Registered number: 04071123

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

MORGAN STANLEY UK LIMITED

Report and financial statements

31 December 2019

MORGAN STANLEY UK LIMITED

CONTENTS **PAGE**

Strategic report	1
Directors' report	6
Independent auditor's report	9
Income statement	12
Statement of comprehensive income	13
Statement of changes in equity	14
Statement of financial position	15
Notes to the financial statements	16

STRATEGIC REPORT

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

PRINCIPAL ACTIVITY

The principal activity of the Company is to provide operational support services to other Morgan Stanley Group undertakings.

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, which, together with its subsidiaries forms the "MSI Group".

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

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

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

BUSINESS REVIEW

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

Overview of 2019 performance

The income statement for the year is set out on page 12. The Company generated a loss after tax of $21,986,000 compared with a loss after tax of $14,979,000 in the prior year.

In the current year, the Company has recognised a net surplus of $21,311,000 in respect of the defined benefit section of the Morgan Stanley UK Group Pension Plan which is limited to the amount of future economic benefits that are unconditionally available to the Company in the form of reduced contributions. The related gain has been reported in the statement of comprehensive income and recharged to another Morgan Stanley Group undertaking through management charges recognised in 'Fee income'. In the prior year, a pension past service charge of $15,079,000 was made in response to the High Court ruling published on 26 October 2018 that defined benefit schemes are required to be equalised for male and female members' to comply with sex discrimination legislation.

Excluding the impact for these transactions, the Company generated a current year loss of $675,000 compared with a profit of $100,000 in the prior year. The Company continues to charge other Morgan Stanley Group undertakings on a cost recovery basis in accordance with applicable Morgan Stanley Group's policies which has resulted in current year losses arising from differences in timing of recognising lease related expenses and the corresponding management charges following adoption of International Financial Reporting Standard ("IFRS") 16 'Leases' ("IFRS 16"). Prior year results included a fee income of $100,000 for payroll processing services in which no fee has been charged in the current year following contractual changes. Total fee income comprises of management charges to other Morgan Stanley Group undertakings for recovery of costs incurred in the provision of support services, which has increased by $109,638,000 due to higher staff costs and increased service charges from other Morgan Stanley service entities.

STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

Overview of 2019 performance (continued)

The statement of financial position is set out on page 15. Total assets and liabilities have decreased year on year primarily driven by a decrease in liquidity held for recovery and resolution requirements. Financial resources held for these requirements includes cash held in bank and securities purchased under an agreement to resell which decreased by $313,521,000 to $274,758,000 as at 31 December 2019.

The impact of lower financial resources held for liquidity requirements is offset by the adoption of IFRS 16. The Company has recognised right of use ("ROU") assets of $81,125,000 within 'Property, plant and equipment' and lease liabilities of $90,474,000 within 'Trade and other payables' as at 31 December 2019. In addition, intangible assets in relation to internally developed software increased by $59,196,000 to $675,159,000.

The Company sources financing for its operational activities including liquidity requirements from another Morgan Stanley Group undertaking which is recognised within 'Debt and other borrowings' and has decreased by $244,584,000 to $1,133,596,000.

The performance of the Company is included in the results of the Morgan Stanley Group. The Company's Directors believe that providing further performance indicators for the Company itself would not enhance an understanding of the development, performance or position of the business of the Company.

Emergence of COVID-19

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

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

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

STRATEGIC REPORT

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

On 31 January 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.

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.

These changes include use of a new licenced investment firm, Morgan Stanley Europe SE ("MSESE"), based in Germany, which is passported throughout the EU and serves EU-based clients where required. The Morgan Stanley Group will also serve EU clients out of branches of this entity in the EU and existing regulated entities in France and Spain as necessary.

The Company has contractual arrangements to provide support services to certain entities including MSESE.

Risk management

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

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

The Company is exposed to a limited amount of market risk as a result of the deferred cash-based compensation plans outlined in note 24. The economic hedges of this risk are outlined in the same note.

Credit risk
Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company. Credit risk includes the risk that economic, social and political conditions and events in a foreign country will adversely affect an obligor's ability and willingness to fulfil their obligations.

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

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

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

STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

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, people and systems or from external events (e.g. fraud, theft, legal and compliance risks, cyber attacks or damage to physical assets).

The Company acknowledges its responsibility in the management of its own and its customer's operational risks to comply with the contractual provisions of its services. The Company applies the Morgan Stanley Group's globally established procedures which are based on legal and regulatory requirements on a worldwide basis designed to facilitate compliance with applicable statutory and regulatory requirements and to require that the Company's policies relating to business conduct, ethics and practices are followed.

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 a three lines of defence structure (business, control functions such as Risk Management and Compliance, and Internal Audit). A fundamental building block of this program is the Morgan Stanley Group's Code of Conduct, 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, including the Company's employees.

GOING CONCERN

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

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

STRATEGIC REPORT

SECTION 172(1) STATEMENT

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.

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

The Board receives regular reporting on a variety of topics to assist in its oversight of the Company's business (see page 7 for details). This, along with insights into the views of key stakeholders provided by individual Directors, gives the Board the information it needs to be able to have regard to stakeholder interests, and the likely long term consequences, including to the reputation of the Company, when making decisions.

The Company's Board considers the insights obtained through relevant stakeholder engagement activities as well as the need to maintain a reputation for high standards of business conduct and the long term consequences when making decisions. Principal decisions taken by the Company's Board in 2019 included widening the group of Morgan Stanley Group employees eligible for benefits offered by the Company. When making this decision, the Board considered the interests of those employees currently eligible for MSI Group benefits and the additional population, along with other relevant stakeholders. The Company's Board, in the Company's role as principal employer for one of Morgan Stanley's pension plans, also approved the amendment of certain pension scheme members' records where HMRC records for contracted-out rights differed from those of the Company. When making this decision, the Board considered the interests of its stakeholders, including relevant employees and pension scheme members, the reputation of the Company and the broader Morgan Stanley Group, and the long term consequences of the decision for the Company.

Approved by the Board and signed on its behalf by

DocuSigned by:

Sue Watts

E7836690278B4E9...

S E Watts - Director
21 April 2020

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 27) for the Company for the year ended 31 December 2019.

RESULTS AND DIVIDENDS

The loss for the year, after tax, was $21,986,000 (2018: $14,979,000 loss after tax).

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

RISK MANAGEMENT AND FUTURE DEVELOPMENTS

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

DIRECTORS

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

J D Bendall	(resigned 31 January 2020)
M C Davies	(appointed 29 April 2019)
J J Glynn	(appointed 17 April 2019)
D T Harding	(resigned 25 February 2020)
F C Kelly	
K M Lazaroo	(resigned 24 January 2019)
A P Mullineaux	(appointed 23 January 2019)
C Nicholls	(appointed 18 March 2020)
T E E Rowe	(resigned 14 January 2019)
V G Rudkin	(appointed 17 April 2019)
C R Styant	(appointed 18 March 2020)
S E Watts	
K Wetmur	(appointed 18 March 2020)

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

DIRECTORS' INDEMNITY

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

EMPLOYEES

Both the Company and the Morgan Stanley Group place considerable value on the investment in their employees and have continued their practice of keeping employees informed on matters affecting them. Employees are encouraged to present their suggestions and views on the Morgan Stanley Group's performance to management and employees participate directly in the success of the business through the Morgan Stanley Group's various compensation incentive plans.

Every effort is also made to ensure that disabled applicants, or those existing employees who are disabled or may have become disabled, are treated as fairly as possible on terms comparable with those of other employees. Appropriate training is arranged for disabled persons, including retraining for alternative work for employees who become disabled, to promote their career development within the organisation.

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT

The Company is a material service entity of the Morgan Stanley Group and applies the Morgan Stanley Group's governance standards. It has therefore chosen not to formally adopt an additional corporate governance code. The corporate governance arrangements in place for the Company are described below.

The Company assists the Morgan Stanley Group in delivering its strategy through the provision of support services to Morgan Stanley Group operating entities and provides these services in accordance with the Morgan Stanley Core Values. All employees are accountable for conducting themselves in accordance with the Core Values. Further information on the Morgan Stanley Group strategy is available in the public documents available at www.morganstanley.com/investorrelations. For more information on the Core Values see the Culture, values and conduct of employees section of the Business Review on page 4.

Board composition

The Company's Board (the "Board") is comprised of 9 directors. The size, structure and composition of the Board is in line with Morgan Stanley Group governance standards and ensures the Board has sufficient breadth and depth of skills and experience to promote effective decision making and oversee the business of the entity. When new directors are appointed to the Board, they receive a tailored induction programme designed to give them an understanding of their regulatory and legal responsibilities. Processes are in place to manage conflicts of interest, should they arise.

Director responsibilities

The Board, and each Director, has a clear understanding of their responsibilities. These are set out in the matters reserved to the Board.

The EMEA Material Service Entities Operating Committee ("EMEA MSEOC") assists the Board in its review and oversight of the provision of inter-affiliate services by the Company to other Morgan Stanley entities. Its responsibilities include: (i) monitoring key metrics and trends relating to the provision of inter-affiliate services; (ii) reviewing compliance with applicable law and regulation in the provision of inter-affiliate services; (iii) reviewing relevant materials to be submitted to regulators; and (iv) evaluating the adequacy of the resources of the Company to support provision of the services. The EMEA MSEOC is a management committee. Its chair is also Chair of the Board.

The Board meets at least quarterly and receives regular reporting on key aspects of the Company's business including updates on material service entity governance (including the activities of the EMEA MSEOC, regulatory matters, resilience, communications, reporting and service monitoring), together with metrics regarding financials and recovery and resolution planning critical services it provides to material operating entities.

Stakeholder relationships and engagement

Details of engagement activities undertaken by the Board in 2019 with employees, suppliers, clients and other stakeholders and how they inform decision making are provided in the s172 Statement on page 5.

EVENTS AFTER THE REPORTING DATE

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

MORGAN STANLEY UK LIMITED

DIRECTORS' REPORT

AUDITOR

Deloitte LLP have expressed their willingness to continue in office as auditor of the Company and, under Sections 485 to 488 of the Companies Act 2006, will be deemed to be re-appointed.

Statement as to disclosure of information to the auditor

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

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

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

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

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

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

Approved by the Board and signed on its behalf by

DocuSigned by:

Sue Watts

E7836690278B4E9...

S E Watts

21 April 2020

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Morgan Stanley UK 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 loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced disclosure framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of 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 27.

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

Basis for opinion

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

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the 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 UK LIMITED (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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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

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

MORGAN STANLEY UK LIMITED

INCOME STATEMENT
Year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Fee income	4	2,206,801	2,097,163
Net trading income/ (expense)		7,874	(3,093)
Other revenue	5	10,818	8,584
Total non-interest revenues		2,225,493	2,102,654
Interest income	6	11,579	10,475
Interest expense	6	(52,323)	(42,180)
Net interest expense		(40,744)	(31,705)
Net revenues		2,184,749	2,070,949
Non-interest expense:			
Other expense	7	(2,206,730)	(2,085,935)
Net (impairment loss)/ reversal of impairment loss on financial instruments	8	(5)	7
LOSS BEFORE TAXATION		(21,986)	(14,979)
Income tax	9	-	-
LOSS FOR THE YEAR		(21,986)	(14,979)

All results were derived from continuing operations.

The notes on pages 16 to 48 form an integral part of the financial statements.

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2019

	Note	2019 $'000	2018 $'000
LOSS FOR THE YEAR		(21,986)	(14,979)
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of net defined benefit pension	25	21,311	-
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX		21,311	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		(675)	(14,979)

The notes on pages 16 to 48 form an integral part of the financial statements.

MORGAN STANLEY UK LIMITED

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2019

	Note	Share capital $'000	Pension reserve $'000	Retained earnings $'000	Total equity $'000
Balance at 1 January 2018		-	(122,821)	160,837	38,016
Impact of adoption of new accounting standards		-	-	(13)	(13)
Loss and total comprehensive income for the year		-	-	(14,979)	(14,979)
Remeasurement of net defined benefit pension	25	-	15,079	-	15,079
Balance at 31 December 2018		-	(107,742)	145,845	38,103
Loss for the year		-	-	(21,986)	(21,986)
Other comprehensive income for the year:					
Remeasurement of net defined benefit pension	25	-	21,311	-	21,311
Total comprehensive income for the year		-	21,311	(21,986)	(675)
Share based payments		-	-	72	72
Balance at 31 December 2019		-	(86,431)	123,931	37,500

The notes on pages 16 to 48 form an integral part of the financial statements.

MORGAN STANLEY UK LIMITED

Registered number: 04071123

STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Note	2019 $'000	2018 $'000
ASSETS			
Cash and short-term deposits		2,794	71,955
Trading financial assets	10	7,497	1,526
Secured financing	11	271,964	516,324
Loans and advances	12	1,434	1,593
Trade and other receivables	13	259,200	306,379
Current tax assets		-	5,866
Prepayments and accrued income		23,570	27,075
Investments in subsidiaries	14	-	-
Property, plant and equipment	15	303,595	218,022
Intangible assets	16	675,159	615,963
Post-employment benefit asset	25	21,311	-
TOTAL ASSETS		1,566,524	1,764,703
LIABILITIES AND EQUITY			
Trading financial liabilities	10	918	2,348
Trade and other payables	17	155,470	87,095
Debt and other borrowings	18	1,133,596	1,378,180
Current tax liabilities		16	-
Accruals and deferred income		239,024	258,977
TOTAL LIABILITIES		1,529,024	1,726,600
EQUITY			
Share capital	21	-	-
Pension reserve	21	(86,431)	(107,742)
Retained earnings		123,931	145,845
Equity attributable to owners of the Company		37,500	38,103
TOTAL EQUITY		37,500	38,103
TOTAL LIABILITIES AND EQUITY		1,566,524	1,764,703

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

Signed on behalf of the Board

DocuSigned by:

Sue Watts

E7836690278B4E9...

S E Watts - Director

The notes on pages 16 to 48 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

1. CORPORATE INFORMATION

The Company is incorporated and domiciled in England and Wales, UK, at the following registered address: 25 Cabot Square, Canary Wharf, London, E14 4QA. The Company is a private company and is limited by shares. The registered number of the Company is 04071123.

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

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

2. BASIS OF PREPARATION

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

Statement of compliance

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

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

New standards and interpretations adopted during the year

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

IFRS 16 was issued by the International Accounting Standards Board ("IASB") in January 2016. The standard was endorsed by the EU in November 2017. This accounting update requires lessees to recognise in the statement of financial position all leases with terms exceeding one year, and results in the recognition of a ROU asset and corresponding lease liability for all such leases, including those previously classified as operating leases.

2. BASIS OF PREPARATION (CONTINUED)

New standards and interpretations adopted during the year (continued)

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

Impact as at 1 January 2019	**At 31 December 2018 $'000**	**Impact of adoption of IFRS 16 $'000**	**At 1 January 2019 $'000**
Right-of-use assets (adjusted by the amount of accrued lease payments and deferred income related to leases) (note 15)	-	58,442	58,442
	-	58,442	58,442
Lease liabilities	-	62,271	62,271
Accruals and deferred income	258,977	(3,829)	255,148
	258,977	58,442	317,419

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

Adoption of the standard required the Company to make certain judgements and elect certain other practical expedients. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not previously identified as leases were not reassessed for the existence of a lease.

When measuring the lease liabilities, the Company discounted lease payments using its incremental borrowing rate determined as at 1 January 2019. The weighted average rate applied as of this date is 3.05%.

The lease payments include:

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

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

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

2. BASIS OF PREPARATION (CONTINUED)

New standards and interpretations adopted during the year (continued)

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.

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

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

Basis of measurement

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

Critical judgements in applying the Company's accounting policies

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

The going concern assumption

The Company's business activities, together with the factors likely to affect its future development, performance and position, are reflected in the Business Review section of the Strategic report on pages 1 to 4.

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 ACCOUNTS POLICIES

a. Functional currency

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

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

b. Foreign currencies

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

c. Financial instruments

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

Trading financial instruments

Trading financial instruments, consisting only of derivatives used for the hedging of deferred compensation plans, are initially recorded on trade date at fair value (see note 3(d) below). All subsequent changes in fair value and foreign exchange differences are reflected in the income statement in 'Net trading income/ (expense)'.

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

Non-trading financial assets at fair value through profit or loss ("FVPL")

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

Non-trading financial assets at FVPL are principally financial assets where the Company makes decisions based upon the assets' fair values and are generally recognised on settlement date at fair value (see note 3(d) below), since they are neither regular way nor are they derivatives. From the date the terms are agreed (trade date), until the financial asset is funded (settlement date), the Company recognises any unrealised fair value changes in the financial asset as non-trading financial assets at FVPL. On settlement date, the fair value of consideration given is recognised as a non-trading financial asset at FVPL. All subsequent changes in fair value and foreign exchange differences are reflected in the income statement in 'Net income from other financial instruments held at fair value'. For these instruments interest is not included as a component of fair value, and is therefore included within 'Interest income' or 'Interest expense'.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTS POLICIES (CONTINUED)

c. Financial instruments (continued)

ii) Investments in subsidiary undertakings

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

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

iii) Financial assets and financial liabilities at amortised cost

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

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

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

Financial liabilities are classified as being subsequently measured at amortised cost, except where they are held for trading or are designated as measured at FVPL. They are recognised when the Company becomes a party to the contractual provisions of the instrument and are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost. Interest is recognised in the 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.

The EIR method is a method of calculating the amortised cost of a financial instrument (or a group of financial instruments) and of allocating the interest income or interest expense over the expected life of the financial instrument. The EIR is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument (or, where appropriate a shorter period) to the carrying amount of the financial instrument. The EIR is established on initial recognition of the financial instrument. The calculation of the EIR includes all fees and commissions paid or received, transaction costs, and discounts or premiums that are an integral part of the EIR.

iv) Secured financing

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTS POLICIES (CONTINUED)

d. Fair value

Fair value measurement

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

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

In determining fair value, the Company uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value that requires the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability that were developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect assumptions the Company believes other market participants would use in pricing the asset or liability, that are developed based on the best information available in the circumstances.

The fair value hierarchy is broken down into three levels based on the observability of inputs as follows, with Level 1 being the highest and Level 3 being the lowest level:

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

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

- Level 2 – Valuation techniques using observable inputs

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

- Level 3 – Valuation techniques with significant unobservable inputs

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

Valuation techniques

Many cash instruments and over-the-counter ("OTC") derivative contracts have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that a party is willing to pay for an asset. Ask prices represent the lowest price that a party is willing to accept for an asset. The Company carries positions at the point within the bid-ask range that meets its best estimate of fair value. For offsetting positions in the same financial instrument, the same price within the bid-ask spread is used to measure both the long and short positions.

Fair value for financial instruments is derived using pricing models. Pricing models take into account the contract terms, as well as multiple inputs including, where applicable, equity prices, interest rate yield curves, credit curves, correlation, creditworthiness of the counterparty, creditworthiness of the Company, option volatility and currency rates.

Where appropriate, valuation adjustments are made to account for various factors such as liquidity risk (bid-ask adjustments), credit quality, model uncertainty and concentration risk and funding.

3. SUMMARY OF SIGNIFICANT ACCOUNTS POLICIES (CONTINUED)

d. Fair value (continued)

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 ("CFO") of the Morgan Stanley Group, who has final authority over the valuation of the Company's financial instruments. VC implements valuation control processes designed to validate the fair value of the Company's financial instruments measured at fair value including those derived from pricing models.

e. Derecognition of financial assets and liabilities

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

If the asset has been transferred, and the entity neither transfers nor retains substantially all of the risks and rewards of the asset, then the entity determines whether it has retained control of the asset.

If the Company has retained control of the asset, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset. If the Company has not retained control of the asset, it derecognises the asset and separately recognises any rights or obligation created or retained in the transfer.

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

f. Impairment of financial instruments

The Company recognises loss allowances for ECL for its financial assets classified at amortised cost. ECLs are the present value of cash shortfalls (i.e. the difference between contractual and expected cash flows) over the expected life of the financial instrument, discounted at the asset's EIR. ECL is recognised in the income statement within 'Net (impairment loss)/ reversal of impairment loss on financial instruments' and is presented as an ECL allowance. The allowance reduces the net carrying amount on the face of the statement of financial position.

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.

g. Revenue recognition and contract assets and liabilities

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

3. SUMMARY OF SIGNIFICANT ACCOUNTS POLICIES (CONTINUED)

g. Revenue recognition and contract assets and liabilities (continued)

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

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

h. Property, plant and equipment

Property, plant and equipment are stated at cost net of depreciation and any provision for impairment in value (see note 3(j) below) which are included within 'Other expense' in the income statement. For assets in the course of construction, interest that is directly attributable to the construction of the qualifying asset is capitalised as a cost of the asset. The interest capitalisation rate is based on the Morgan Stanley Group's blended funding rate.

For premises held under leases, a reinstatement provision is recognised for the estimated cost to reinstate the premises at the end of the lease period. When the reinstatement provision is established and included within 'Provisions' in the statement of financial position, an equivalent asset is recognised and included in the cost of leasehold improvements at the initial present value of the reinstatement obligations. The discount effect included in the reinstatement provision is reversed over time using a constant effective yield method and included within 'Interest expense' in the 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	- shorter of remaining lease term and 15 years
Fixtures, fittings and equipment	- 3 to 9 years

Assets in the course of construction are not depreciated until the construction is complete and the asset is ready for use. The asset is then transferred to leasehold improvements or fixtures, fittings and equipment, where it is depreciated at the relevant rate.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTS POLICIES (CONTINUED)

i. Intangible assets

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Expenditure on internally developed software is recognised as an asset when the Company is able to demonstrate its intention and ability to complete the development, to use the software in a manner that will generate future economic benefits, and to reliably measure the costs to complete the development. Internally developed software is stated at capitalised cost less accumulated amortisation and any impairment (see note 3(j) below). Amortisation is recognised in 'Other expense' in the income statement on a straight line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of internally developed software is two to ten years.

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). 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 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.

l. Income tax

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

The tax currently payable is calculated based on taxable profit for the year. Taxable profit may differ from profit/ (loss) 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTS POLICIES (CONTINUED)

l. Income tax (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited in the 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.

m. Leases

Applicable from 1 January 2019

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

3. SUMMARY OF SIGNIFICANT ACCOUNTS POLICIES (CONTINUED)

n. 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 Morgan Stanley 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 'Accruals and deferred income' in the statement of financial position.

The Company enters into a variety of derivative contracts with other Morgan Stanley Group undertakings to economically hedge the exposure created by these deferred compensation plans. The derivatives are recognised within 'Trading financial instruments' in the statement of financial position and the related gains and losses are recorded within 'Net trading income/ (expense)' in the income statement.

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 ACCOUNTS POLICIES (CONTINUED)

o. Post-employment benefits

The Company operates the Morgan Stanley UK Group Pension Plan (the "Plan") and the Morgan Stanley UK Group Top-Up Pension Plan (the "Top-Up Plan"). Both plans are defined contribution schemes and the Plan also has a closed defined benefit section.

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

The defined benefit section of the Plan ("DB 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 plan obligations 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.

Past service costs together with the net interest on the net defined benefit obligation/ asset are charged to 'Staff costs' within 'Other expense'. Remeasurements that arise in calculating the Company's obligation in respect of are recognised in other comprehensive income, in the period in which they occur.

Additionally, the Company operates the Alternative Retirement Plan ("ARP"), an unfunded defined benefit plan, for the benefit of certain employees. This plan provides a lump-sum on retirement based on contributions accrued and the performance of various referenced investments. Plan liabilities, which are included within 'Accruals and deferred income' in the statement of financial position, are measured at fair value. The related expense is recorded within 'Staff costs' in 'Other expense'.

Details of the plans are given in note 25 to these financial statements.

p. Offsetting of financial assets and financial liabilities

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

4. FEE INCOME

	2019 $'000	2018 $'000
Revenue from contracts with customers:		
Management charges to other Morgan Stanley Group undertakings for support services provided	2,206,801	2,097,163

5. OTHER REVENUE

	2019 $'000	2018 $'000
Tax credits on research and development expenditure	10,817	5,881
Net foreign exchange gains	-	2,565
Other	1	138
	10,818	8,584

6. INTEREST INCOME AND INTEREST EXPENSE

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

	2019 $'000	2018 $'000
Financial assets not measured at FVPL		
Financial assets measured at amortised cost	8,676	10,325
Financial assets measured at FVPL		
Non-trading financial assets at FVPL	2,903	150
Total interest income	11,579	10,475
Financial liabilities measured at amortised cost	49,890	42,180
Interest expense on lease liabilities	2,433	-
Total interest expense	52,323	42,180

No other gains or losses have been recognised in respect of financial assets measured at amortised cost other than as disclosed as 'Interest income', foreign exchange differences disclosed in 'Other revenue' (note 5) or 'Other expense' (note 7), and reversals of impairment losses disclosed in 'Net (impairment loss)/ reversal of impairment loss on financial instruments' (note 8).

No other gains or losses have been recognised in respect of financial liabilities measured at amortised cost other than as disclosed as 'Interest expense', and foreign exchange differences disclosed in 'Other revenue' (note 5) or 'Other expense' (note 7).

7. OTHER EXPENSE

	2019 $'000	2018 $'000
Staff costs	562,437	507,233
Service charges from other Morgan Stanley Group undertakings relating to staff costs and other services	675,206	604,423
Operating lease rentals	456	5,952
Amortisation of intangible assets	113,520	98,725
Depreciation on property, plant and equipment	67,095	48,869
Loss on disposal of intangible assets	2,660	4,410
Net foreign exchange losses	112	-
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	62	67
Administration and corporate services	410,622	382,622
Professional services	199,289	232,502
Property service costs	148,730	175,511
Other	26,541	25,621
	2,206,730	2,085,935

All staff costs have been recharged to other Morgan Stanley Group entities. In 2018, staff costs included $15,079,000 for remeasurement of the net defined benefit pension taken directly to reserves.

A description of the Company's significant leasing arrangements is presented at note 20 Leases.

The Company has not paid any fees to the Company's auditor for non-audit services provided to the Company in the current or prior year.

Staff costs

The average number of employees of the Company, including Directors, was 3,568 (2018: 3,336), all of whom provide support services to other Morgan Stanley Group undertakings.

The costs of the staff, including the Directors, are analysed below:

	2019 $'000	2018 $'000
Wages and salaries	560,211	489,765
Social security costs	64,831	59,346
Pension costs	37,221	45,914
	662,263	595,025

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

Research and development expenditure

Total expenditure of $173,997,000 for internally developed software (2018: $174,425,000), of which $99,826,000 related to staff costs (2018: $87,792,000), have been capitalised as intangible assets (note 16).

8. NET (IMPAIRMENT LOSS)/ REVERSAL OF IMPAIRMENT LOSS ON FINANCIAL INSTRUMENTS

The following table shows the net ECL charge and reversal for the year.

	2019 $'000	2018 $'000
Trade and other receivables	(5)	7

All of the above impairment losses, and reversals thereof, were calculated on an individual basis. No collective impairment assessments were made during the current year or prior year.

9. INCOME TAX

Analysis of income tax in the year

	2019 $'000	2018 $'000
Current tax benefit		
UK corporation tax at 19%		
- Current year	-	-
- Adjustment in respect of prior years	-	-
Total current tax	-	-
Income tax benefit	-	-

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 19 Deferred Tax Assets for further details.

Reconciliation of effective tax rate

The current year income tax 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
Loss before taxation	(21,986)	(14,979)
Income tax using the average standard rate of corporation tax in the UK of 19%	(4,177)	(2,846)
Impact on tax of:		
Expenses not deductible for tax purposes	1,009	1,238
Group relief surrendered for no cash consideration	10,023	22,513
Deferred tax not recognised on temporary differences	(6,855)	(20,905)
Total income tax in the income statement	-	-

10. TRADING FINANCIAL ASSETS AND LIABILITIES

	2019 Assets $'000	2019 Liabilities $'000	2018 Assets $'000	2018 Liabilities $'000
Derivatives with other Morgan Stanley Group undertakings in relation to deferred compensation schemes	7,497	(918)	1,526	(2,348)

There are no terms and conditions of any trading asset or trading liability may individually significantly affect the amount, timing and certainty of future cash flows for the Company.

11. SECURED FINANCING

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

	2019 $'000	2018 $'000
Non-trading at FVPL		
Securities purchased under agreements to resell	271,964	516,324

12. LOANS AND ADVANCES

	2019 $'000	2018 $'000
Loans and advances at amortised cost	1,434	1,593

13. TRADE AND OTHER RECEIVABLES

	2019 $'000	2018 $'000
Trade and other receivables (amortised cost)		
Trade receivables		
Contracts with other Morgan Stanley Group undertakings	253,360	221,672
Less: ECL allowance	(11)	(4)
	253,349	221,668
Other receivables		
Amounts due from other Morgan Stanley Group undertakings	4,784	53,551
Other amounts receivable	1,067	31,162
Less: ECL allowance	-	(2)
	5,851	84,711
Total trade and other receivables (amortised cost)	259,200	306,379

14. INVESTMENTS IN SUBSIDIARIES AND OTHER CONTROLLED ENTITIES

	Subsidiary undertakings $'000
Cost and carrying amounts	
At 1 January 2019 and at 31 December 2019	-

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	Proportion of shares held by the Company (1)(2) 2019	2018	Nature of business
Morgan Stanley Pension Trustee Limited	25 Cabot Square, Canary Wharf, London, E14 4QA, UK	100%	100%	Corporate Trustee
Morgan Stanley UK Healthcare Trust (3)	25 Cabot Square, Canary Wharf, London, E14 4QA, UK	N/A	N/A	Employee Benefit Trust
Morgan Stanley UK Group Excepted Life Assurance Scheme (3)	25 Cabot Square, Canary Wharf, London, E14 4QA, UK	N/A	N/A	Employment Benefit Scheme
Morgan Stanley UK Group Partners Excepted Life Assurance Scheme (3)	25 Cabot Square, Canary Wharf, London, E14 4QA, UK	N/A	N/A	Employment Benefit Scheme

(1) The proportion of voting rights held by the Company is the same as the proportion of shares held by the Company.

(2) All shares held in each company are ordinary shares.

(3) The Company does not hold share capital in the Morgan Stanley UK Healthcare Trust, Morgan Stanley UK Group Excepted Life Assurance Scheme and Morgan Stanley UK Group Partners Excepted Life Assurance Scheme, but controls these entities, which were established for the sole purpose of providing certain benefits relating to medical treatment and life assurance to UK employees.

MORGAN STANLEY UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

15. PROPERTY, PLANT AND EQUIPMENT

	Lease-hold improv-ements $'000	Assets in the course of cons-truction $'000	Fixtures, fittings, & equip-ment $'000	Right of use assets - property $'000	Right of use assets - equip-ment $'000	Right of use assets - other $'000	Total $'000
Cost							
At 1 January 2019	14,889	16,738	621,641	-	-	-	653,268
Impact of adoption of IFRS 16 (note 2)	-	-	-	56,676	1,766	-	58,442
Additions	553	7,252	76,203	-	915	29,689	114,612
Transfers	376	(419)	43	-	-	-	-
Disposals	-	(18,650)	(9,127)	-	(198)	-	(27,975)
At 31 December 2019	15,818	4,921	688,760	56,676	2,483	29,689	798,347
Depreciation							
At 1 January 2019	655	-	434,591	-	-	-	435,246
Charge for the year	1,104	-	58,166	3,898	799	3,128	67,095
Disposals	-	-	(7,487)	-	(102)	-	(7,589)
At 31 December 2019	1,759	-	485,270	3,898	697	3,128	494,752
Carrying amount							
At 31 December 2019	14,059	4,921	203,490	52,778	1,786	26,561	303,595

16. INTANGIBLE ASSETS

	Internally developed software $'000
Cost	
At 1 January 2019	1,104,051
Additions (note 7)	173,997
Disposals	(19,630)
At 31 December 2019	1,258,418
Amortisation	
At 1 January 2019	488,088
Charge for the year	113,520
Disposals	(18,349)
At 31 December 2019	583,259
Carrying amount	
At 31 December 2019	675,159

17. TRADE AND OTHER PAYABLES

	2019 $'000	2018 $'000
Trade and other payables (amortised cost)		
Trade payables		
Amounts due to other Morgan Stanley Group undertakings	21,222	36,916
Other payables		
Amounts due to other Morgan Stanley Group undertakings	32,870	39,678
Lease liabilities	90,474	-
Other amounts payable	10,904	10,501
	155,470	87,095

18. DEBT AND OTHER BORROWINGS

	2019 $'000	2018 $'000
Debt and other borrowings (amortised cost)		
Amounts due to other Morgan Stanley Group undertakings	1,133,596	1,378,180

19. DEFERRED TAX ASSETS

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 $2,644,000.

A potential deferred tax asset of $2,401,000 (2018: $21,310,000) has not been recognised due to uncertainty over the availability of future taxable profits against which the temporary differences relating to deferred compensation can be utilised.

20. LEASES

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.

Extension and termination options

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

20. LEASES (CONTINUED)

Lease disclosures

The statement of financial position includes ROU assets within 'Property, plant and equipment' (note 15) and lease liabilities within 'Trade and other payables' (note 17).

The income statement includes depreciation of ROU assets within 'Other expense' (note 7) and interest expense on lease liabilities within 'Interest expense' (note 6).

The total cash outflow relating to leases was $7,845,000 during the year.

Maturity analysis of lease liabilities

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

	2019 $'000
On demand	-
Less than 1 month	347
Equal to or more than 1month but less than 3 months	2,111
Equal to or more than 3 months but less than 1 year	7,606
Equal to or more than 1 year but less than 5 years	42,848
Equal to or more than 5 years	52,316
Total undiscounted lease liabilities	105,228
Effect of discounting lease liability at incremental borrowing rate	(14,754)
Total lease liability as at 31 December 2019 (note 17)	90,474

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

	2018 $'000
Within one year	5,427
In the second to fifth years inclusive	21,707
After five years	21,707
	48,841

21. EQUITY

	Ordinary shares of $1 each Number	Ordinary shares of $1 each $'000	Ordinary shares of £1 each Number	Ordinary shares of £1 each $'000	Total ordinary shares $'000
Allotted and fully paid					
At 1 January 2019 and 31 December 2019	200	-	1	-	-

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

MORGAN STANLEY UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

21. EQUITY (CONTINUED)

Reserves

Pension reserve
The 'Pension reserve' of $86,431,000 (2018: $107,742,000) comprises the cumulative actuarial gains or losses on the plan assets and obligations and the impact of the asset ceiling. Details of the plans are given in note 25 to these financial statements.

Retained earnings
During the year, $72,000 of awards were forfeited after their vesting period (2018: $nil) and have been recognised as share based payments in the statement of changes in equity.

22. 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	2,794	-	2,794
Trading financial assets	2,953	4,544	7,497
Secured financing	271,964	-	271,964
Loans and advances	299	1,135	1,434
Trade and other receivables	258,603	597	259,200
Prepayments and accrued income	11,745	11,825	23,570
Investments in subsidiaries	-	-	-
Property, plant and equipment	-	303,595	303,595
Intangible assets	-	675,159	675,159
Post-employment benefit asset	-	21,311	21,311
	548,358	1,018,166	1,566,524
LIABILITIES			
Trading financial liabilities	533	385	918
Trade and other payables	54,487	100,983	155,470
Debt and other borrowings	-	1,133,596	1,133,596
Current tax liabilities	16	-	16
Accruals and deferred income	190,455	48,569	239,024
	245,491	1,283,533	1,529,024

22. 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	71,955	-	71,955
Trading financial assets	596	930	1,526
Secured financing	516,324	-	516,324
Loans and advances	1,593	-	1,593
Trade and other receivables	306,345	34	306,379
Current tax assets	-	5,866	5,866
Prepayments and accrued income	16,625	10,450	27,075
Investments in subsidiaries	-	-	-
Property, plant and equipment	-	218,022	218,022
Intangible assets	-	615,963	615,963
	913,438	851,265	1,764,703
LIABILITIES			
Trading financial liabilities	1,270	1,078	2,348
Trade and other payables	78,286	8,809	87,095
Debt and other borrowings	522,995	855,185	1,378,180
Accruals and deferred income	223,414	35,563	258,977
	825,965	900,635	1,726,600

Total financial liabilities of $49,531,000 (2018: $3,514,000), included in the above, fall due for payment after more than five years from the reporting date.

23. SEGMENT REPORTING

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

24. 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.

24. EMPLOYEE COMPENSATION PLANS (CONTINUED)

Equity-settled share-based compensation plans (continued)

During the year, Morgan Stanley granted 355,948 RSUs (2018: 246,585 RSUs) to employees of the Company with a weighted average fair value per unit of $41.77 (2018: $55.09), based on the market value of Morgan Stanley common stock at grant date.

The equity-based compensation expense recognised in the year is $23,592,000 (2018: $9,759,000). The Company has also entered into a chargeback agreement with Morgan Stanley under which it is committed to pay to Morgan Stanley the grant date fair value of awards granted as well as subsequent movements in their fair value. Therefore, the total amount included within 'Staff costs' within 'Other expense' of $27,651,000 (2018: $5,198,000) includes the equity-based compensation expense and movements in the fair value of the awards granted to employees.

The related liability due to Morgan Stanley at the end of the year, reported within 'Other payables' in the statement of financial position, is $32,870,000 (2018: $39,678,000). $14,672,000 (2018: $31,201,000) is expected to be settled wholly within one year and $18,198,000 (2018: $8,477,000) thereafter.

The unrecognised compensation cost related to unvested equity-based awards is shown in the table below:

	Unvested awards granted:		
	To 31 December 2019 $'000	In January 2020 $'000	Total $'000
Expected to be recognised in:			
2020	3,177	16,334	19,511
2021	794	1,694	2,488
2022	144	606	750
Thereafter	37	226	263
	4,152	18,860	23,012

Amounts above do not reflect forfeitures, cancellations, accelerations or adjustments to fair value for certain awards.

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.

Awards with a value of $9,801,000 (2018: $9,552,000) were granted to employees of the Company during the year.

24. EMPLOYEE COMPENSATION PLANS (CONTINUED)

Deferred cash-based compensation plans (continued)

The deferred cash-based compensation expense recognised in the year is shown in the table below:

	2019	2018
	$'000	$'000
Deferred cash-based awards	10,817	9,023
Return on referenced investments	914	2,376
	11,731	11,399

The liability to employees at the end of the year, reported within 'Accruals and deferred income' in the statement of financial position, is $22,955,000 (2018: $34,026,000). $9,019,000 (2018: $23,575,000) is expected to be settled wholly within one year and $13,936,000 (2018: $10,451,000) thereafter.

The unrecognised compensation cost related to unvested deferred cash-based compensation awards above is shown in the table below:

	Unvested awards granted: To 31 December 2019	In January 2020	Total
	$'000	$'000	$'000
Expected to be recognised in:			
2020	2,164	6,363	8,527
2021	342	1,505	1,847
2022	133	296	429
Thereafter	107	250	357
	2,746	8,414	11,160

Amounts above do not reflect forfeitures, cancellations, accelerations or assumptions about future market conditions.

The Company economically hedges the exposure created by these deferred compensation schemes by entering into derivative transactions with other Morgan Stanley Group undertakings. The derivative balance at the end of the year, recognised within 'Trading financial assets' in relation to these deferred compensation plans is $7,497,000 (2018: $1,526,000) and recognised within 'Trading financial liabilities' is $918,000 (2018: $2,348,000). The related income recorded within 'Net trading income/ (expense)' for the year is $7,471,000 (2018: $3,083,000 loss). Included within the derivative balances and related income are amounts which are subsequently charged to other Morgan Stanley Group undertakings.

25. POST-EMPLOYMENT BENEFITS

The Company operates the Morgan Stanley UK Group Pension Plan (the "Plan") and the Morgan Stanley UK Group Top-up Pension Plan (the "Top-Up Plan"). Both plans require contributions to be made to funds held in trust, separate from the assets of the Company. Both plans are defined contribution schemes and the Plan also has a closed defined benefit section.

The Plan and the Top-Up Plan are open to all permanent employees employed in the UK.

Defined contribution section of the Plan

The Company pays fixed contributions to the funds, with no legal or constructive obligation to pay further contributions.

The defined contribution pension charge recognised within 'Staff costs' in 'Other expense' in the income statement was $33,415,000 for the year (2018: $31,748,000) of which $56,000 was accrued at 31 December 2019 (2018: $134,000).

Defined benefit section of the Plan ("DB Plan")

The DB Plan has been closed to new members and future accrual since 1996. The DB Plan was previously open to permanent employees employed in the UK, and with the consent of the Trustees, other Morgan Stanley employees located outside the UK who had previously been employed in the UK and who at some point had been members of the DB Plan.

The DB Plan provides post-employment benefits to members on retirement which are dependent on years of service and salary at the time of closure of the DB Plan in 1996. Additionally, the DB Plan also includes a Guaranteed Minimum Pension ("GMP") underpin in respect of certain defined contribution members who transferred their benefits from the defined benefit section into the defined contribution section in the past. Under the GMP underpin, if the value of each members' investment at retirement is less than the amount needed to secure the GMP benefits that are accrued under the defined benefit section, the shortfall must be covered by the DB Plan.

The DB Plan is administered by the Trustees and the assets are held in a fund which is legally separate from the Company. The Trustees of the fund are required by law to act in the interest of the members and of all relevant stakeholders in the scheme. The Trustees of the scheme are responsible for the investment policy with regards to the scheme assets.

The DB Plan exposes the Company to actuarial risks such as: investment risk, interest rate risk, inflation risk, longevity risk, liquidity risk and credit risk. As a result of the DB Plan's investment strategy (outlined on page 46) the interest rate and inflation risks are largely hedged for the majority of the defined benefit ("DB") liabilities on a funding basis (described below). The GMP underpin liabilities are volatile because they represent the difference between a defined benefit liability and the value of members' defined contribution assets (which depends on how the individual invests) and are only approximately hedged.

A full actuarial valuation of the DB Plan is conducted at least every three years to determine the position of the DB Plan on a funding basis. The funding basis uses assumptions reflective of the cost of securing the benefits built up in the DB Plan with an insurance company and is reviewed each year as part of the annual funding update. The most recent full actuarial valuation of the DB Plan, carried out at 31 December 2018, showed a funding surplus of scheme assets over liabilities of $27,000,000. Accordingly no new schedule of contributions was agreed and there were no contributions payable to the DB Plan during 2019 (2018: $nil).

MORGAN STANLEY UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

25. POST-EMPLOYMENT BENEFITS (CONTINUED)

DB Plan (continued)

An actuarial valuation of the DB Plan is carried out annually on an accounting basis by a qualified actuary.

Under the accounting basis, the obligations are measured by discounting the best estimate of future cash flows to be paid out by the DB Plan using the projected unit method. As accrual of future benefits ceased in 1996, no further benefit has been attributed to service during subsequent reporting periods and the accumulated benefit obligation is therefore an actuarial measure of the present value of benefits for service already rendered.

On an accounting basis, the DB Plan has a surplus of scheme assets over liabilities.

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:

	2019 $'000	2018 $'000
Present value of defined benefit obligation	(299,085)	(263,567)
Fair value of Plan assets	389,186	337,361
Surplus of funded defined benefit Plan	90,101	73,794
Impact of asset ceiling	(68,790)	(73,794)
Net Asset	21,311	-

The surplus recognised in the statement of financial position is limited to the amount of future economic benefits available to the entity in the form of reduced contributions to the Defined Contribution section of the Plan. Under contractual Morgan Stanley Group recharging arrangements, the corresponding gain recognised in other comprehensive income has been recharged to Morgan Stanley & Co. International plc. On this basis, the management recharge for the year in respect of the DB Plan recognised within 'Fee income' was $21,311,000 (2018: $nil).

Of the defined benefit obligation $297,571,000 (2018: $262,547,000) relates to deferred members and $1,513,000 (2018: $1,019,000) relates to retired members. Upon reaching retirement, up until 31 December 2018, the majority of retiring members were bought out via an annuity in the name of the retiree with the Company having no further obligation. The Trustee has temporarily suspended the practice of individually buying out members' benefits until the legal position and benefit entitlements with respect to GMP equalisation are clearer. Since the end of 2018, individuals who have reached benefit age have been retained as members in the plan.

The weighted average duration of the defined benefit obligation at 31 December 2019 is 28 years (2018: 29 years).

Details of the DB Plan's impact on the pension reserve are given in note 21 to these financial statements.

MORGAN STANLEY UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2019

25. POST-EMPLOYMENT BENEFITS (CONTINUED)

DB Plan (continued)

Movement in the net defined benefit obligation

The following tables provide a summary of the present value of the obligation, the fair value of the DB Plan assets and the impact of the asset ceiling:

2019	Present value of obligation $'000	Fair value of plan assets $'000	Total $'000	Impact of asset ceiling $'000	Total $'000
At 1 January 2019	(263,567)	337,361	73,794	(73,794)	-
Net interest (expense)/ income	(6,640)	8,427	1,787	(1,787)	-
Amounts recognised in the income statement	(6,640)	8,427	1,787	(1,787)	-
Remeasurements:					
The return on scheme assets (excluding amounts included in net interest expense)	-	36,430	36,430	-	36,430
Actuarial gain arising from changes in demographic assumptions	10,436	-	10,436	-	10,436
Actuarial (loss) arising from changes in financial assumptions	(50,244)	-	(50,244)	-	(50,244)
Actuarial gain arising from experience adjustments	14,403	-	14,403	-	14,403
Adjustments for restrictions on the defined benefit asset	-	-	-	9,492	9,492
Amounts recognised in the statement of comprehensive income	(25,405)	36,430	11,025	9,492	20,517
Foreign exchange rate changes	(11,637)	15,132	3,495	(2,701)	794
Benefit payments	8,164	(8,164)	-	-	-
At 31 December 2019	(299,085)	389,186	90,101	(68,790)	21,311

25. POST-EMPLOYMENT BENEFITS (CONTINUED)

DB Plan (continued)

Movement in the net defined benefit obligation (continued)

2018	Present value of obligation $'000	Fair value of plan assets $'000	Total $'000	Impact of asset ceiling $'000	Total $'000
At 1 January 2018	(285,346)	371,491	86,145	(86,145)	-
Net interest (expense)/ income	(6,275)	8,144	1,869	(1,869)	-
Past Service Cost	(15,079)	-	(15,079)	-	(15,079)
Amounts recognised in the income statement	(21,354)	8,144	(13,120)	(1,869)	(15,079)
Remeasurements:					
The return on scheme assets (excluding amounts included in net interest expense)	-	(10,547)	(10,547)	-	(10,547)
Actuarial gain arising from changes in financial assumptions	18,291	-	18,291	-	18,291
Actuarial (loss) arising from experience adjustments	(1,469)	-	(1,469)	-	(1,469)
Adjustments for restrictions on the defined benefit asset	-	-	-	9,613	9,613
Amounts recognised in the statement of comprehensive income	16,822	(10,547)	6,275	9,613	15,888
Foreign exchange rate changes	15,363	(20,779)	(5,416)	4,607	(809)
Benefit payments	10,948	(10,948)	-	-	-
At 31 December 2018	(263,567)	337,361	73,794	(73,794)	-

A past service cost of $15,079,000 was recognised in 2018 to incorporate the estimated impact of a High Court ruling on 26 October 2018 which confirmed that pension schemes are required to equalise male and female members' GMP benefits.

Actuarial assumptions

The following table presents the principal weighted average actuarial assumptions at the end of the reporting period:

	2019 %	2018 %
Pre-retirement discount rate	1.8%	2.5%
Post-retirement discount rate	1.5%	2.0%
Revaluation in deferment ("CPI")	2.1%	2.5%
Inflation ("RPI")	3.1%	3.5%

25. POST-EMPLOYMENT BENEFITS (CONTINUED)

DB Plan (continued)

Actuarial assumptions (continued)

In September 2019, the UK Government announced a proposal to replace RPI with CPIH, which will come into effect at a point in time between 2025 and 2030. The Government intends to consult on this during 2020. It is not known what the final changes to RPI will be and therefore what impact this may have on the net pension asset. No adjustment has been made to the 31 December 2019 RPI or CPI assumptions to reflect this, beyond any market reaction to the Government announcement, given the uncertainty around how this reform will be implemented.

The mortality assumptions used give the following life expectancy:

	Life expectancy at age 65 for a male member currently:		Life expectancy at age 65 for a female member currently:	
	Aged 65	**Aged 45**	**Aged 65**	**Aged 45**
31 December 2019				
UK	89.2	90.5	90.7	92.1
31 December 2018				
UK	89.8	92.0	91.5	93.8

The sensitivities regarding the principal assumptions used to measure the defined benefit obligation are as follows:

2019

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate (Pre-Retirement/Post-Retirement combined)	Increase/ decrease by 0.25%	Decrease/ increase by 6.86 %/7.16 %
Inflation assumption (CPI/RPI Combined)	Increase/ decrease by 0.25%	Increase/ decrease by 1.22%/1.21 %
Mortality Age Rating	Increase/ decrease by 1 year	Increase/ decrease by 4.61%/4.56%

2018

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate (Pre-Retirement/Post-Retirement combined)	Increase/ decrease by 0.25%	Decrease/ increase by 6.91%/7.40%
Inflation assumption (CPI/RPI Combined)	Increase/ decrease by 0.25%	Increase/ decrease by 4.01%/3.87%
Mortality Age Rating	Increase/ decrease by 1 year	Decrease/ increase by 3.34%/3.34%

The sensitivity analysis presented above has been determined based on reasonably possible changes of the assumptions occurring at 31 December 2019 and 31 December 2018 assuming that all other assumptions are held constant. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior year.

25. POST-EMPLOYMENT BENEFITS (CONTINUED)

DB Plan (continued)

DB Plan assets

The Company and the Trustees, in consultation with their independent investment consultants and actuaries, determine the asset allocation targets based on their assessment of business and financial conditions, demographic and actuarial data, funding characteristics and related risk factors. Other relevant factors, including industry practices and long-term historical and prospective capital market returns, are also considered. The overall investment objective is expected to minimise the volatility of the Plan's surplus or deficit through asset liability matching. The investment strategy is low risk.

Specific risks which are managed through the asset allocation targets include:

- Interest rate and inflation risk – Plan liabilities will change in response to changes in interest rates and inflation. The policy is to hedge this risk as far as possible;
- Asset volatility – investment in asset classes such as equities gives rise to volatility in the value of the assets. The policy is to invest in asset classes which closely match the Plan's liabilities;
- Credit risk – any default or downgrade in instruments such as corporate bonds and money market instruments may result in losses. The policy is to partially mitigate this risk by investment in a range of different credit instruments via pooled funds;
- Liquidity risk – the liquidity of investments may change over time which may have an impact on the expected transaction costs. The Trustees and the Company have reviewed the likely cash requirements of the Plan and are satisfied that the investment arrangements provide sufficient liquidity;
- Longevity risk – the longevity experience may differ from expectations and expectations may change over time. The purchase of annuities for pensioners mitigates a substantial portion of this risk, however, the Trustee has temporarily suspended this practice until the legal position and benefit entitlement with respect to GMP equalization are clearer.

In line with the above investment objectives, the DB Plan holds investments in a range of pooled investment vehicles of varying maturities intended to broadly reflect the expected liability profile of the Plan. The major categories and fair values of scheme assets at the end of the reporting period are set out below.

	Fair value of assets					
	2019			2018		
	Quoted in an active market $'000	**Other $'000**	**Total $'000**	**Quoted in an active market $'000**	**Other $'000**	**Total $'000**
Cash and cash equivalents	-	76,528	76,528	-	67,039	67,039
Corporate bonds	65,784	-	65,784	53,529	-	53,529
Government bonds	246,824	-	246,824	216,793	-	216,793
	312,608	76,528	389,136	270,322	67,039	337,361

The actual return on DB Plan assets was $44,857,000 gain (2018: $2,403,000 loss).

25. POST-EMPLOYMENT BENEFITS (CONTINUED)

DB Plan (continued)

DB Plan assets (continued)

The Company and the Trustees conducted a full asset-liability review for the DB plan during 2019 with underlying investments updated in January 2020. Overall investment strategies remain unchanged with the primary objective being to invest the DB Plan's assets to minimise the volatility of the DB Plan's deficit. The asset-liability review occurs every three years with the next scheduled review due to take place in 2021. These studies are used to assist the Trustees and the Company in determining the optimal long-term asset allocation with regard to the structure of liabilities within the scheme.

The main investment strategies formulated in the actuarial and technical policy documents of the scheme are as follows:

- Assets invested in hedging assets such as gilts, corporate bonds and swap-based hedging funds in order to hedge liability-related risks.
- Interest rate sensitivity caused by the duration of the defined benefit obligation should be reduced by the use of debt instruments such as gilts in combination with interest rate swap-based hedging funds.
- In respect of GMP underpin liabilities, investment in long-dated corporate bonds to approximately hedge annuity prices, provide a degree of liquidity and generate modest degree of excess investment return.

Other defined benefits plan – Alternative Retirement Plan ("ARP")

The Company is the sponsoring employer for the ARP which is open by invitation to the employees of the Company and employees of other MSI Group undertakings. The ARP is an unfunded scheme. Members of the scheme invest notional contributions in a selection of funds, the performance of which determines the amount payable on retirement. The Company recognised an expense within 'Staff costs' in ' Other expense' in respect of its contributions for the year totalling $450,000 (2018: $132,000). Scheme liabilities, which are included within 'Accruals and deferred income' in the statement of financial position, are measured at fair value.

The Company economically hedges the exposure created by the ARP by entering into derivative transactions with other Morgan Stanley Group undertakings. The derivatives are recognised within 'Trading financial assets' and 'Trading financial liabilities' in the statement of financial position and the related gains and losses are recorded within 'Net trading income/ (expense)' in the income statement.

Retirement benefit obligation

Changes in the fair value of the defined benefit scheme obligation for the ARP were as follows:

	2019	2018
	$'000	$'000
Defined benefit obligation at 1 January	18,236	17,634
Employer contributions	1,307	1,343
Contributions by scheme participants	1,281	1,468
Benefits paid	(1,493)	(95)
Mark to market on investments	4,292	(1,099)
Foreign exchange rate changes	742	(1,015)
Defined benefit obligation at 31 December	24,365	18,236

26. RELATED PARTY DISCLOSURES

Parent and subsidiary relationships

Parent and ultimate controlling entities

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

Subsidiary relationships

The Company's subsidiary undertakings at 31 December 2019 and 31 December 2018 are disclosed in note 14.

Directors' remuneration

The charges in respect of Directors' qualifying services to the Company have been borne directly by the Company. 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	499	682
Long term incentive schemes	29	28
Company contributions to pension schemes	20	19
Payments for loss of office	1	-
	549	729
Disclosures in respect of the highest paid Director:		
Aggregate remuneration	439	636
Long term incentive schemes	24	26
Company contributions to pension schemes	17	18

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

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

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

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

One Director has retirement benefits under a frozen non-UK defined benefits scheme (2018: one). In addition, one Director has benefits accruing under the Alternative Retirement Plan, a defined benefit scheme, operated by the Company (2018: one).

26. RELATED PARTY DISCLOSURES (CONTINUED)

The Company has provided the following advances and credit to its Directors during the year (amounts disclosed are gross loan values):

		Amount of advance/ credit		Total amount repaid	
	Interest rate	**2019 $'000**	**2018 $'000**	**2019 $'000**	**2018 $'000**
Season ticket loan	0%	5	4	5	4

Loans provided for the purpose of obtaining a season travel or parking ticket are recoverable over six or ten months, depending on the length of the ticket.

27. EVENTS AFTER THE REPORTING DATE

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