

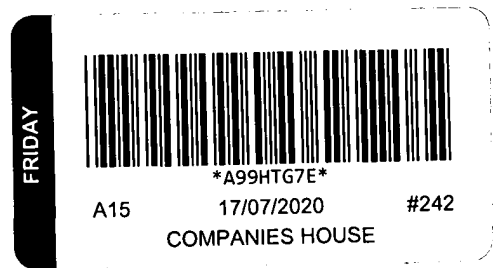
Registered number: 02216149

Registered office:
20 Bank Street
Canary Wharf
London, E14 4AD
United Kingdom

MORGAN STANLEY GROUP (EUROPE)

Report and financial statements

31 December 2019



MORGAN STANLEY GROUP (EUROPE)

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MORGAN STANLEY GROUP (EUROPE)

STRATEGIC REPORT

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

PRINCIPAL ACTIVITY

The principal activity of the Company is to act as an intermediate holding company, with no significant changes expected in 2020.

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

BUSINESS REVIEW

Overview of 2019 performance and key performance indicators

The Company's main key performance indicators are profit after tax, total assets and total liabilities.

The Company reported a profit after tax for the year of \$13,784,000, compared to a loss of \$9,855,000 in the prior year.

The profit for the current year mainly comprised reductions in impairment provisions in subsidiaries by \$5,895,000, net interest income of \$5,876,000 from other Morgan Stanley Group undertakings and \$2,032,000 foreign exchange gains on the Russian Ruble during the year. In the prior year the loss was primarily generated by impairment losses of \$13,318,000 and \$3,487,000 foreign exchange losses on the Russian Ruble, partially offset by net interest income of \$6,959,000 from other Morgan Stanley Group undertakings.

The Company's total assets at 31 December 2019 were \$270,482,000 compared to \$258,909,000 at 31 December 2018. The increase of \$11,573,000 is primarily attributable to a reduction in impairment provisions in subsidiaries, and interest accrued in the year on funding provided to other Morgan Stanley Group undertakings. The Company's total liabilities at 31 December 2019 were \$22,000 compared to \$2,233,000 at 31 December 2018 reflecting the settlement of amounts due to other Morgan Stanley Group undertakings.

Emergence of COVID-19

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

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

MORGAN STANLEY GROUP (EUROPE)

STRATEGIC REPORT (CONTINUED)

BUSINESS REVIEW (CONTINUED)

Emergence of COVID-19 (continued)

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

The United Kingdom's (the "UK's") withdrawal from the European Union (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 banking and investment and other services in EU member states from within the EU where necessary.

RISK MANAGEMENT

As an intermediate holding company, the Company is exposed to the risk of decline in value of its investments in subsidiary undertakings. Due to the current financial strength of its subsidiary undertakings, the Directors consider that the actual risk the Company is exposed to is minimal.

The Directors consider that the Company's key financial risks are credit risk, primarily its concentration of exposure to other Morgan Stanley Group undertakings, liquidity risk arising primarily through its exposure to other Morgan Stanley Group undertakings presented within other receivables, other payables and loans and advances, and country risk due to the Company's exposure outwith the UK. The Company leverages the Morgan Stanley Group's credit, liquidity and country risk frameworks to identify, measure, monitor and control credit risk and to ensure that the Company has access to adequate funding and monitor and limit country risk.

The Company also has some limited exposure to operational and legal, regulatory and compliance risks.

The Company leverages the risk management policies and procedures of the Morgan Stanley Group and the MSI Group.

GOING CONCERN

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

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

MORGAN STANLEY GROUP (EUROPE)

STRATEGIC REPORT (CONTINUED)

SECTION 172 (1) STATEMENT

The Directors are aware of their responsibilities to promote the success of the Company in accordance with s172 of the Companies Act 2006. When making decisions, Directors have regard to the interests of stakeholders relevant to the Company, as an intermediate holding company, as well as the need to maintain a reputation for high standards of business conduct and the long term consequences of decisions. They also fulfil their responsibilities through the application of Morgan Stanley Group policies and practices, underpinned by Morgan Stanley's four core values of: putting clients first, doing the right thing, leading with exceptional ideas and giving back.

Approved by the Board and signed on its behalf by

K P O'Regan - Director
29 April 2020

DocuSigned by:
Kieran O'Regan
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MORGAN STANLEY GROUP (EUROPE)

DIRECTORS' REPORT

The Directors present their report and financial statements for the Company for the year ended 31 December 2019.

RESULTS AND DIVIDENDS

The profit for the year, after tax, was \$13,784,000 (2018: loss of \$9,855,000).

No dividends were paid during the year. In 2018, a dividend of \$50,000,000 was paid to the Company's immediate parent, MSI.

RISK MANAGEMENT AND FUTURE DEVELOPMENTS

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

DIRECTORS

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

L Bainbridge

K M Lazaroo (resigned 10 June 2019)

K P O'Regan (appointed 11 November 2019)

S E Watts

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

DIRECTORS' INDEMNITY

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

EVENTS AFTER THE REPORTING DATE

On 31 March 2020 the Company approved OOO Bank, a direct Russian bank subsidiary of the Company, to commence closure proceedings and OOO Bank subsequently applied for revocation of licences to The Central Bank of Russian Federation on 10 April 2020. Ahead of this approval on 5 March 2020 the subordinated loan receivable of 1,130,000,000 Ruble was repaid by OOO Bank. On 27 March 2020 the Company received a dividend of \$24,509,000 from OOO Bank and subsequently impaired its investment by a similar amount, as an initial step in realising this investment.

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

MORGAN STANLEY GROUP (EUROPE)

DIRECTORS' REPORT (CONTINUED)

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 of which the Company's auditor is unaware; and
- each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice ("UK GAAP") (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 UK Accounting Standards, including FRS 101, have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Approved by the Board and signed on its behalf by

K P O'Regan - Director
29 April 2020

DocuSigned by:
Kieran O'Regan
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY GROUP (EUROPE)

Opinion

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

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

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of changes in equity;
- the statement of financial position;
- the related notes 1 to 16; and
- Appendix to the financial statements

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 GROUP (EUROPE) (CONTINUED)

Other information

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

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

We have nothing to report in respect of these matters.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

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.

29 April 2020

Paul Cowley, C.A. (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Statutory Auditor

Glasgow, United Kingdom

MORGAN STANLEY GROUP (EUROPE)**STATEMENT OF COMPREHENSIVE INCOME**

Year ended 31 December 2019

	Note	2019 \$'000	2018 \$'000
Net gains/(losses) on investments in subsidiaries	4	5,895	(13,318)
Interest income	5	6,173	7,168
Interest expense	5	(297)	(209)
Net interest income		<u>5,876</u>	<u>6,959</u>
Other income	6	2,032	-
Other expense	7	(20)	(3,506)
Net reversal of impairment loss on financial assets	8	1	3
PROFIT/(LOSS) BEFORE TAXATION		13,784	(9,862)
Income tax benefit	9	-	7
PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>13,784</u>	<u>(9,855)</u>

All results were derived from continuing operations.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Note	Share capital \$'000	Capital contribution reserve \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 January 2018		91,400	74,890	150,245	316,535
Loss and total comprehensive income for the year		-	-	(9,855)	(9,855)
Impact of adoption of new accounting standards		-	-	(4)	(4)
Transactions with owners:					
Dividends	13	-	-	(50,000)	(50,000)
Balance at 31 December 2018		<u>91,400</u>	<u>74,890</u>	<u>90,386</u>	<u>256,676</u>
Profit and total comprehensive income for the year		-	-	13,784	13,784
Balance at 31 December 2019		<u>91,400</u>	<u>74,890</u>	<u>104,170</u>	<u>270,460</u>

The notes on pages 11 to 18 form an integral part of the financial statements.

MORGAN STANLEY GROUP (EUROPE)

Registered number: 02216149

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	2019 \$'000	2018 \$'000
ASSETS			
Cash and short term deposits		640	1,544
Loans and advances	14	123,428	117,399
Other receivables	14	180	1,602
Subordinated loans receivable	10	18,164	16,189
Investments in subsidiaries	11	128,070	122,175
TOTAL ASSETS		270,482	258,909
LIABILITIES			
Other payables	14	22	31
Debt and other borrowings	14	-	2,202
TOTAL LIABILITIES		22	2,233
EQUITY			
Share capital	12	91,400	91,400
Capital contribution reserve	12	74,890	74,890
Retained earnings		104,170	90,386
Equity attributable to owners of the Company		270,460	256,676
TOTAL EQUITY		270,460	256,676
TOTAL LIABILITIES AND EQUITY		270,482	258,909

These financial statements were approved by the Board and authorised for issue on 28 April 2020.

Signed on behalf of the Board

DocuSigned by:

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 K P. O'Regan - Director

The notes on pages 11 to 18 form an integral part of the financial statements.

MORGAN STANLEY GROUP (EUROPE)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

1. CORPORATE INFORMATION

The Company is incorporated and domiciled in England and Wales, UK, at the following registered address: 20 Bank Street, Canary Wharf, London, E14 4AD, UK. The Company is a private company and is unlimited by shares. The registered number of the Company is 02216149.

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

The Company's ultimate parent undertaking and controlling entity and the largest and smallest group of which the Company is a member and for which group financial statements are prepared is Morgan Stanley which, together with the Company and Morgan Stanley's other subsidiary undertakings, form the Morgan Stanley Group. Morgan Stanley has its registered office c/o The Corporation Trust Company, 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 400 of the Companies Act 2006.

Statement of compliance

These financial statements are prepared on a going concern basis as explained in the Strategic report and under the historical cost convention in accordance with UK GAAP (UK Accounting Standards and applicable law), including FRS 101.

The Company has taken advantage of the disclosure exemptions available under FRS 101 in relation to financial instruments, fair value measurement, capital management, presentation of a cash-flow statement, accounting standards not yet effective and related party transactions.

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

New standards and interpretations adopted during the year

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

As part of the 2015-2017 Annual Improvements Cycle published in December 2017, the International Accounting Standards Board ("IASB") made amendments to IAS 12 '*Income Taxes*' for application in accounting periods beginning on or after 1 January 2019. The amendments were endorsed by the EU in March 2019. International Financial Reporting Interpretations Committee 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 March 2019.

MORGAN STANLEY GROUP (EUROPE)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

2. BASIS OF PREPARATION (CONTINUED)

Critical accounting judgements and sources of estimation uncertainty

The preparation of the Company's financial statements requires management to make judgements including estimates and other assumptions that affect the financial statements and related disclosures. One such area where this is applicable is consideration of impairments in investments in subsidiaries due to the use of various assumptions in future forecasts, currency volatility and discount rates. For further details on the impairment of investments in subsidiaries please see note 11.

The going concern assumption

The Company's business activities together with the factors likely to affect its future development, performance and position are reflected in the Business Review section of the Strategic report on pages 1 and 2.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Functional currency

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

b. Foreign currencies

Monetary assets and liabilities denominated in currencies other than US dollars are translated into US dollars at the rates ruling at the reporting date. Transactions and non-monetary assets and liabilities denominated in currencies other than US dollars are recorded at the rates prevailing at the dates of the transactions. All translation differences are recognised through the statement of comprehensive income.

c. Cash and cash equivalents

Cash and cash equivalents comprise cash deposits with banks, 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.

d. Financial instruments

Financial assets and liabilities primarily comprise investments in subsidiaries, loans and advances, debt and other borrowings and other receivables and payables.

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

Loans and advances, other receivables and payables and debt and other borrowings are recognised when the Company becomes a party to the contractual provisions of the instrument and are initially measured at fair value and subsequently measured at amortised cost (less allowance for impairment on financial assets). Interest is recognised in the statement of comprehensive income using the effective interest rate ("EIR") method.

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

MORGAN STANLEY GROUP (EUROPE)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Impairment of financial assets

The Company recognises loss allowances for expected credit losses (“ECL”) for its financial assets classified at amortised cost. ECL are the present value of cash shortfalls over the expected life of the financial instrument, discounted at the asset’s EIR. ECL are recognised in the statement of comprehensive income within ‘Net impairment loss on financial instruments’ and is reflected against the carrying amount of the impaired asset on the statement of financial position as an ECL allowance. Where there has been a reduction in ECL, this will be recognised within ‘Net reversal of impairment loss on financial instruments’.

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

f. Income tax

The tax expense represents the sum of the tax currently payable and is calculated based on taxable profit for the year. Taxable profit may differ from profit before taxation as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

MORGAN STANLEY GROUP (EUROPE)**NOTES TO THE FINANCIAL STATEMENTS****As at 31 December 2019****4. NET GAINS/(LOSSES) ON INVESTMENTS IN SUBSIDIARIES**

	2019	2018
	\$'000	\$'000
Reduction/(increase) in impairment provisions (see note 11)	<u>5,895</u>	<u>(13,318)</u>

5. INTEREST INCOME AND INTEREST EXPENSE

'Interest income' and 'Interest expense' represent total interest income and total interest expense for financial assets and financial liabilities that are not carried at fair value.

6. OTHER INCOME

	2019	2018
	\$'000	\$'000
Net foreign exchange gains	<u>2,032</u>	<u>-</u>

7. OTHER EXPENSE

	2019	2018
	\$'000	\$'000
Net foreign exchange losses	-	3,487
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	<u>20</u>	<u>19</u>
	<u>20</u>	<u>3,506</u>

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

The Company's Directors are employed by other Morgan Stanley Group companies. The Directors' services to the Company are considered to be incidental to their other responsibilities within the Morgan Stanley Group and as such, Directors' remuneration is \$nil for the current year (2018: \$nil).

MORGAN STANLEY GROUP (EUROPE)**NOTES TO THE FINANCIAL STATEMENTS****As at 31 December 2019****8. NET REVERSAL OF IMPAIRMENT LOSS ON FINANCIAL ASSETS**

	2019	2018
	\$'000	\$'000
ECL relating to:		
Loans and advances	<u>1</u>	<u>3</u>

9. INCOME TAX BENEFIT

	2019	2018
	\$'000	\$'000
Current tax benefit		
UK corporation tax at 19% (2018: 19%)		
- Current year	-	(7)
Income tax benefit	<u>-</u>	<u>(7)</u>

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.

Reconciliation of effective tax rate

The current year income tax benefit 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	2018
	\$'000	\$'000
Profit/(loss) before taxation	<u>13,784</u>	<u>(9,862)</u>
Income tax using the average standard rate of corporation tax in the UK of 19% (2018: 19%)	2,619	(1,874)
Impact on tax of		
Expenses not deductible for tax purposes	-	10
Currency translation on tax	-	(7)
Group relief received for no cash consideration	(1,499)	(666)
Impairment (reversal)/charge against investments	<u>(1,120)</u>	<u>2,530</u>
Total income tax benefit in the statement of comprehensive income	<u>-</u>	<u>(7)</u>

MORGAN STANLEY GROUP (EUROPE)**NOTES TO THE FINANCIAL STATEMENTS**
As at 31 December 2019**10. SUBORDINATED LOANS RECEIVABLE**

The amounts subject to subordinated loan agreements are wholly repayable as shown below:

Counterparty	2019		2018	
	Interest	Balance	Interest	Balance
	\$'000	\$'000	\$'000	\$'000
OOO Bank	1,319	18,164	1,348	16,189

The subordinated loan to OOO Bank accrued interest at a fixed rate of 7.5% and was repaid on 5 March 2020. Movement in the total subordinated loans receivable relates to the revaluation of the 1,130,000,000 Ruble subordinated loan held.

11. INVESTMENTS IN SUBSIDIARIES

	Subsidiary undertakings \$'000
Cost	
At 1 January 2019 and December 2019	<u>2,450,141</u>
Impairment provision	
At 1 January 2019	2,327,966
Reversal of provisions	(5,895)
At 31 December 2019	<u>2,322,071</u>
Carrying amounts	
At 31 December 2018	<u>122,175</u>
At 31 December 2019	<u>128,070</u>

On 31 December 2019, the Company reduced its impairment provision in Morgan Stanley Finance (C.I.) Limited by \$3,463,000. The impairment provision was calculated by comparing a discounted future cash flow and the current estimated recoverable amount of the investment. The discount rate used was 3.61%

On 31 December 2019, the Company reduced its impairment provision in Morgan Stanley Strategic Funding Limited by \$2,432,000. The impairment provision reversal was calculated by comparing a discounted future cash flow and the current estimated recoverable amount of the investment. The discount rate used was 3.61%.

An impairment review of the investment held in OOO Bank was also undertaken. Following an assessment of business performance and forecasts, including the planned closure of OOO Bank, it was calculated that the current value was in line with the recoverable amount based on OOO Bank's value in use, using a discount rate of 5.64% and taking into account market volatility. The performance was forecast for the period 01 January 2020 to 31 March 2021 reflecting the expected closure date and as such no long term growth rate was applied.

The analysis below calculates the impact on the Company's investment in OOO Bank on changes in discount rates and market volatility.

MORGAN STANLEY GROUP (EUROPE)**NOTES TO THE FINANCIAL STATEMENTS****As at 31 December 2019****11. INVESTMENTS IN SUBSIDIARIES (CONTINUED)**

	\$'000	Sensitivity % applied	
		+1%	-1%
FX exposure	(623)	635	
Government Bond discount rate	(703)	718	
Cost of equity discount rate	60	(61)	

Details of all investments in subsidiaries of the Company at 31 December 2019 and 31 December 2018 can be found in the Appendix to the financial statements.

12. EQUITY**Ordinary share capital**

	2019	2018
	\$'000	\$'000
Allotted and fully paid:		
834,581,611 ordinary shares of \$0.10 each	83,458	83,458
52,693,330 ordinary shares of £0.10 each	7,942	7,942
	<u>91,400</u>	<u>91,400</u>

Reserves

The 'Capital contribution reserve' of \$74,890,000 (2018: \$74,890,000) comprises contributions of capital from the Company's parent company.

13. DIVIDENDS

There were no dividends paid during the year ended 31 December 2019. On 6 November 2018, a dividend of \$1 per share, totalling \$50,000,000 was paid to the Company's immediate parent, MSI.

14. EXPECTED MATURITY OF ASSETS AND LIABILITIES

Loans and advances, subordinated loans receivable, other receivables and payables and debt and other borrowings relate wholly to amounts due from and to group undertakings respectively.

Subordinated loans receivable of \$18,164,000 (2018: \$nil), other receivables of \$180,000 (2018: \$1,602,000) and other payables of \$22,000 (2018: \$31,000) are expected to be settled no more than twelve months after the reporting period, with all other amounts expected to be settled more than twelve months after the reporting period end.

15. SEGMENT REPORTING

The Company has only one class of business operating in a single geographic market, Europe, Middle East and Africa ("EMEA") and accordingly no segmental analysis has been provided.

MORGAN STANLEY GROUP (EUROPE)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2019

16. EVENTS AFTER THE REPORTING PERIOD

On 31 March 2020 the Company approved OOO Bank, a direct Russian bank subsidiary of the Company, to commence closure proceedings and OOO Bank subsequently applied for revocation of licences to The Central Bank of Russian Federation on 10 April 2020. Ahead of this approval on 5 March 2020 the subordinated loan receivable of 1,130,000,000 Ruble was repaid by OOO Bank. On 27 March 2020 the Company received a dividend of \$24,509,000 from OOO Bank and subsequently impaired its investment by a similar amount, as an initial step in realising this investment.

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

MORGAN STANLEY GROUP (EUROPE)**APPENDIX TO THE FINANCIAL STATEMENTS****Year ended 31 December 2019**

Details of all investments in subsidiaries of the Company at 31 December 2019 and 31 December 2018 are shown in the table below.

All shares held are ordinary shares and relate to 100% holdings and 100% proportion of voting rights held (except where noted).

Name of Company	Address of undertaking's registered office	Type of shares held	Nature of business
Morgan Stanley Finance (C.I.) Limited	IFC5 St Helier JE1 1ST Jersey	Ordinary A (96.08% shareholding and voting rights)	Funding company
Morgan Stanley Strategic Funding Limited	20 Bank Street Canary Wharf London E14 4AD United Kingdom	Ordinary (51% shareholding and voting rights)	Funding company
OOO Morgan Stanley Bank	21 1-ya Tverskaya-Yamskaya 125047 Moscow Russian Federation	Participatory Interest	Financial services