

Registered number: 05702837

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Canary Wharf
London, E14 4AD
United Kingdom

MORGAN STANLEY PACIFIC SERVICES LIMITED

Report and financial statements

31 December 2019



MORGAN STANLEY PACIFIC SERVICES LIMITED

STRATEGIC REPORT

The Directors present their Strategic report for Morgan Stanley Pacific Services Limited (the “Company”) for the year ended 31 December 2019.

PRINCIPAL ACTIVITY

The principal activity of the Company is the provision of financial services to financial institutions.

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 Holdings Inc.

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

Emergence of COVID-19

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

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

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

United Kingdom withdrawal from the European Union

On 31 January 2020, the United Kingdom (the “UK”) withdrew from the European Union (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.

MORGAN STANLEY PACIFIC SERVICES LIMITED

STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

United Kingdom withdrawal from the European Union (continued)

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

As a result of the political uncertainty described above, it is currently unclear what the final post-Brexit structure of European operations will be. Given the potential negative disruption to regional and global financial markets, results of Morgan Stanley's operations and business prospects could be negatively affected. However, the Company's principal activity and risks are expected to remain unchanged.

Overview of 2019

The statement of comprehensive income for the year is set out on page 14. The Company's profit after tax for the year is \$894,000 (2018: loss of \$289,000). The increase in profits is primarily a result of increased trading revenues driven by improved market conditions. The increase in trading profits is offset by a reduction in net interest income primarily driven by a decrease in secured borrowing activity. Net trading income which represents fair value movements on corporate equities and derivative swaps has increased by \$3,249,000 to \$4,052,000 (2018: \$803,000). The Company has net interest income of \$124,000 (2018: \$1,359,000). This movement is primarily due to a decrease in secured borrowing activity.

The statement of financial position for the year is set out on page 16. The total assets of the Company are \$59,697,000 (2018: \$121,975,000) in the current year. This decrease is primarily due to a decrease in cash pledged to the Korean exchange following a reduction in the initial margin at the year end. The total liabilities for the year are \$38,474,000 (2018: \$101,646,000). This decrease is primarily due to a decrease in funding for the entity due to reduction in cash pledged to the exchange at the year end.

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.

The risk management section below sets out the Company's and the Morgan Stanley Group's policies for the management of liquidity and cash flow risk and other significant business risks.

Risk management

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

Set out below is an overview of the Company's policies for the management of financial risk and other significant business risks. More detailed qualitative and quantitative disclosures about the Company's management of and exposure to financial risks are included in note 14 to the financial statements.

MORGAN STANLEY PACIFIC SERVICES LIMITED

STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

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 manages the market risk associated with its trading activities at both a trading division and an individual product level.

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

Market risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to appropriate senior management personnel.

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 management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to appropriate senior management personnel.

Credit risk exposure is managed on a global basis and in consideration of each significant legal entity within the Morgan Stanley Group. The credit risk management policies and procedures establish the framework for identifying, measuring, monitoring and controlling credit risk whilst ensuring transparency of material credit risks, compliance with established limits and escalating risk concentrations to appropriate senior management.

Country risk exposure

Country risk exposure is the risk that events in, or affecting, a foreign country might adversely affect the Company. "Foreign country" means any country other than UK. Sovereign risk, by contrast, is the risk that a government will be unwilling or unable to meet its debt obligations, or renege on the debt it guarantees. Sovereign risk is single-name risk for a sovereign government, its agencies and guaranteed entities.

Country risk exposure is measured in accordance with the Morgan Stanley Group's internal risk management standards and includes obligations from sovereign governments, corporations, clearing houses and financial institutions. The Morgan Stanley Group actively manages country risk exposure through a comprehensive risk management framework that combines credit and market fundamentals and allows the Morgan Stanley Group to effectively identify, monitor and limit country risk.

The Morgan Stanley Group's obligor credit evaluation process may also identify indirect exposures whereby an obligor has vulnerability or exposure to another country or jurisdiction. Examples of indirect exposures include mutual funds that invest in a single country, offshore companies whose assets reside in another country to that of the offshore jurisdiction and finance company subsidiaries of corporations. Indirect exposures identified through the credit evaluation process may result in a reclassification of country of risk.

Stress testing is one of the Morgan Stanley Group's principal risk management tools, used to identify and assess the impact of severe stresses on its portfolios. A number of different scenarios are used to measure the impact on credit risks and market risks stemming from negative economic and political scenarios, including possible contagion effects where appropriate. The results of the stress tests may result in the amendment of limits or exposure mitigation.

MORGAN STANLEY PACIFIC SERVICES LIMITED

STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Liquidity risk

Liquidity risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity risk also encompasses the Company's ability (or perceived ability) to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern. Liquidity risk also encompasses the associated funding risks triggered by the market or idiosyncratic stress events that may cause unexpected changes in funding needs or an inability to raise new funding. Generally, the Company incurs liquidity and funding risk as a result of its trading activities.

The primary goal of the Morgan Stanley Group's liquidity risk management framework is to ensure that the Morgan Stanley Group, including the Company, has access to adequate funding across a wide range of market conditions and time horizons. The framework is designed to enable the Morgan Stanley Group to fulfil its financial obligations and support the execution of the Company's business strategies. The framework is further described in note 14.

The Company continues to actively manage its capital and liquidity position to ensure adequate resources are available to support its activities, to enable it to withstand market stresses.

Operational risk

Operational risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes from human factors or from external events (e.g. fraud, theft, legal and compliance risks, cyber attacks or damage to physical assets). Operational risk relates to the following risk event categories as defined by Basel Capital Standards: internal fraud; external fraud, employment practices and workplace safety; clients, products and business practices; business disruption and system failure; damage to physical assets; and execution, delivery and process management. Legal, regulatory and compliance risk is discussed below under "Legal, regulatory and compliance risk".

The Company may incur operational risk across the full scope of its business activities, including revenue-generating activities (e.g., sales and trading) and support and control groups (e.g., information technology and trade processing).

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

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

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

MORGAN STANLEY PACIFIC SERVICES LIMITED

STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Operational risk (continued)

The breadth and variety of operational risk are such that the types of mitigating activities are wide-ranging. Examples of activities include continuous enhancement of defences against cyber attacks; use of legal agreements and contracts to transfer and/or limit operational risk exposures; due diligence; implementation of enhanced policies and procedures; exception management processing controls; and segregation of duties.

Primary responsibility for the management of operational risk is with the business segments, the control groups and the business managers therein. The business managers maintain processes and controls designed to identify, assess, manage, mitigate and report operational risk. Each of the business segments has a designated operational risk coordinator. The operational risk coordinator regularly reviews operational risk issues and reports to the Company's senior management within each business. Each control group also has a designated operational risk coordinator and a forum for discussing operational risk matters with the Company's senior management. Oversight of operational risk is provided by the Operational Risk Oversight Committee, regional risk committees and senior management. In the event of a merger; joint venture; divestiture; reorganisation; or creation of a new legal entity, a new product or a business activity, operational risks are considered, and any necessary changes in processes or controls are implemented.

The Operational Risk Department provides independent oversight of operational risk management and assesses measures and monitors operational risk against tolerance. The Operational Risk Department works with the business divisions and control groups to help ensure a transparent, consistent and comprehensive framework for managing operational risk within each area and across the Company.

The Operational Risk Department scope includes oversight of technology risk, cybersecurity risk, information security risk and data risk management programmes (e.g., cybersecurity), and fraud risk management and prevention programme and a third party risk management (supplier and risk oversight and assessment) programme. Furthermore, the Operational Risk Department supports the collection and reporting of operational risk incidents and the execution of operational risk assessments; provides the infrastructure needed for risk measurement and risk management; and ensures ongoing validation and verification of the Company's advanced measurement approach for operational risk capital.

Business Continuity Management maintains programmes for business continuity management and technology disaster recovery that facilitate activities designed to mitigate risk to the Morgan Stanley Group during a business continuity event. A business continuity event is an interruption with potential impact to normal business activity of the Company's people, operations, technology, suppliers and/or facilities. The business continuity management programme's core functions are business continuity planning and crisis management. As part of business continuity planning, business divisions and control groups maintain business continuity plans identifying processes and strategies to continue business critical processes during a business continuity event. Crisis management is the process of identifying and managing the Company's operations during business continuity events. Disaster recovery plans supporting business continuity are in place for critical facilities and resources across the Company.

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

MORGAN STANLEY PACIFIC SERVICES LIMITED

STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Operational risk (continued)

In connection with its ongoing operations, the Company utilises the services of third party suppliers, which it anticipates will continue and may increase in the future. These services include, for example, outsourced processing and support functions and consulting and other professional services. The Company's risk-based approach to managing exposure to these services includes the performance of due diligence, implementation of service level and other contractual agreements, consideration of operational risk and ongoing monitoring of the third party suppliers' performance. The Company maintains a third party risk programme with appropriate governance, policies, procedures, and technology that supports alignment with our risk tolerance and is designed to meet regulatory requirements. The third party risk programme includes the adoption of appropriate risk management controls and practices through the supplier management lifecycle including, but not limited to assessment of information security, service failure, financial stability, disaster recoverability, reputational risk, contractual risk and safeguards against corruption.

Legal, regulatory and compliance risk

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

The Company, principally through the Morgan Stanley Group's Legal and Compliance Division, has established procedures based on legal and regulatory requirements on a worldwide basis that are designed to facilitate compliance with applicable statutory and regulatory requirements and to require that the Company's policies relating to business conduct, ethics and practices are followed globally.

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

MORGAN STANLEY PACIFIC SERVICES LIMITED

STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

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 of do the right thing, put clients first, lead with exceptional ideas, commit to diversity and inclusion and give 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). The Morgan Stanley Group's Board is responsible for overseeing the Morgan Stanley Group's practices and procedures relating to culture, values and conduct, as set forth in the Morgan Stanley Group's Corporate Governance Policies. The Morgan Stanley Group's Culture, Values and Conduct Committee is the senior management committee that oversees the Firm-wide culture, values and conduct program. A fundamental building block of this program is the Morgan Stanley Group's Code of Conduct (the "Code") which establishes standards for employee conduct that further reinforce the Morgan Stanley Group's commitment to integrity and ethical conduct. Every new hire and every employee annually must attest to their understanding of and adherence to the Code of Conduct. The Morgan Stanley UK Group's Conduct Risk Management Policy also sets out a consistent framework for managing Conduct Risk (i.e. the risk arising from misconduct by employees or contingent workers) and Conduct Risk incidents. The annual employee performance evaluation process includes an evaluation of employee conduct related to risk management practices and the Morgan Stanley Group's expectations. The Morgan Stanley Group also has several mutually reinforcing processes to identify employee conduct that may have an impact on employment status, current year compensation and/ or prior year compensation. For example, the Global Incentive Compensation Discretion Policy sets forth standards for managers when making annual compensation decisions and specifically requires managers to consider whether their employees effectively managed and/ or supervised risk control practices during the performance year. Management committees from control functions periodically meet to discuss employees whose conduct does not meet the Firm's standards. These results are incorporated in the employees' performance evaluation, which links to compensation and promotion decisions. The Morgan Stanley Group's clawback and cancellation provisions, which permit recovery of deferred incentive compensation and cover a broad scope of employee conduct, including any act or omission (including with respect to direct supervisory responsibilities) that constitutes a breach of obligation to the Morgan Stanley Group or causes a restatement of the Morgan Stanley Group's financial results, constitutes a violation of the Morgan Stanley Group's global risk management principles, policies and standards, or causes a loss of revenue associated with a position on which the employee was paid and the employee operated outside of internal control policies.

MORGAN STANLEY PACIFIC SERVICES LIMITED

STRATEGIC REPORT

BUSINESS REVIEW (CONTINUED)

Going concern

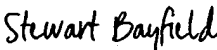
Business risks associated with the uncertain market and economic conditions are being actively monitored and managed by the Company. Retaining sufficient capital and liquidity to withstand these market pressures remains central to the Company's strategy. The existing and potential effects of COVID-19 on the business of the Company have been considered as part of the going concern analysis, including impact on operational capacity, access to liquidity and capital, contractual obligations, asset valuations and other critical accounting judgements and key sources of estimation uncertainty. Additionally, the specific impact of Brexit on the business of the Company has been considered. The Company has access to further Morgan Stanley Group capital and liquidity as required.

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

Section 172 (1) statement

The directors are aware of their responsibilities to promote the success of the Company in accordance with s172 of the Companies Act 2006. Directors have regard to the interests of stakeholders relevant to the Company as well as the need to maintain a reputation for high standards of business conduct and the long term consequences of decisions. They also fulfil their responsibilities through the application of Morgan Stanley Group policies and practices, underpinned by Morgan Stanley's five core values of: do the right thing, put clients first, lead with exceptional ideas, commit to diversity and inclusion and give back.

Approved by the Board on 8 September 2020 and signed on its behalf by

DocuSigned by:

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Stewart Bayfield - Director
9 September 2020

MORGAN STANLEY PACIFIC SERVICES LIMITED

DIRECTORS' REPORT

The Directors present their report and financial statements (which comprise the statement of comprehensive income, the statement of changes in equity, the statement of financial position and the related notes, 1 to 19) for the Company for the year ended 31 December 2019.

RESULTS AND DIVIDENDS

The profit for the year, after tax, was \$894,000 (2018: loss of \$289,000).

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

RISK MANAGEMENT AND FUTURE DEVELOPMENTS

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

DIRECTORS

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

S Bayfield (Appointed 23 September 2019)

I MacLeod

B M L Young (Resigned 23 October 2019)

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

DIRECTORS' INDEMNITY

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

EVENTS AFTER THE REPORTING DATE

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

MORGAN STANLEY PACIFIC SERVICES LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

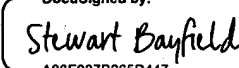
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

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 United Kingdom Generally Accepted Accounting Practice ("UK GAAP") (UK Accounting Standards and applicable law), including Financial Reporting Standard 101 '*Reduced Disclosure Framework*' ("FRS 101"). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

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

Approved by the Board on 8 September 2020 and signed on its behalf by

DocuSigned by:

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Stewart Bayfield - Director

9 September 2020

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Morgan Stanley Pacific Services Limited (the "Company"):

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

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of changes in equity;
- the statement of financial position; and
- the related notes 1 to 19.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

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.

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

Other information (continued)

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

We have nothing to report in respect of these matters.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

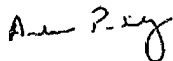
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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



Andrew Partridge CA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Statutory Auditor

Glasgow, United Kingdom

9 September 2020

MORGAN STANLEY PACIFIC SERVICES LIMITED**STATEMENT OF COMPREHENSIVE INCOME****Year ended 31 December 2019**

	Note	2019 \$'000	2018 \$'000
Net trading income		4,052	803
Other revenue	4	-	95
Total non-interest revenues		<u>4,052</u>	<u>898</u>
Interest income	5	1,304	3,100
Interest expense	5	<u>(1,180)</u>	<u>(1,741)</u>
Net interest income		124	1,359
Non-interest expense:			
Other expense	6	(3,282)	(2,571)
PROFIT/ (LOSS) BEFORE TAXATION		<u>894</u>	<u>(314)</u>
Income tax (expense)/ benefit	7	-	25
PROFIT/ (LOSS) AND TOTAL COMPREHENSIVE INCOME/ (EXPENSE) FOR THE YEAR		<u><u>894</u></u>	<u><u>(289)</u></u>

All operations were continuing in the current and prior year.

The notes on pages 17 to 42 form an integral part of the financial statements.

MORGAN STANLEY PACIFIC SERVICES LIMITED**STATEMENT OF CHANGES IN EQUITY**
Year ended 31 December 2019

	Share capital \$'000	Share premium \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 January 2018	-	15,000	5,618	20,618
Loss and total comprehensive expense for the year	-	-	(289)	(289)
Balance at 31 December 2018	-	15,000	5,329	20,329
Profit and total comprehensive income for the year	-	-	894	894
Balance at 31 December 2019	-	15,000	6,223	21,223

The notes on pages 17 to 42 form an integral part of the financial statements.

MORGAN STANLEY PACIFIC SERVICES LIMITED


Registered number: 05702837

STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Note	2019 \$'000	2018 \$'000
ASSETS			
Cash and short-term deposits	8	5,308	5,201
Trading financial assets	8	1,114	138
Trade and other receivables	9	53,275	116,636
TOTAL ASSETS		59,697	121,975
LIABILITIES AND EQUITY			
Trading financial liabilities	8	13,549	33,747
Trade and other payables	10	24,908	67,882
Accruals and deferred income		17	17
TOTAL LIABILITIES		38,474	101,646
EQUITY			
Share capital	11	-	-
Share premium account	11	15,000	15,000
Retained earnings		6,223	5,329
TOTAL EQUITY		21,223	20,329
TOTAL LIABILITIES AND EQUITY		59,697	121,975

These financial statements were approved by the Board and authorised for issue on 8 September 2020

Signed on behalf of the Board

DocuSigned by:

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Stewart Bayfield - Director
9 September 2020

The notes on pages 17 to 42 form an integral part of the financial statements.

MORGAN STANLEY PACIFIC SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

1. CORPORATE INFORMATION

The Company is incorporated and domiciled in England and Wales, UK, at the following registered address 20 Bank Street, Canary Wharf, London E14 4AD, UK. The Company is a private company and is limited by shares. The registered number of the Company is 05702837.

2. BASIS OF PREPARATION

Statement of compliance

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

The Company meets the definition of a qualifying entity and is a Financial institution as defined in Financial Reporting Standard 100 '*Application of Financial Reporting Requirements*'. The Company has taken advantage of certain disclosure exemptions available under FRS 101 in relation to fair value measurement (as applicable to assets and liabilities other than financial instruments), presentation of comparative information in respect of certain assets and shares outstanding, presentation of a cash-flow statement and related party transactions.

Where relevant, equivalent disclosures have been provided in the group accounts of Morgan Stanley, in which the Company is consolidated. Copies of Morgan Stanley's accounts can be obtained as detailed at note 18.

New standards and interpretations adopted during the year

The following standards, amendments to standards and interpretation 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.

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

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

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

New standards and interpretations not yet adopted

At the date of authorisation of these financial statements, the following amendments to standards relevant to the Company's operations were issued by the IASB but not mandatory for accounting periods beginning 1 January 2019. The Company does not expect that the adoption of the following standards, amendments to standards and interpretations will have a material impact on the Company's financial statements.

Amendments to IAS 1 '*Presentation of Financial Statements*' and IAS 8 '*Accounting Policies, Changes in Accounting Estimates and Errors*' were issued by the IASB in October 2018, for application in accounting periods beginning on or after 1 January 2020. The amendments were endorsed by the EU in December 2019.

An amendment to IAS 1 '*Presentation of Financial Statements*': Classification of Liabilities as Current or Non-current was issued by the IASB in January 2020, for application in accounting periods beginning on or after 1 January 2022.

MORGAN STANLEY PACIFIC SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS **Year ended 31 December 2019**

2. BASIS OF PREPARATION (CONTINUED)

Basis of measurement

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

Critical accounting judgements and key sources of estimation uncertainty

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

Critical accounting judgements are key decisions made by management in the application of the Company's accounting policies, other than those involving estimations, which have the most significant effects on the amounts recognised in the financial statements.

Key sources of estimation uncertainty represent assumptions and estimations made by management that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

No judgements other than those involving estimations noted below 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.

The key sources of estimation uncertainty are estimations and other assumptions regarding the valuation of certain financial instruments, impairment of assets and other matters that affect the financial statements and related disclosures.

The Company evaluates the critical accounting judgements and key sources of estimation uncertainty on an ongoing basis and believes that these are reasonable.

The going concern assumption

The Company's business activities, together with the factors likely to affect its future development, performance and position, are reflected in the Business review section of the Strategic report on pages 1 to 8. In addition, the notes to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Functional currency

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

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

MORGAN STANLEY PACIFIC SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Foreign currencies

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

c. Financial instruments

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

Trading financial instruments

Trading financial instruments, including all derivatives, are initially recorded on trade date at fair value (see note 3(d) below). All subsequent changes in fair value, foreign exchange differences, unrealised interest and dividends are reflected in the statement of comprehensive income in 'Net trading income'.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. For all trading financial instruments, transaction costs are excluded from the initial fair value measurement of the financial instrument. These costs are recognised in the statement of comprehensive income in 'Other expense'.

ii) Financial assets and financial liabilities at amortised cost

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

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

Financial liabilities classified at amortised cost include certain secured borrowings, trade and other payables and accruals and deferred income.

Financial liabilities are classified as being subsequently measured at amortised cost, except where they are held for trading or are designated as measured at fair value through profit or loss ("FVPL"). They are recognised when the Company becomes a party to the contractual provisions of the instrument and are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost. Interest is recognised in the statement of comprehensive income in 'Interest expense' using the EIR method as described below. Transaction costs that are directly attributable to the issue of a financial liability are deducted from the fair value on initial recognition.

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

MORGAN STANLEY PACIFIC SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value

Fair value measurement

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

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

Where the Company manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the Company measures the fair value of that group of financial instruments consistently with how market participants would price the net risk exposure at the measurement date.

In determining fair value, the Company uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value that requires the most observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability that were developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect assumptions the Company believes other market participants would use in pricing the asset or liability, that are developed based on the best information available in the circumstances.

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

- Level 1 – Quoted prices (unadjusted) in an active market for identical assets or liabilities
Valuations based on quoted prices in active markets that the Morgan Stanley Group has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgement.
- Level 2 – Valuation techniques using observable inputs
Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3 – Valuation techniques with significant unobservable inputs
Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the product. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgement. Accordingly, the degree of judgement exercised by the Company in determining fair value is greatest for instruments categorised in Level 3 of the fair value hierarchy.

MORGAN STANLEY PACIFIC SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

Fair value measurement (continued)

The Company considers prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or from Level 2 to Level 3 of the fair value hierarchy.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the total fair amount is disclosed in the level appropriate for the lowest level input that is significant to the total fair value of the asset or liability.

The Company incorporates Funding Valuation Adjustment ("FVA") in the fair value measurements of over-the-counter ("OTC") uncollateralised or partially collateralised derivatives, and in collateralised derivatives where the terms of the agreement do not permit the re-use of the collateral received. In general, the FVA reflects a market funding risk premium inherent in the noted derivative instruments. The methodology for measuring FVA leverages the Company's existing credit-related valuation adjustment calculation methodologies, which apply to both assets and liabilities.

For assets and liabilities that are transferred between levels in the fair value hierarchy during the period, fair values are ascribed as if the assets or liabilities had been transferred as of the beginning of the period.

Valuation techniques

Many cash instruments and 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 many cash instruments and OTC derivative contracts is derived using pricing models. Pricing models take into account the contract terms, as well as multiple inputs including, where applicable, commodity prices, equity prices, interest rate yield curves, credit curves, correlation, creditworthiness of the counterparty, creditworthiness of the Company, option volatility and currency rates.

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

Adjustments for liquidity risk adjust model-derived mid-market levels of Level 2 and Level 3 financial instruments for the bid-mid or mid-ask spread required to properly reflect the exit price of a risk position. Bid-mid and mid-ask spreads are marked to levels observed in trade activity, broker quotes or other external third-party data. Where these spreads are unobservable for the particular position in question, spreads are derived from observable levels of similar positions.

MORGAN STANLEY PACIFIC SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

Valuation techniques (continued)

The Company applies credit-related valuation adjustments to its OTC derivatives. The Company considers the impact of changes in both the Company's and the counterparty's credit rating is considered when measuring fair value. In determining the expected exposure the Company simulates the distribution of the future exposure to a counterparty, then applies market-based default probabilities to the future exposure, leveraging external third-party credit default swap ("CDS") spread data. Where CDS spread data are unavailable for a specific counterparty, bond market spreads, CDS spread data based on the counterparty's credit rating or CDS spread data that reference a comparable counterparty may be utilised. The Company also considers collateral held and legally enforceable master netting agreements that mitigate its exposure to each counterparty.

Adjustments for model uncertainty are taken for positions whose underlying models are reliant on significant inputs that are neither directly nor indirectly observable, hence requiring reliance on established theoretical concepts in their derivation. These adjustments are derived by making assessments of the possible degree of variability using statistical approaches and market-based information where possible.

The Company may apply a concentration adjustment to certain of its OTC derivatives portfolios to reflect the additional cost of closing out a particularly large risk exposure. Where possible, these adjustments are based on observable market information but in many instances significant judgement is required to estimate the costs of closing out concentrated risk exposures due to the lack of liquidity in the marketplace.

Valuation process

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

Model Review

VC, in conjunction with the Model Risk Management Department ("MRM"), which reports to the Chief Risk Officer of the Morgan Stanley Group ("CRO"), independently reviews valuation models' theoretical soundness, the appropriateness of the valuation methodology and calibration techniques developed by the business units using observable inputs. Where inputs are not observable, VC reviews the appropriateness of the proposed valuation methodology to determine that it is consistent with how a market participant would arrive at the unobservable input. The valuation methodologies utilised in the absence of observable inputs may include extrapolation techniques and the use of comparable observable inputs. As part of the review, VC develops a methodology to independently verify the fair value generated by the business unit's valuation models. The Company generally subjects valuations and models to a review process initially and on a periodic basis thereafter.

MORGAN STANLEY PACIFIC SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS **Year ended 31 December 2019**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

Valuation process (continued)

Independent Price Verification.

The business units are responsible for determining the fair value of financial instruments using approved valuation models and valuation methodologies. Generally on a monthly basis, VC independently validates the fair values of financial instruments determined using valuation models by determining the appropriateness of the inputs used by the business units and by testing compliance with the documented valuation methodologies approved in the model review process described above.

The results of this independent price verification and any adjustments made by VC to the fair value generated by the business units are presented to management of the Morgan Stanley Group's three business segments (i.e. Institutional Securities, Wealth Management and Investment Management), the CFO and the CRO on a regular basis.

VC uses recently executed transactions, other observable market data such as exchange data, broker/ dealer quotes, third-party pricing vendors and aggregation services for validating the fair values of financial instruments generated using valuation models. VC assesses the external sources and their valuation methodologies to determine if the external providers meet the minimum standards expected of a third-party pricing source. Pricing data provided by approved external sources are evaluated using a number of approaches; for example, by corroborating the external sources' prices to executed trades, by analysing the methodology and assumptions used by the external source to generate a price and/ or by evaluating how active the third-party pricing source (or originating sources used by the third-party pricing source) is in the market. Based on this analysis, VC generates a ranking of the observable market data designed to ensure that the highest-ranked market data source is used to validate the business unit's fair value of financial instruments.

VC reviews the models and valuation methodology used to price new material Level 2 and Level 3 transactions and both FCG and MRM must approve the fair value of the trade that is initially recognised.

Level 3 Transactions.

VC reviews the business unit's valuation techniques to assess whether these are consistent with market participant assumptions.

Gains and losses on inception

In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (i.e. the fair value of the consideration given or received). In certain circumstances, however, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Company recognises a gain or loss on inception of the transaction.

When the use of unobservable market data has a significant impact on determining fair value at the inception of the transaction, the entire initial gain or loss indicated by the valuation technique as at the transaction date is not recognised immediately in the statement of comprehensive income, but is deferred and recognised over the life of the instrument or at the earlier of when the unobservable market data becomes observable, maturity or disposal of the instrument.

MORGAN STANLEY PACIFIC SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS **Year ended 31 December 2019**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Modification and derecognition of financial assets and liabilities

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

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

If the Company has retained control of the asset, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset. If the entity 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 renegotiation or modification of the contractual cash flows of a financial asset can lead to derecognition where the modification is “substantial”, determined by qualitative assessment of whether the revised contractual terms of a financial asset, such as a loan, are significantly different from those of the original financial asset. In the event that the qualitative assessment is unclear, a quantitative 10% cash flow test is performed.

Where modifications do not result in derecognition of the asset, the gross carrying amount of the financial asset is recalculated and a modification gain/ (loss) is recognised in the statement of comprehensive income.

Upon derecognition of a financial asset, the difference between the previous carrying amount and the sum of any consideration received, together with the transfer of any cumulative gain/ loss previously recognised in equity, are recognised in the statement of comprehensive income within ‘Net gains/ (losses) on derecognition of financial assets measured at amortised cost’.

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

f. Impairment of financial assets

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

MORGAN STANLEY PACIFIC SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. 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.

h. Income tax

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

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

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.

MORGAN STANLEY PACIFIC SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS****Year ended 31 December 2019****4. OTHER REVENUE**

	2019	2018
	\$'000	\$'000
Net foreign exchange gains	-	95

5. INTEREST INCOME AND INTEREST EXPENSE

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

No other gains or losses have been recognised in respect of financial assets at amortised cost other than as disclosed as 'Interest income', and foreign exchange differences disclosed in 'Other revenue' (note 4).

No other gains or losses have been recognised in respect of financial liabilities at amortised cost other than as disclosed as 'Interest expense' and foreign exchange differences disclosed in 'Other expense' (note 6).

6. OTHER EXPENSE

	2019	2018
	\$'000	\$'000
Auditor's remuneration:		
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	37	71
Other:		
Commission expenses	2,148	2,413
Management charges from other Morgan Stanley Group undertakings	15	16
Other expenses	59	71
Net foreign exchange losses	1,023	-
	<u>3,282</u>	<u>2,571</u>

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

The amount of remuneration received by Directors in respect of their qualifying services to the Company is disclosed in the Related Party disclosures note (note 18).

MORGAN STANLEY PACIFIC SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS****Year ended 31 December 2019****7. INCOME TAX EXPENSE/ (BENEFIT)****Analysis of expense in the year**

	2019	2018
	\$'000	\$'000
Current tax expense		
UK corporation tax at 19% (2018: 19%)		
- Current year	-	1
- Adjustment in respect of prior years	-	(26)
Total current tax	-	(25)

Reconciliation of effective tax rate

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

	2019	2018
	\$'000	\$'000
Profit/ (loss) before taxation	894	(314)
Income tax using the average standard rate of corporation tax in the UK of 19% (2018: 19%)	170	(60)
Under provided in prior years	-	(26)
Currency translation on tax	-	1
Group relief (received)/ surrendered for no cash consideration	(170)	60
Total income tax expense/ (benefit) in the statement of comprehensive income	-	(25)

MORGAN STANLEY PACIFIC SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS****Year ended 31 December 2019****8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY**

The following table analyses financial assets and financial liabilities as presented in the statement of financial position by IFRS 9 classifications.

2019	FVPL (mandatorily) \$'000	Amortised cost \$'000	Total \$'000
Cash and short-term deposits	-	5,308	5,308
Trading financial assets	1,114	-	1,114
Trade and other receivables	-	53,275	53,275
Total financial assets	1,114	58,583	59,697
Trading financial liabilities	13,549	-	13,549
Trade and other payables	-	24,908	24,908
Accruals and deferred income	-	17	17
Total financial liabilities	13,549	24,925	38,474

2018	FVPL (mandatorily) \$'000	Amortised cost \$'000	Total \$'000
Cash and short-term deposits	-	5,201	5,201
Trading financial assets	138	-	138
Trade and other receivables	-	116,636	116,636
Total financial assets	138	121,837	121,975
Trading financial liabilities	33,747	-	33,747
Trade and other payables	-	67,882	67,882
Accruals and deferred income	-	17	17
Total financial liabilities	33,747	67,899	101,646

9. TRADE AND OTHER RECEIVABLES

	2019 \$'000	2018 \$'000
Trade and other receivables (amortised cost):		
Trade receivable:		
Amounts due from other Morgan Stanley Group undertakings	52,587	115,694
Other receivables:		
Amounts due from other Morgan Stanley Group undertakings	688	937
Other amounts receivable	-	5
	53,275	116,636

MORGAN STANLEY PACIFIC SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
Year ended 31 December 2019**10. TRADE AND OTHER PAYABLES**

	2019	2018
	\$'000	\$'000
Trade and other payables (amortised cost):		
Trade payable:		
Amounts due to other Morgan Stanley Group undertakings	308	2,297
Other payables:		
Amounts due to other Morgan Stanley Group undertakings	24,598	65,582
Other amounts payable	2	3
	<u>24,908</u>	<u>67,882</u>

11. EQUITY

	Ordinary shares of \$1 each Number	Ordinary shares of \$1 each \$'000
Allotted and fully paid		
At 1 January 2019 and 31 December 2019	<u>11</u>	<u>-</u>

Reserves*Share premium account*

The 'Share premium account' of \$15,000,000 (2018: \$15,000,000) comprises the capital raised in an issue of shares that exceeds the nominal value of the shares.

MORGAN STANLEY PACIFIC SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
Year ended 31 December 2019**12. 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			At 31 December 2018		
	Less than or equal to twelve months \$'000	More than twelve months \$'000	Total \$'000	Less than or equal to twelve months \$'000	More than twelve months \$'000	Total \$'000
ASSETS						
Cash and short-term deposits	5,308	-	5,308	5,201	-	5,201
Trading financial assets	1,114	-	1,114	138	-	138
Trade and other receivables	53,275	-	53,275	116,636	-	116,636
	<u>59,697</u>	<u>-</u>	<u>59,697</u>	<u>121,975</u>	<u>-</u>	<u>121,975</u>
LIABILITIES						
Trading financial liabilities	13,549	-	13,549	33,747	-	33,747
Trade and other payables	351	24,557	24,908	2,340	65,542	67,882
Accruals and deferred income	17	-	17	17	-	17
	<u>13,917</u>	<u>24,557</u>	<u>38,474</u>	<u>36,104</u>	<u>65,542</u>	<u>101,646</u>

13. SEGMENT REPORTING

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

MORGAN STANLEY PACIFIC SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

14. FINANCIAL RISK MANAGEMENT

Risk management procedures

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

Significant risks faced by the Company resulting from its trading activities are set out below.

Credit risk

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

Credit risk management

Credit risk exposure is managed on a global basis and in consideration of each significant legal entity within the Company. The Company's credit risk management policies and procedures establish the framework for identifying, measuring, monitoring and controlling credit risk whilst ensuring transparency of material credit risks, compliance with established limits and escalating risk concentrations to appropriate senior management.

The Company may incur credit risk in its Institutional Securities business segment through a variety of activities, including, but not limited to, posting margin and/ or collateral to clearing houses, securities firms and other financial counterparties.

MORGAN STANLEY PACIFIC SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2019

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk management (continued)

Monitoring and Control

In order to help protect the Company from losses, the Credit Risk Management Department establishes firm-wide practices to evaluate, monitor and control credit risk at the transaction, obligor and portfolio levels. The Credit Risk Management Department approves extensions of credit, evaluates the creditworthiness of the Company's counterparties and borrowers on a regular basis, and helps ensure that credit exposure is actively monitored and managed. The evaluation of counterparties and borrowers includes an assessment of the probability that an obligor will default on its financial obligations and any subsequent losses that may occur when an obligor defaults. In addition, credit risk exposure is actively managed by credit professionals and committees within the Credit Risk Management Department and through various risk committees, whose membership includes individuals from the Credit Risk Management Department.

A Credit Limits Framework is utilised to manage credit risk levels across the Company. The Credit Limits Framework is calibrated within the Morgan Stanley Group's risk tolerance and includes single-name limits and portfolio concentration limits by country and industry. The Credit Risk Management Department helps ensure timely and transparent communication of material credit risks, compliance with established limits and escalation of risk concentrations to appropriate senior management. The Credit Risk Management Department also works closely with the Market Risk Department ("MRD") and applicable business units to monitor risk exposures and to perform stress tests to identify, analyse and control credit risk concentrations arising from the Company's lending and trading activities. The stress tests shock market factors (e.g. interest rates, commodity prices, credit spreads), risk parameters (e.g. default probabilities and loss given default), in order to assess the impact of stresses on exposures, profit and loss, and the Company's capital position. Stress tests are conducted in accordance with established Company policies and procedures.

Credit Evaluation

The evaluation of corporate and institutional counterparties and borrowers includes assigning obligor credit ratings, which reflect an assessment of an obligor's probability of default ("PD") and loss given default ("LGD"). An obligor credit rating can be categorised into Investment grade, Non-investment grade and Default. Credit evaluations typically involve the assessment of financial statements, leverage, liquidity, capital strength, asset composition and quality, market capitalisation, access to capital markets, the adequacy of collateral, if applicable, and in the case of certain loans, cash flow projections and debt service requirements. The Credit Risk Management Department also evaluates strategy, market position, industry dynamics, management and other factors that could affect the obligor's risk profile. Additionally, the Credit Risk Management Department evaluates the relative position of the Company's exposure in the borrower's capital structure and relative recovery prospects, as well as adequacy of collateral (if applicable) and other structural elements of the particular transaction.

In addition to assessing and monitoring its credit exposure and risk at the individual obligor level, the Company also reviews its credit exposure and risk to geographic regions. As at 31 December 2019, credit exposure was concentrated in Asian countries. In addition, the Company pays particular attention to smaller exposures in emerging markets given their unique risk profile. Sovereign ceiling ratings i.e. the maximum credit rating that can be assigned to a counterparty with a designated country of risk, are derived using methodologies generally consistent with those employed by external rating agencies.

The Company also reviews its credit exposure and risk to certain types of customers. At 31 December 2019 and 31 December 2018, the Company's material credit exposure was to financial institutions.

MORGAN STANLEY PACIFIC SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Risk Mitigation

The Credit Risk Management Department may seek to mitigate credit risk from its lending and trading activities in multiple ways, including collateral provisions, guarantees and hedges. At the transaction level, the Credit Risk Management Department seeks to mitigate risk through management of key risk elements such as size, tenor, financial covenants, seniority and collateral. The Morgan Stanley Group actively hedges its lending and derivatives exposure through various financial instruments that may include single-name, portfolio and structured credit derivatives. Additionally, the Morgan Stanley Group may sell, assign or syndicate funded loans and lending commitments to other financial institutions in the primary and secondary loan markets. In connection with its derivatives trading activities, the Morgan Stanley Group generally enters into master netting agreements and collateral arrangements with counterparties. These agreements provide the Morgan Stanley Group with the ability to demand collateral, as well as to liquidate collateral and offset receivables and payables covered under the same master agreement in the event of a counterparty default.

- *Securities purchased under agreements to resell and securities borrowed*

The Company manages credit exposure arising from securities purchased under agreements to resell and securities borrowed transactions by, in appropriate circumstances, entering into master netting agreements and collateral agreements with counterparties that provide the Company, in the event of a counterparty default, with the right to net a counterparty's rights and obligations under such agreement and liquidate and set off collateral held by the Company against the net amount owed by the counterparty. Under these securities purchased under agreements to resell and securities borrowed transactions, the Company receives collateral, including US government and agency securities, other sovereign government obligations, corporate and other debt and corporate equities. The Company also monitors the fair value of the underlying securities as compared with the related receivable or payable, including accrued interest, and, as necessary, requests additional collateral to ensure such transactions are adequately collateralised.

- *Derivatives*

The Company may seek to mitigate credit risk from its derivatives transactions in multiple ways, including documentation, collateral provisions, guarantees and hedges. At the transaction level, the Company seeks to mitigate risk through management of key risk elements such as size, tenor, financial covenants, seniority and collateral. The Company actively hedges its derivatives exposure through various financial instruments that may include single-name, portfolio and structured credit derivatives. The Company may enter into master netting agreements and collateral arrangements with counterparties. These master netting agreements and collateral arrangements may provide the Company with the ability to demand collateral, as well as to liquidate collateral and offset receivables and payables covered under the same master netting agreement in the event of counterparty default. The Company monitors the creditworthiness of counterparties to these transactions on an ongoing basis and requests additional collateral in accordance with collateral arrangements when deemed necessary.

MORGAN STANLEY PACIFIC SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS****Year ended 31 December 2019****14. FINANCIAL RISK MANAGEMENT (CONTINUED)****Credit risk (continued)*****Risk Mitigation (continued)*****Exposure to credit risk**

The maximum exposure to credit risk ("gross credit exposure") of the Company as at 31 December 2019 is disclosed below, based on the carrying amounts of the financial assets and the maximum amount that the Company could have to pay in relation to unrecognised financial instruments, which the Company believes are subject to credit risk. Within the table financial instruments subject to accounting ECL are distinguished from those that are not. Those financial instruments that bear credit risk but are not subject to ECL are subsequently measured at fair value. Exposure arising from financial instruments not recognised on the statement of financial position is measured as the maximum amount that the Company could have to pay, which may be significantly greater than the amount that would be recognised as a liability. This table does not include receivables arising from pending securities transactions with market counterparties as credit risk is considered to be insignificant. Where the Company enters into credit enhancements, including receiving cash and security as collateral and master netting agreements, to manage the credit exposure on these financial instruments the financial effect of the credit enhancements is also disclosed below. The net credit exposure represents the credit exposure remaining after the effect of the credit enhancements.

The Company does not have any significant exposure arising from items not recognised on the balance sheet.

Trading financial assets are subject to traded credit risk through exposure to the issuer of the financial asset; the Company manages this issuer credit risk through its market risk management infrastructure.

Exposure to credit risk by class

Class	31 December 2019			31 December 2018		
	Gross credit exposure	Credit enhancements ⁽¹⁾	Net credit exposure	Gross credit exposure ⁽¹⁾	Credit enhancements	Net credit exposure
\$'000						
Subject to ECL:						
Cash and short-term deposits	5,308	-	5,308	5,201	-	5,201
Trade and other receivables ⁽²⁾	53,275	-	53,275	116,636	-	116,636
Not subject to ECL⁽²⁾:						
Trading financial assets:						
Derivatives	1,114	(1,114)	-	138	(88)	50
	59,697	(1,114)	58,583	121,975	(88)	121,887

(1) The carrying amount recognised in the statement of financial position best represents the Company's maximum exposure to credit risk.

(2) Financial assets measured at FVPL are not subject to ECL.

MORGAN STANLEY PACIFIC SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS****Year ended 31 December 2019****14. FINANCIAL RISK MANAGEMENT (CONTINUED)****Credit risk (continued)*****Exposure to credit risk by internal rating grades***

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

a. Recognised and unrecognised financial instruments subject to ECL

The following table provides an analysis of the credit risk exposure by ECL stage per class of recognised and unrecognised financial instrument subject to ECL, based on the following internal credit rating grades:

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

	AA	A	Total Investment Grade / Gross Carrying Amount	Loss Allowance	Carrying Amount
At 31 December 2019					
\$'000					
Subject to ECL:					
Cash and short term deposits					
Stage 1	5,308	-	5,308	-	5,308
Trade and other receivables ⁽¹⁾					
Stage 1	-	53,275	53,275	-	53,275
Total subject to ECL	5,308	53,275	58,583	-	58,583
Not subject to ECL:					
Trading financial assets	-	1,114	1,114	-	1,114
Total not subject to ECL	-	1,114	1,114	-	1,114
At 31 December 2018					
\$'000					
Subject to ECL:					
Cash and short term deposits					
Stage 1	-	5,201	5,201	-	5,201
Trade and other receivables ⁽¹⁾					
Stage 1	-	116,636	116,636	-	116,636
Total subject to ECL	-	121,837	121,837	-	121,837
Not subject to ECL:					
Trade and other receivables:	-	138	138	-	138
Total not subject to ECL	-	138	138	-	138

b. Recognised financial instruments not subject to ECL

At 31 December 2019 there were no financial assets past due but not impaired or individually impaired (2018: none).

MORGAN STANLEY PACIFIC SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS **Year ended 31 December 2019**

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

Liquidity risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity risk encompasses the Company's ability (or perceived ability) to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten the Company's viability as a going concern. Liquidity risk also encompasses the associated funding risks triggered by the market or idiosyncratic stress events that may cause unexpected changes in funding needs or an inability to raise new funding. Generally, the Company incurs liquidity risk as a result of its trading, lending, investing and client facilitation activities.

The Morgan Stanley Group's Liquidity Risk Management Framework is critical to helping ensure that the Company maintains sufficient liquidity reserves and durable funding sources to meet its daily obligations and to withstand unanticipated stress events. The Liquidity Risk Department is a distinct area in Risk Management, which oversees and monitors liquidity risk. The Liquidity Risk Department ensures transparency of material liquidity risks, compliance with established risk limits and escalation of risk concentrations to appropriate senior management. To execute these responsibilities, the Liquidity Risk Department:

- Establishes limits in line with the Morgan Stanley Group's risk appetite;
- Identifies and analyses emerging liquidity risks to ensure such risks are appropriately mitigated;
- Monitors and reports risk exposures against metrics and limits, and;
- Reviews the methodologies and assumptions underpinning the Morgan Stanley Group's Liquidity Stress Tests to ensure sufficient liquidity and funding under a range of adverse scenarios.

The liquidity risks identified by these processes are summarised in reports produced by the Liquidity Risk Department that are circulated to and discussed with the EMEA Assets/ Liability Management Committee ("ALCO") and EMEA Risk Committee as appropriate.

The Treasury Department and applicable business units have primary responsibility for evaluating, monitoring and controlling the liquidity risks arising from the Morgan Stanley Group's business activities, and for maintaining processes and controls to manage the key risks inherent in their respective areas. The Liquidity Risk Department coordinates with the Treasury Department and these business units to help ensure a consistent and comprehensive framework for managing liquidity risk across the Morgan Stanley Group.

The Company's liquidity risk management policies and procedures are consistent with those of the Morgan Stanley Group. The Board of Directors of the Company is ultimately responsible for establishing the liquidity risk tolerance and ensuring the Company's liquidity risk is appropriately managed.

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

MORGAN STANLEY PACIFIC SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

The following principles guide the Company's liquidity risk management framework:

- Sufficient liquid assets should be maintained to cover maturing liabilities and other planned and contingent outflows;
- Maturity profile of assets and liabilities should be aligned, with limited reliance on short-term funding;
- Source, counterparty, currency, region, and term of funding should be diversified; and
- Liquidity Stress Tests should anticipate, and account for, periods of limited access to funding.

The core components of the Company's liquidity risk management framework, are the Required Liquidity Framework, Liquidity Stress Tests and the Liquidity Reserve (as defined below), which support its target liquidity profile.

Required Liquidity Framework

The Required Liquidity Framework establishes the amount of liquidity the Company must hold in both normal and stressed environments to ensure that its financial condition and overall soundness is not adversely affected by an inability (or perceived inability) to meet its financial obligations in a timely manner. The Required Liquidity Framework considers the most constraining liquidity requirement to satisfy all regulatory and internal limits at a Morgan Stanley Group and legal entity level.

Liquidity Stress Tests

The Company uses Liquidity Stress Tests to model external and intercompany liquidity flows across multiple scenarios and a range of time horizons. These scenarios contain various combinations of idiosyncratic and systemic stress events of different severity and duration. The methodology, implementation, production and analysis of the Company's Liquidity Stress Tests are important components of the Required Liquidity Framework.

Liquidity Stress Tests are produced for the Company, to capture specific cash requirements and cash availability. The Liquidity Stress Tests assume that a legal entity will use its own liquidity first to fund its obligations before drawing liquidity from its ultimate parent undertaking, Morgan Stanley. Morgan Stanley will support its subsidiaries and will not have access to subsidiaries' liquidity reserves that are subject to any regulatory, legal or tax constraints.

Liquidity Reserve

The Company maintains sufficient liquidity reserves ("Liquidity Reserve") to cover daily funding needs and to meet strategic liquidity targets sized by the Required Liquidity Framework and Liquidity Stress Tests. The size of the Liquidity Reserve is actively managed by the Company considering the following components: unsecured debt maturity profile; balance sheet size and composition; funding needs in a stressed environment inclusive of contingent cash outflows; and collateral requirements. In addition, the Company's Liquidity Reserve includes a discretionary surplus based on risk tolerance and is subject to change depending on market and firm-specific events. The Liquidity Reserve consists of cash and unencumbered securities sourced from trading assets, investment securities and securities received as collateral.

Funding management

The Company manages its funding in a manner that reduces the risk of disruption to the Company's operations. The Company pursues a strategy of diversification of secured and unsecured funding sources (by product, investor and region) and attempts to ensure that the tenor of its liabilities equals or exceeds the expected holding period of the assets being financed.

MORGAN STANLEY PACIFIC SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS****Year ended 31 December 2019****14. FINANCIAL RISK MANAGEMENT (CONTINUED)****Liquidity risk (continued)***Funding management (continued)*

The Company funds itself through diverse sources. These sources may include the Company's equity capital, borrowings, securities lending and deposits. The Company has active financing programmes for both standard and structured products, targeting global investors and currencies.

Balance sheet management

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

Maturity analysis

In the following maturity analysis of financial liabilities, derivative contracts and other trading financial liabilities measured at fair value are presented at fair value, consistent with how these financial liabilities are managed, and disclosed as on demand. Derivatives not held as part of the Company's trading activities and financial liabilities designated at fair value through profit or loss which contain an embedded derivative are disclosed according to their earliest contractual maturity; all such amounts are presented at their fair value, consistent with how these financial liabilities are managed. All other amounts represent undiscounted cash flows payable by the Company arising from its financial liabilities to earliest contractual maturities as at 31 December 2019 and 31 December 2018. Repayments of financial liabilities that are subject to immediate notice are treated as if notice were given immediately and are classified as on demand. This presentation is considered by the Company to appropriately reflect the liquidity risk arising from those financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial liabilities is managed by the Company.

	On demand	Equal to or more than 1 year but less than 5 years	Total
	\$'000	\$'000	\$'000
31 December 2019			
Financial liabilities			
Trading financial liabilities	13,549	-	13,549
Trade and other payables	351	24,557	24,908
Accruals and deferred income	17	-	17
Total financial liabilities	13,917	24,557	38,474

MORGAN STANLEY PACIFIC SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
Year ended 31 December 2019**14. FINANCIAL RISK MANAGEMENT (CONTINUED)****Liquidity risk (continued)**

	On demand \$'000	Equal to or more than 1 year but less than 5 years \$'000	Total \$'000
31 December 2018			
Financial liabilities			
Trading financial liabilities	33,747	-	33,747
Trade and other payables	2,340	65,542	67,882
Accruals and deferred income	17	-	17
Total financial liabilities	36,104	65,542	101,646

Market risk

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

The Company manages the market risk associated with its trading activities at both division and an individual product level, and includes consideration of market risk at the legal entity level.

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

To execute these responsibilities, the Morgan Stanley Group monitors the market risk of the firm against limits on aggregate risk exposures, performs a variety of risk analyses including monitoring Value-at-Risk ("VaR") and stress testing analyses, routinely reports risk summaries and maintains the VaR and scenario analysis methodologies. The Company is managed within the Morgan Stanley Group's global framework. The market risk management policies and procedures of the Company include performing risk analyses and reporting material risks identified to appropriate senior management of the Company.

The Company is exposed to the following types of market risk under this definition: interest rate risk, currency risk and equity investments price risk.

Interest rate risk

Interest rate risk is defined by IFRS 7 as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is primarily exposed to interest rate risk under this definition as a result of derivatives classified as trading financial instruments partially offset by its loans at amortised cost. As at 31 December 2019 and 31 December 2018, the residual interest rate risk arising from these transactions is not material.

Equity investments price risk

The Company is exposed to equity price risk arising from its trading activities, which it actively manages by hedging with other Morgan Stanley Group undertakings. The residual risk for the Company from this activity is not material.

MORGAN STANLEY PACIFIC SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2019

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (continued)

Currency risk

The Company has foreign currency exposure arising from its trading activities. It actively manages by hedging with other Morgan Stanley undertakings. The residual risk for the Company from its activity is not material.

15. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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

a. Financial assets and liabilities recognised at fair value on a recurring basis

All financial assets and liabilities are classified as level 2 financial instruments at both 31 December 2019 and 31 December 2018.

The Company's valuation approach and fair value hierarchy categorisation for certain significant classes of financial instruments recognised at fair value on a recurring basis are as follows:

Corporate Equities

Exchange-Traded Equity Securities

Fair value is generally determined based on quoted prices for the exchange. To the extent these securities are actively traded, valuation adjustments are not applied.

Derivative and Other Contracts

OTC Derivative Contracts

OTC derivative contracts include swap and option contracts related to equity prices and foreign currencies respectively.

Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be either observed or modelled using a series of techniques and model inputs from comparable benchmarks, including closed-form analytic formulas, such as the Black-Scholes option-pricing model, and simulation models or a combination thereof. Many pricing models do not entail material subjectivity because the methodologies employed do not necessitate significant judgement, and the pricing inputs are observed from actively quoted markets, as is the case for generic interest rate swaps, certain option contracts and certain credit default swaps. In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry.

b. Transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets and liabilities recognised at fair value on a recurring basis

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the current and prior year.

MORGAN STANLEY PACIFIC SERVICES LIMITED**NOTES TO THE FINANCIAL STATEMENTS**
Year ended 31 December 2019**16. ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE**

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

For all financial instruments not measured at fair value, the carrying amount is considered to be a reasonable approximation of fair value due to the short term nature of these assets and liabilities.

17. CAPITAL MANAGEMENT

The Morgan Stanley Group manages its capital on a global basis with consideration for its legal entities. The capital managed by the Morgan Stanley Group broadly includes ordinary share capital, preference share capital, subordinated loans and reserves.

The Morgan Stanley Group's required capital ('Required Capital') estimation is based on the Required Capital Framework, an internal capital adequacy measure. This framework is a risk-based and leverage use-of-capital measure, which is compared with the Morgan Stanley Group's regulatory capital to ensure that the Morgan Stanley Group maintains an amount of going concern capital after absorbing potential losses from stress events where applicable, at a point in time. The Morgan Stanley Group defines the difference between its total average common equity and the sum of the average common equity amounts allocated to our business segments as Parent Company equity. The Morgan Stanley Group generally holds Parent Company equity for prospective regulatory requirements, organic growth, acquisitions and other capital needs.

The Required Capital Framework is expected to evolve over time in response to changes in the business and regulatory environment, for example, to incorporate stress testing or enhancements in modelling techniques. The Morgan Stanley Group will continue to evaluate the framework with respect to the impact of future regulatory requirements, as appropriate.

The Morgan Stanley Group actively manages its consolidated capital position based upon, among other things, business opportunities, risks, capital availability and rates of return together with internal capital policies, regulatory requirements and rating agency guidelines. In the future, the Morgan Stanley Group may expand or contract its capital base to address the changing needs of its businesses.

The Morgan Stanley Group also aims to adequately capitalise at a legal entity level whilst safeguarding that entity's ability to continue as a going concern and ensuring that it meets all regulatory capital requirements, so that it can continue to provide returns for the Morgan Stanley Group.

In order to maintain or adjust the capital structure as described above, the Company may adjust the amount of dividends paid, return capital to shareholders, issue new shares, sell assets to reduce debt.

The Company manages the following items as capital:

	2019	2018
	\$'000	\$'000
Ordinary share capital	-	-
Share premium	15,000	15,000
Reserves	6,223	5,329
	<u>21,223</u>	<u>20,329</u>

MORGAN STANLEY PACIFIC SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

18. RELATED PARTY DISCLOSURES

Parent and subsidiary relationships

Parent and ultimate controlling entity

The Company's immediate parent undertaking is Morgan Stanley International Holdings Inc., which has its registered office c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, United States of America and is incorporated in the state of Delaware in the United States of America. Copies of its financial statements can be obtained from www.morganstanley.com/investorrelations.

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

Key management compensation

Directors' remuneration

The Company has three directors in the period who are employed by another group company. The directors' services to the Company are considered to be incidental to their other responsibilities within the Morgan Stanley Group and as such, directors' remuneration is \$nil for the current year (2018: \$nil).

19. EVENTS AFTER THE REPORTING DATE

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