	2018 $'000
Trade payables	367	519
Other payables		
Amounts due to other Morgan Stanley Group undertakings	54,477	75,519
Lease liabilities	660	-
Other amounts payable	7,920	7,582
	63,424	83,620

19. DEBT AND OTHER BORROWINGS

	2019 $'000	2018 $'000
Subordinated loans	51,000	51,000
Amounts due to other Morgan Stanley Group undertakings	5,512	15,508
	56,512	66,508

The amount subject to subordinated loan agreements is wholly repayable as shown below:

Counterparty	Repayment date	Interest rate	2019 $'000 Interest	2019 $'000 Balance	2018 $'000 Interest	2018 $'000 Balance
Morgan Stanley Investments (UK) (the "Lender")	21 December 2025	OBFR [(1)] plus 208.6 bps	2,188	51,000	2,026	51,000

[(1)] Overnight Bank Funding Date ("OBFR")

All amounts outstanding under subordinated loan agreements are repayable on 21 December 2025. Any repayment of subordinated loans prior to contractual maturity would require mutual agreement between the Company and the Lender and prior supervisory consent by the FCA.

The Company has not defaulted on principal, interest or breached any terms of its subordinated loan during the year.

20. PROVISIONS

The following table sets out the provisions recognised under IAS 37 '*Provisions, contingent liabilities and contingent assets*':

	Property
	$'000
At 1 January 2019	190
Transfer of provision to other Morgan Stanley Group undertakings	(36)
Effect of unwinding discount rate	2
At 31 December 2019	156

Property

Property 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 17).

21. DEFERRED TAX ASSETS

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

	2019	**2018**
	$'000	**$'000**
At 1 January	1,238	893
IFRS 15 transitional adjustment	-	335
Amount recognised in the income statement	84	170
Amounts recognised in other comprehensive income	71	-
Impact of change in tax rate(s)	(101)	-
Foreign exchange adjustment	(23)	(160)
At 31 December	1,269	1,238

21. DEFERRED TAX ASSETS (CONTINUED)

For the purpose of presentation in the statement of financial position, certain deferred tax assets and liabilities have been offset. The deferred tax included in the statement of financial position and changes recorded in 'Income tax expense' are as follows:

	Deferred tax asset 2019 $'000	Income statement 2019 $'000	Deferred tax asset 2018 $'000	Income statement 2018 $'000
Depreciation – temporary differences	10	-	10	-
Deferred compensation and post-employment benefits	280	(116)	252	(288)
Goodwill	791	134	976	117
Other temporary differences	188	-	-	-
	1,269	18	1,238	(171)

The deferred tax assets recognised are based on management assessment that it is probable that the Company will have taxable profits against which the temporary differences can be utilised.

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 net deferred tax asset recognised at 31 December 2019 would have been $1,270k.

22. LEASES

The Company'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.

The Statement of Financial Position includes ROU assets within 'Property, plant and equipment' (note 17) and lease liabilities within 'Trade and other payables' (note 18).

The Income Statement includes depreciation of right-of-use assets within 'Other expense' (note 8) and interest expense on lease liabilities within 'Interest expense' (note 6).

The total cash outflow relating to leases was $184,000 during the year.

23. EQUITY

Ordinary share capital	Ordinary shares of £1 each Number	Ordinary shares of £1 each $'000	Ordinary shares of $1 each Number	Ordinary shares of $1 each $'000
Allotted and fully paid				
At 1 January 2019 and 31 December 2019	2	-	1,000,000	1,000

The holders of both the ordinary £1 shares and the $1 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 shares rank equally with regard to the Company's residual assets.

All ordinary shares are recorded at the rates of exchange ruling at the date the shares were paid up.

Reserves

Currency translation reserve

The 'Currency translation reserve' of $2,439,000 loss (2018: $2,231,000 loss) comprises all foreign exchange differences arising from the translation of the total assets less total liabilities of foreign operations.

Pension reserve

The 'Pension reserve' of $154,000 loss (2018: $3,000 loss) comprises the cumulative actuarial gains or losses on the schemes' assets and obligations net of current tax. Details of the pensions schemes are provided in Note 32 "Post-employment benefits".

24. DIVIDENDS

The following amounts represent the dividends paid in the current and prior year:

	2019 Per share $	2019 Total $'000	2018 Per share $	2018 Total $'000
Dividends on ordinary shares	120	120,000	145	145,000

25. 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	126,752	-	126,752
Loans and advances	207,238	-	207,238
Investment securities	-	4	4
Trade and other receivables	99,046	-	99,046
Deferred tax assets	312	957	1,269
Other assets	86,392	44,517	130,909
Investments in subsidiaries	-	13,440	13,440
Property, plant and equipment	-	1,323	1,323
	519,740	60,241	579,981
LIABILITIES			
Trade and other payables	62,938	486	63,424
Debt and other borrowings	5,510	51,002	56,512
Provisions	-	156	156
Current tax liabilities	8,191	-	8,191
Other liabilities	95,579	-	95,579
Post-employment benefit obligations	-	702	702
	172,218	52,346	224,564

25. 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	126,743	-	126,743
Loans and advances	239,977	-	239,977
Investment securities	-	4	4
Trade and other receivables	58,732	-	58,732
Current tax assets	538	-	538
Deferred tax assets	304	934	1,238
Other assets	83,522	41,836	125,358
Investments in subsidiaries	-	13,440	13,440
Property, plant and equipment	-	240	240
	509,816	56,454	566,270
LIABILITIES			
Trade and other payables	83,620	-	83,620
Debt and other borrowings	-	66,508	66,508
Provisions	-	190	190
Current tax liabilities	40,323	-	40,323
Other liabilities	84,172	-	84,172
Post-employment benefit obligations	-	279	279
	208,115	66,977	275,092

Total financial liabilities at amortised cost of $51,000,000 included in the above, fall due for payment after more than five years from the reporting date.

26. SEGMENT REPORTING

The Company has only one class of business as described in the Strategic report and operates in one geographic market, EMEA.

27. FINANCIAL RISK MANAGEMENT

Risk management procedures

Risk is an inherent part of the Company's business activity. The Company seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities in accordance with defined policies and procedures. The Company has developed its own risk management policy framework, which is consistent with and leverages the risk management policies and procedures of the Morgan Stanley Group and which include escalation to the Company's Board of Directors and to appropriate senior management personnel of the Company.

The Company's management of operational risk, deemed to be a material risk of the Company's business activity, is included in the Risk Management section of the Strategic Report on pages 7 to 13. Other risks faced by the Company resulting from its financing and investment activities are set out below and are not deemed to be material risks.

Credit risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company. The Company primarily incurs credit risk exposure to institutions and sophisticated investors through its Investment Management business.

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

The Company may incur credit risk exposure through its investment management activities to third party debtors, other Morgan Stanley Group undertakings and credit institutions where the Company holds surplus or operating cash. Due to the nature of the activities and the following controls in place to mitigate the risk, the credit exposure to the Company is not considered to be material.

Monitoring and Control

In order to help protect the Company from credit losses, the Morgan Stanley Group's Risk Management Department establishes policies and procedures in line with firm-wide practices to evaluate, monitor and control credit risk exposure.

Examples of risk mitigation include, but are not limited to, the following:

- Cash and short-term deposits are placed with highly-rated approved banks to mitigate the risk of loss.
- Trade receivables comprise amounts due from investment management funds and segregated managed accounts. In the case of investment management funds, following issuance of an invoice, the amounts receivable may be settled from the AUM of the fund, which serves as a credit enhancement given the receivables rank senior to the issued fund units. In the case of segregated managed accounts, the Company, having followed credit risk management procedures is satisfied that the credit risk is minimal.
- Loans and advances and other receivables primarily comprise amounts due from other Morgan Stanley Group undertakings, where both the Company and the other Morgan Stanley Group undertakings are wholly-owned subsidiaries of the same ultimate parent entity, Morgan Stanley. As a result of the implicit support that would be provided by Morgan Stanley, the Company is considered exposed to the credit risk of Morgan Stanley, except where the Company transacts with other Morgan Stanley Group undertakings that have a higher credit rating to that of Morgan Stanley.

All exposures are monitored on an on-going basis.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Monitoring and Control (continued)

In addition, the Policy sets forth the broad principles for the management of Counterparty Risk for the Company. The following standards are incorporated into the Policy:

a. Approval and monitoring

The Company mitigates Counterparty Risk by adopting procedures that limit transactions with the potential for material loss to approved counterparties. In addition, the Company conducts reviews of the counterparties' financial condition and monitors current exposure on an on-going basis. The counterparty risk of the Company is not deemed to be material.

b. Trading with approved counterparties

As a standard of practice, the Company will transact only with approved counterparties. The Morgan Stanley Group's Risk Management Department approves extensions of credit, evaluates the creditworthiness of the Company's obligors on a regular basis, and ensures that credit exposure is actively monitored and managed. The evaluation of obligors includes an assessment of the probability that an obligor will default on its financial obligations and any subsequent losses that may occur when an obligor defaults.

The Company also reviews its credit exposure and risk to types of customers. At 31 December 2019, the Company's largest credit exposure was to financial institutions.

Exposure to credit risk

The maximum exposure to credit risk ("gross credit exposure") of the Company as at 31 December 2019 is disclosed below, based on the carrying amounts of the financial assets the Company believes are subject to credit risk. Within the table financial instruments subject to accounting ECL are distinguished from those that are not.

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

The Company does not hold financial assets considered to be credit-impaired.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Exposure to credit risk by class

2019

	Gross credit exposure (1) $'000
Subject to ECL:	
Cash and short-term deposits	126,752
Loans and advances	207,238
Trade and other receivables	99,046
Not subject to ECL (2):	
Investment securities	4
	433,040

2018

	Gross credit exposure (1) $'000
Subject to ECL:	
Cash and short-term deposits	126,743
Loans and advances	239,977
Trade and other receivables	58,732
Not subject to ECL (2):	
Investment securities	4
	425,456

(1) The carrying amount recognised in the statement of financial position best represents the Company's maximum exposure to credit risk.
(2) Financial assets measured at FVPL are not subject to ECL.

Expected credit loss measurement

As explained in note 3(f), in order to assess whether an instrument is subject to a 12 month ECL or to a lifetime ECL, and therefore its appropriate staging, the Company determines whether there has been a SICR for the instrument since initial recognition.

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

At 31 December 2019, the Company has determined that the ECL for its financial instruments is not material, reflecting their short term nature and/ or the benefit of other credit mitigants.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Exposure to credit risk by internal rating grades

Internal credit ratings are derived using methodologies generally consistent with those used by external agencies.

Investment grade:	internal grades AAA - BBB
Non-investment grade:	internal grades BB - CCC
Default:	internal grades D

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

Until 31 December 2018, unless credit-impaired, the Company had reported all trade receivables as stage 2 for the purpose of the disclosure below, reflecting the Company's accounting policy to measure lifetime credit losses on trade receivables under the simplified approach. From 1 January 2019, the Company continues to apply the simplified approach but, notwithstanding the recognition of lifetime credit losses under the simplified approach, has revised the presentation of these balances such that trade receivables are now reported as stage 1 where they are not credit-impaired.

The Company believes that this presentation, which is more consistent with industry practice for such disclosures, better reflects the credit risk associated with such assets, notwithstanding the fact that a lifetime approach is used for their ECL measurement and provides more relevant information. This change has also been applied to the prior period disclosure below. There is no impact on the reported level of ECLs as a consequence of this presentational change.

31 December 2019	**ECL Staging Stage 1 12-month ECL $'000**
Cash and short-term deposits:	
Credit grade	
Investment grade	126,752
Loans and advances:	
Credit grade	
Investment grade	207,238
Trade and other receivables :	
Credit grade	
Investment grade	
Trade receivables	14,920
Other receivables	79,825
Unrated	
Other receivables[1]	4,301
Carrying amount	433,036

(1) Counterparties are mainly local tax authorities, hence exposure to credit risk deemed low.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Exposure to credit risk by internal rating grades (continued)

31 December 2018	ECL Staging Stage 1 12-month ECL $'000
Cash and short-term deposits:	
Credit grade	
Investment grade	126,743
Loans and advances:	
Credit grade	
Investment grade	239,977
Trade and other receivables :	
Credit grade	
Investment grade	
Trade receivables	21,753
Other receivables	36,979
Carrying amount	425,452

Ageing analysis

Class	Less than 30 days past due $'000	More than 30 days but less than 60 days past due $'000	More than 60 days but less than 90 days past due $'000	More than 90 days but less than 180 days past due $'000	More than 180 days but less than 1 year past due $'000	More than 1 year past due $'000	Total $'000
31 December 2019							
Trade and other receivables:							
Trade receivables	954	478	253	775	377	20	2,857
31 December 2018							
Trade and other receivables:							
Trade receivables	3,398	436	738	675	235	-	5,482

There are no concerns surrounding recoverability of the above aged balances. No amounts that were previously past due were written off in the current year. As at the date of approval of the financial statements the balance of receivables past due as at 31 December 2019 was reduced to $663,000.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

The main considerations for assessing whether there has been a SICR include whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Company assesses each individually significant asset on an individual basis. Items considered include the sustainability of the counterparty's business plan, the counterparty's ability to improve performance once a financial difficulty has arisen and the timing of expected cash flows.

Liquidity risk

Liquidity risk refers to the risk that the Company will be unable to finance its operations in a timely manner due to difficulty in liquidating its assets. Liquidity risk also encompasses the Company's ability (or perceived ability) to meet its financial obligations without experiencing significant business disruption, and the associated funding risks triggered by the market or idiosyncratic stress events that may negatively affect the Company's liquidity.

The Morgan Stanley Group's Liquidity Risk Management Framework is critical to helping ensure that the Company maintains sufficient liquidity reserves and durable funding sources to meet its daily obligations and to withstand unanticipated stress events.

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

The Required Liquidity Framework establishes the amount of liquidity the Company must hold in both normal and stressed environments to ensure that its financial condition and overall soundness is not adversely affected by an inability (or perceived inability) to meet its financial obligations in a timely manner.

The Company uses Liquidity Stress Tests to model external and intercompany liquidity flows across multiple scenarios and a range of time horizons. These scenarios contain various combinations of idiosyncratic and systemic stress events of different severity and duration. The methodology, implementation, production and analysis of the Company's Liquidity Stress Tests are important components of the Required Liquidity Framework. Additionally based on Liquidity Stress Tests appropriate thresholds have been set and approved by the Board of Directors to ensure sufficient liquidity is available for the business at all times.

At 31 December 2019 and 31 December 2018, the Company maintained sufficient liquidity to meet current and contingent funding obligations as modelled in its Liquidity Stress Tests.

The Company holds its own Liquidity Reserve which is spread across external and inter-affiliate accounts.

Balance sheet management

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

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Maturity analysis

In the following maturity analysis of financial assets and financial liabilities, all amounts represent undiscounted cash flows receivable and payable by the Company arising from its financial assets and financial liabilities to earliest contractual maturities as at 31 December 2019 and 31 December 2018. Receipts of financial assets and repayments of financial liabilities that are subject to immediate notice are treated as if notice were given immediately and are classified as on demand. This presentation is considered by the Company to appropriately reflect the liquidity risk arising from these financial assets and financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial liabilities is managed by the Company.

31 December 2019	On demand $'000	Equal to or more than 3 months but less than 1 year $'000	Equal to or more than 1 year but less than 5 years $'000	Equal to or more than 5 years $'000	Total $'000
Financial assets					
Cash and short-term deposits	126,752	-	-	-	126,752
Loans and advances	207,238	-	-	-	207,238
Investment securities	4	-	-	-	4
Trade and other receivables	99,046	-	-	-	99,046
Total financial assets	433,040	-	-	-	433,040
Financial liabilities					
Trade and other payables	62,764	1,956	7,825	1,897	74,442
Debt and other borrowings	5,510	-	2	51,000	56,512
Total financial liabilities	68,274	1,956	7,827	52,897	130,954

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27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Maturity analysis (continued)

31 December 2018	On demand $'000	Equal to or more than 3 months but less than 1 year $'000	Equal to or more than 1 year but less than 5 years $'000	Equal to or more than 5 years $'000	Total $'000
Financial assets					
Cash and short-term deposits	126,743	-	-	-	126,743
Loans and advances	239,977	-	-	-	239,977
Investment securities	4	-	-	-	4
Trade and other receivables	58,732	-	-	-	58,732
Total financial assets	425,456	-	-	-	425,456
Financial liabilities					
Trade and other payables	83,476	144	-	-	83,620
Debt and other borrowings	-	2,054	24,863	55,614	82,531
Total financial liabilities	83,476	2,198	24,863	55,614	166,151

Market risk

Market risk is defined by IFRS 7 '*Financial instruments – Disclosures*' ("IFRS 7") as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

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

The Company is managed within the Morgan Stanley Group's global framework. The market risk management policies and procedures of the Company include performing risk analyses and reporting material risks identified to appropriate senior management of the Company.

The Company is not directly exposed to the market risk of funds managed.

The Company is exposed to the following types of market risk under the definition above: interest rate risk and currency risk.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (continued)

Interest rate risk

Interest rate risk is defined by IFRS 7 as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is primarily exposed to interest rate risk under this definition as a result of loans held at amortised cost.

The application of a parallel shift in interest rates of 50 basis points increase or decrease to these positions, would result in a net gain or loss of approximately $802,000 (2018: $1,261,000).

Currency risk

The Company has foreign currency exposure on its assets and liabilities in currencies other than US dollars, which primarily arise from revenue and expenses denominated in currencies other than US dollars. It actively manages this foreign currency exposure by hedging with other Morgan Stanley Group undertakings. The residual currency risk for the Company from this activity is not material.

The majority of this foreign currency risk has been hedged by other members of the Morgan Stanley Group, primarily Morgan Stanley, by utilising spot and forward foreign currency exchange contracts.

28. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

As disclosed in note 2 Statement of Compliance, the Company is exempt from certain disclosure requirements of IFRS 13 '*Fair value measurement*' ("IFRS 13") to the extent that they apply to assets and liabilities other than financial instruments. As such the disclosure included in this note relates only to financial instruments.

The carrying value of the Company's financial assets at FVPL is $4,000 (2018: $4,000) recognised in 'Investment securities' in the statement of financial position and classified as Level 3 according to the fair value hierarchy. There are no financial liabilities at FVPL (2018: none).

Valuation techniques for assets and liabilities measured at fair value on a recurring basis

Asset / Valuation Technique	Valuation Hierarchy Classification
Financial assets at FVPL (non-trading)	
Corporate Equity Investments	
• The Company's investments are direct investments in non-exchange-traded equity securities.	
• Initially, the transaction price is generally considered by the Company as the exit price and is the Company's best estimate of fair value. After initial recognition, the fair value is based on the financial statements of the underlying investment which are prepared annually and are available to shareholders.	• Level 3

No gains or losses relating to the Company's Level 3 financial assets were recognised in the income statement for the current and prior year.

There were no purchases, sales, issues, settlements or other transfers into or out of Level 3 of the fair value hierarchy during the current and prior year.

29. ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

As disclosed in note 2 Statement of compliance, the Company is exempt from certain disclosure requirements of IFRS 13 to the extent that they apply to assets and liabilities other than financial instruments. As such the disclosure included in this note relates only to financial instruments.

The table below presents the carrying value, fair value and fair value hierarchy category of certain financial liabilities that are not measured at fair value in the statement of financial position.

Financial assets and financial liabilities not measured at fair value for which the carrying value is considered a reasonable approximation of fair value are excluded from the table below.

	Carrying value		Fair value (1)	
	2019	2018	2019	2018
	$'000	$'000	$'000	$'000
Financial liabilities				
Debt and other borrowings				
Subordinated loans	51,000	51,000	53,862	50,824

(1) Valuation techniques using observable inputs (Level 2).

The fair value is determined based on the assumption that all subordinated loans are held to the latest repayment date.

30. CAPITAL MANAGEMENT

In order to maintain or adjust its capital structure, the Company may pay dividends, return capital to its shareholder, issue new shares or repay subordinated debt. Details of its managed capital are set out in the table below, with details of the Company's capital as measured in accordance with CRD IV rules shown within the Strategic Report on page 4.

	2019	2018
	$'000	$'000
Ordinary share capital	1,000	1,000
Subordinated loans	51,000	51,000
Reserves	354,417	290,178
	406,417	342,178

The Company complied with all of its regulatory capital requirements during the year.

Pillar 3 disclosures and Country-by-Country Reporting

The Company is included in the MSI Group Pillar 3 disclosures which allow investors and other market participants to understand capital adequacy, particular risk exposures and risk management processes of individual firms required by the EU implementation of Basel capital standards.

30. CAPITAL MANAGEMENT (CONTINUED)

Pillar 3 disclosures and Country-by-Country reporting (continued)

The Company is also included in the MSI consolidated disclosure in order to comply with the provisions of Statutory Instrument 2013 No.3118 Capital Requirements (Country-by-Country Reporting) Regulations 2013, which implements in the UK the requirements set out in Article 89 of the Capital Requirements Directive (Directive 2013/36/EU).

The Pillar 3 disclosures and the Country-by-Country reporting for the MSI Group for the year ended 31 December 2019 will be made available on the Morgan Stanley website at www.morganstanley.com/investorrelations

31. EMPLOYEE COMPENSATION PLANS

Morgan Stanley maintains various equity-settled share-based and cash-based deferred compensation plans for the benefit of employees.

Equity-settled share-based compensation plans

Morgan Stanley has granted RSU awards pursuant to several equity-based compensation plans. The plans provide for the deferral of a portion of certain employees' incentive compensation, with awards made in the form of restricted common stock. Awards under these plans are generally subject to vesting over time, generally six months to seven years, and are generally contingent upon continued employment and subject to restrictions on sale, transfer or assignment until conversion to common stock. All, or a portion of, an award may be forfeited if employment is terminated before the end of the relevant vesting period or cancelled after the vesting period in certain situations. Recipients of equity-based awards may have voting rights, at Morgan Stanley's discretion, and generally receive dividend equivalents if the awards vest, unless this is prohibited by regulation.

Deferred cash-based compensation plans

Morgan Stanley has granted deferred cash-based compensation awards to certain employees which defer a portion of the employees' discretionary compensation. The plans generally provide a return based upon the performance of various referenced investments. Awards under these plans are generally subject to a sole vesting condition of service over time, which normally ranges from one to seven years from the date of grant. All, or a portion of, an award may be forfeited if employment is terminated before the end of the relevant vesting period. The awards are settled in cash at the end of the relevant vesting period.

Plans operated by fellow Morgan Stanley undertakings

As described in note 8, the Company utilises the services of staff who are employed by other Morgan Stanley Group undertakings. Management charges are incurred in respect of these employee services which include the cost of equity-settled share based compensation plans and deferred cash-based compensation plans.

32. POST-EMPLOYMENT BENEFITS

Defined contribution plans

The Company's branches in the Netherlands (and, Luxembourg in prior year), operate defined contribution pension plans which require contributions to be made into an individual insurance policy for each member, held separately from the assets of the Company, with no legal or constructive obligation to pay further contributions. Contributions made into the plans are recognised within 'Direct staff costs' in 'Other expense' as follows:

	2019 $'000	2018 $'000
Netherlands Branch	74	84
Luxembourg Branch	-	27
	74	111

Of the above, $nil was accrued at 31 December 2019 (2018: $nil).

The Italian and German branches and the DIFC representative office of the Company participate in Morgan Stanley defined contribution pension plans which require contributions to be made to funds held in trust, separate from the assets of the Company. The Company pays fixed contributions to the funds, with no legal or constructive obligation to pay further contributions. Contributions made into the plans are recognised within 'Direct staff costs' in 'Other expense' as follows:

	2019 $'000	2018 $'000
Italy Branch	338	310
DIFC Representative office	26	26
German Branch	129	115
	493	451

Of the above, $225,000 was accrued at 31 December 2019 (2018: $210,000).

All the above-mentioned plans are open to all eligible employees of the respective branches of the Company.

Defined benefit plans

The Company also operates certain Morgan Stanley defined benefit plans ("DB plans"), which provide post-employment benefits that are based on length of service and salary. The Company operates the following DB plans:

- Morgan Stanley Investment Management Limited – Milan Branch Leaving Indemnity Plan
- Morgan Stanley Investment Management Limited – German Branch General Plan

The most recent full actuarial valuations of the scheme assets and the present value of the defined benefit obligation were carried out at 31 December 2019. The liabilities of the DB Plans are measured by discounting the best estimate of future cash flows to be paid out by the DB Plans using the projected unit method. At the statement of financial position date the accumulated net post-employment benefit obligation across the DB Plans was $477,000 (2018: $71,000).

32. POST-EMPLOYMENT BENEFITS (CONTINUED)

Post-employment benefit obligation

The following table provides a summary of the present value of the defined benefit obligation and fair value of DB Plan assets included in the statement of financial position:

	Present value of obligation $'000	Fair value of plan assets $'000	Total $'000
At 1 January 2019	(447)	376	(71)
Net expense recognised in the income statement	(223)	(9)	(232)
Remeasurements recognised in the statement of comprehensive income (gross)	(217)	(11)	(228)
Employer contributions	-	54	54
At 31 December 2019	(887)	410	(477)

	Present value of obligation $'000	Fair value of plan assets $'000	Total $'000
At 1 January 2018	(401)	329	(72)
Net (expense)/ income recognised in the income statement	(54)	5	(49)
Remeasurements recognised in the statement of comprehensive income (gross)	8	(7)	1
Employer contributions	-	49	49
At 31 December 2018	(447)	376	(71)

The total DB plan expense recognised in the income statement was $232,000 (2018: $49,000). Of this expense for the year, $243,000 (2018: $50,000) has been recognised in 'Direct staff costs' in 'Other expense' and a $12,000 gain (2018: $1,000 gain) has been recognised in 'Net foreign exchange gains' in 'Other revenue'. Actuarial losses of $228,000 (2018: $1,000 gains) have been recognised in the 'Statement of comprehensive income' net of relevant deferred taxes of $77,000 (2018: $1,000).

Plans operated by fellow Morgan Stanley undertakings

In addition to the above, along with a number of other Morgan Stanley Group companies, the Company incurs management charges from fellow Morgan Stanley undertakings in respect of post-employment benefits provided to staff utilised by the Company but employed by other Morgan Stanley entities. These management recharges include post-employment benefit costs related to the Morgan Stanley UK Group Pension Plan ('the Plan') operated by Morgan Stanley UK Limited. The Plan is a defined contribution scheme with a closed defined benefit section.

33. RELATED PARTY DISCLOSURES

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 other Morgan Stanley Group undertakings. 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	2,425	2,195
Long term incentive schemes	491	1,161
Company contributions to pension schemes	35	29
	2,951	3,385
Disclosures in respect of the highest paid Director:		
Aggregate remuneration	1,403	1,124
Long term incentive schemes	222	1,126
Company contributions to pension schemes	22	11
	1,647	2,261
Aggregate compensation paid to Directors for loss of office	-	-

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 five Directors, including the highest paid Director, received restricted stock unit awards in respect of qualifying services (2018: four, including the highest paid Director).

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.

In addition, two Directors have benefits accruing under the Alternative Retirement Plan, a defined benefit scheme, operated by Morgan Stanley UK Limited (2018: one).

The Morgan Stanley Group operates a defined contribution pension scheme, the Morgan Stanley UK Group Pension Plan. There are five Directors to whom retirement benefits are accruing under this defined contribution scheme (2018: three). No Directors have benefits accruing under a non-UK defined contribution scheme (2018: one).

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

34. EVENTS AFTER THE REPORTING PERIOD

Since the balance sheet date the emergence of the coronavirus disease (COVID-19) pandemic has, and will likely continue to, severely impact global economic conditions, resulting in substantial volatility in the global financial markets and operational challenges. The extent of the impact is highly uncertain and cannot be predicted and could adversely affect the future operations and financial condition of Morgan Stanley and the Company. For further detail, refer to the 'Emergence of COVID-19' section on pages 2 and 3 of the Strategic Report.