Registered number: 35857

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Jersey

MORGAN STANLEY FINANCE II LIMITED

Report and financial statements

31 December 2022

MORGAN STANLEY FINANCE II LIMITED

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MORGAN STANLEY FINANCE II 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, the statement of cash flows, and the related notes, 1 to 21) for Morgan Stanley Finance II Limited (the "Company") for the year ended 31 December 2022.

RESULTS AND DIVIDENDS

The loss for the year, after tax, was loss of $79,000 (2021: loss of $4,000).

During the year, no dividends were paid or proposed (2021: $nil).

PRINCIPAL ACTIVITY

The principal activity of the Company is the issuance of financial instruments and the hedging of the obligations arising pursuant to such issuances.

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".

FUTURE OUTLOOK

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

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

Risk factors

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

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

The primary risk areas for the Company include Market, Credit, Liquidity and Operational Risks which are discussed in the Risk Management section.

Business environment

During 2022, the global economic and geopolitical environment in which the Company operates has been characterised by elevated inflation, rising interest rates and volatility in global financial markets and these factors have continued into 2023.

In addition to the aforementioned conditions, certain institutions have come under significant stress in early 2023. While the full impact of these events in the banking sector remains uncertain, they have not significantly impacted the results or financial condition of the Company.

DIRECTORS' REPORT

BUSINESS REVIEW (continued)

Business environment (continued)

Russia and Ukraine War

The Morgan Stanley Group continues to monitor the war in Ukraine and its impact on both the Ukrainian and Russian economies, as well as related impacts on other world economies and the financial markets. The Company has no direct exposure to both Russia and Ukraine.

Morgan Stanley is not entering into any new business onshore in Russia and Morgan Stanley's activities in Russia are limited to helping global clients address and close out pre-existing obligations.

Overview of 2022

The statement of comprehensive income is set out on page 13. The loss for the year is $79,000, which primarily represents net interest expense due to the increased interest rates along with increased funding balance for the year (2021: loss of $4,000, driven by interest expense). The trading income for the year is $nil which is consistent with the Company's principal activity.

The statement of financial position is set out on page 15. Total assets and total liabilities as at 31 December 2022 were $381,062,000 (2021: $313,895,000) and $370,662,000 (2021: $313,416,000), respectively. The increase in total assets and total liabilities from 31 December 2021 is due to the net issuance of structured notes, classified in financial liabilities designated at fair value through profit or loss, and the related hedging instruments, classified in financial assets designated at fair value through profit or loss.

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 is managed as part of the policies and procedures of the Morgan Stanley Group's risk management policy framework. The risk management policy framework includes escalation to the Company's appropriate senior management personnel when necessary.

Set out below is an overview of the Morgan Stanley Group'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 16 to the financial statements.

Market risk

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

The Company's market risk associated with its trading activities at a legal entity, trading division and at an individual product level is managed as part of the Morgan Stanley Group's market risk management policy framework.

DIRECTORS' REPORT

BUSINESS REVIEW (continued)

Risk management (continued)

Market risk (continued)

The Morgan Stanley Group's market risk management policy framework ensures transparency of material market risks, monitors compliance with established limits, and escalates risk concentrations to appropriate senior management when necessary.

It is the policy and objective of the Company not to be exposed to net market risk.

Credit risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company. Credit risk includes country risk, which is further described below.

The Morgan Stanley Group's credit risk management policies and procedures, of which the Company is a part, includes escalation to appropriate senior management personnel when necessary.

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 and compliance with established limits and escalating risk concentrations to appropriate senior management.

Additional information on the primary credit exposures, credit risk management and mitigation, exposure to credit risk, including the maximum exposure to credit risk by credit rating is presented in note 16.

Country risk exposure

Country risk is the risk that events in, or affecting, a foreign country might adversely affect the Company. "Foreign country" means any country other than Jersey, United Kingdom ("Jersey"). 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.

The Company enters into the majority of its financial asset transactions with the parent entity, Morgan Stanley, in the United States of America ("USA"). As a result of the implicit support that would be provided by Morgan Stanley, the Company's country risk is considered a component of the Morgan Stanley Group's credit risk.

DIRECTORS' REPORT

BUSINESS REVIEW (continued)

Risk management (continued)

Country risk exposure (continued)

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 other 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.

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.

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 16.

The Company's capital and liquidity position is managed on the basis of firm wide policies ensure adequate resources are available to support its activities, to enable it to withstand market stresses.

The Company hedges all of its financial liabilities with financial assets entered into with other Morgan Stanley Group undertakings, where both the Company and other Morgan Stanley Group undertakings are wholly-owned subsidiaries of the same parent, Morgan Stanley.

Operational risk

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

DIRECTORS' REPORT

BUSINESS REVIEW (continued)

Risk management (continued)

Operational risk (continued)

The scope also includes oversight of technology risk, cybersecurity risk, information security risk, and third party risk management (supplier and affiliate risk).

The Company may incur operational risk across the full scope of its business activities.

The Company is part of the Morgan Stanley Group's operational risk framework to identify measure, monitor and control risk across the Company and includes escalation to the appropriate senior management personnel when necessary. The framework is continually evolving to reflect changes in the Morgan Stanley Group and to respond to the changing regulatory and business environment.

The Morgan Stanley Group 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 Morgan Stanley Group 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 appetite established by the Board and are prioritised accordingly.

The breadth and variety of operational risk are such that the types of mitigating activities are wide-ranging. Examples of such 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.

The Operational Risk Management Framework requires, among other things, the proper recording and verification of a large number of transactions and events as set out in the policies and procedures. The trading risk management strategies and techniques seek to balance our ability to profit from trading positions with our exposure to potential losses.

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 Morgan Stanley Group'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 Morgan Stanley Group'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 and assesses, measures and monitors operational risk against appetite. 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 Morgan Stanley Group.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Operational risk (continued)

The Operational Risk Department scope includes oversight of technology risk, cybersecurity risk, information security risk, the fraud risk management and prevention programme and third party risk management (supplier and affiliate 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 Morgan Stanley Group's advanced measurement approach for operational risk capital

The Fusion Resilience Centre's mission is to understand, prepare for, respond to, recover and learn from operational threats and incidents that impact the Morgan Stanley Group, from cyber and fraud to technology incidents, climate related events, terror attack, geopolitical unrest and pandemics.

The Morgan Stanley Group's critical processes and businesses could be disrupted by events including cyber attacks, failure or loss of access to technology and/or associated data, military conflicts, acts of terror, natural disasters, severe weather events and infectious disease. The Morgan Stanley Group maintains a resilience program designed to provide for operational resilience and enable it to respond to and recover critical processes and supporting assets in the event of a disruption impacting the Company's people, technology, facilities and third parties. The key elements of the Morgan Stanley Group's resilience program include business continuity and technical recovery planning, and testing both internally and with critical third parties to validate recovery capability in accordance with business requirements. Business units within the Morgan Stanley Group maintain business continuity plans, including identifying processes and strategies to continue business critical processes during a business continuity incident. The business units also test the documented preparation to provide a reasonable expectation that, during a business continuity incident, the business unit will be able to continue its critical business processes and limit the impact of the incident to the Morgan Stanley Group and its clients. Technical recovery plans are maintained for critical technology assets and detail the steps to be implemented to recover from a disruption impacting the assets' primary location. Disaster recovery testing is performed to validate the recovery capability of these critical technology assets.

The Company is part of the Morgan Stanley Group's programme which oversees cyber and information security risk. The 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.

In connection with its ongoing operations, the Morgan Stanley Group utilises third-party suppliers, and anticipates that such usage 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 Morgan Stanley Group's risk-based approach to managing exposure to these services includes the execution of due diligence, implementation of service level and other contractual agreements, consideration of operational risk and ongoing monitoring of third-party suppliers' performance. The Morgan Stanley Group maintains a third-party risk program which is designed to align with its risk tolerance and meet regulatory requirements. The program includes governance, policies, procedures, and enabling technology. The third-party risk program includes the adoption of appropriate risk management controls and practices throughout the third-party management lifecycle to manage the risk of service failure, risk of data loss and reputational risk, among others.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

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, limitations on our business, 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.

Culture, values and conduct of employees

Employees of the Morgan Stanley Group are accountable for conducting themselves in accordance with the Morgan Stanley Group's core values Put Clients First, Do the Right Thing, Lead with Exceptional Ideas, Commit to Diversity and Inclusion and Give Back. The Morgan Stanley Group's core values drive a shared set of behaviours and attributes that help employees make decisions consistent with the expectations of our clients, shareholders, regulators, Board of Directors and the public. 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.

The Morgan Stanley Group's Board is responsible for overseeing the Morgan Stanley Group's practices and procedures relating to culture, values and conduct. The Morgan Stanley Group's Culture, Values and Conduct Committee, along with the Compliance and Conduct Risk Committee, are the senior management committees that oversee the Morgan Stanley-wide culture, values and conduct program, report regularly to the Morgan Stanley Group Board; and complement ongoing business and region-specific culture initiatives. 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 is required to attest to their understanding of and adherence to the Code of Conduct.

Morgan Stanley's remuneration policies and practices ensure that there is an alignment between reward, risk, culture and conduct. Conduct, culture, and core values are considered in the employee annual performance evaluation process. The performance review process also includes 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.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Going concern

Business risks associated with the uncertain market and economic conditions are being actively monitored and managed by the Group. Retaining sufficient liquidity and capital to withstand market pressures remains central to the Company's strategy.

The effect of relevant macroeconomic scenarios 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.

Although the Company has reported a loss for the year ended 31 December 2022, the Company is performing in line with expectations.

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

DIRECTORS

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

Z Dewhurst	Director
H Herrmann	Director
S Keams	Director

Approved by the Board and signed on its behalf by:

Director

28 April 2023

EVENTS AFTER THE REPORTING DATE

There have been no significant events since the reporting date.

DIRECTORS' RESPONSIBILITY STATEMENT

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

Companies (Jersey) Law 1991 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 International Financial Reporting Standards ("IFRSs") as issued by International Accounting Standards Board ("IASB") as adopted by the European Union ("EU"). The financial statements are required by law to 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.

International Accounting Standard ("IAS") 1 '*Presentation of financial statements*' requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the IASB '*Framework for the preparation and presentation of financial statements*'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

(a) properly select and apply accounting policies;

(b) present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

(c) provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and

(d) make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board and signed on its behalf by:

Director

28 April 2023

Independent auditor's report to the members of Morgan Stanley Finance II Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Morgan Stanley Finance II Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its loss for the year then ended;
    - have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs issued by the International Accounting Standards Board (IASB); and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of changes in equity;
- the statement of financial position;
- the statement of cashflows; and
- the related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union and as issued by the International Accounting Standards Board (IASB).

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

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

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

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

Other information

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

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

We have nothing to report in this regard.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

We considered the nature of the Company's industry and its control environment, and reviewed the Company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the Directors about their own identification and assessment of the risks of irregularities.
We obtained an understanding of the legal and regulatory frameworks that the Company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Companies (Jersey) Law 1991; and,
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

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

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

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

Report on other legal and regulatory requirements

Matters on which we are required to report by exception

Under the Companies (Jersey) Law 1991 we are required to report in respect of the following matters if, in our opinion:

- proper accounting records have not been kept, or proper 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
- 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 Article 113A of the Companies (Jersey) Law 1991. 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.

Fiona Walker, FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
28 April 2023

MORGAN STANLEY FINANCE II LIMITED

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2022

	Note	2022 $'000	(restated) 2021 $'000
Net trading expense on financial assets		(35,966)	(24,865)
Net trading income/(expense) on financial liabilities		50,442	(16,115)
Net trading income/(expense)		14,476	(40,980)
Net income on other financial assets held at fair value		6,697	189
Net (expense)/income on other financial liabilities held at fair value		(21,173)	40,791
Net (expense)/income on other financial instruments held at fair value	4	(14,476)	40,980
Interest income	5	39	27
Interest expense	5	(115)	(30)
Net interest expense		(76)	(3)
Other expense	6	(3)	(1)
LOSS BEFORE INCOME TAX		(79)	(4)
Income tax	7	—	—
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(79)	(4)

All results were derived from continuing operations.

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

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2022

	Note	Share capital $'000	Capital Contribution $'000	Retained earnings $'000	Total equity $'000
Balance at 1 January 2021	12	14	—	469	483
Loss and total comprehensive loss for the year		—	—	(4)	(4)
Balance at 1 January 2022	12	14	—	465	479
Loss and total comprehensive loss for the year		—	—	(79)	(79)
Capital contribution	12	—	10,000	—	10,000
Balance at 31 December 2022	12	14	10,000	386	10,400

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

MORGAN STANLEY FINANCE II LIMITED

STATEMENT OF FINANCIAL POSITION
As at 31 December 2022

	Note	2022 $'000	2021 $'000
ASSETS			
Cash and short-term deposits	8	1,795	981
Loans and advances	8	355,009	311,810
Trading financial assets	8	14,396	1,104
Trade and other receivables	9	9,862	—
TOTAL ASSETS		381,062	313,895
LIABILITIES AND EQUITY			
LIABILITIES			
Trading financial liabilities	8	19,996	55,308
Trade and other payables	10	9	—
Debt and other borrowings	11	350,657	258,108
TOTAL LIABILITIES		370,662	313,416
EQUITY			
Share capital	12	14	14
Retained earnings		386	465
Capital contribution reserve	12	10,000	—
Equity attributable to owners of the Company		10,400	479
TOTAL EQUITY		10,400	479
TOTAL LIABILITIES AND EQUITY		381,062	313,895

These financial statements were approved by the Board and authorised for issue on 28 April 2023.

Signed on behalf of the Board

Director

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

STATEMENT OF CASH FLOWS
Year ended 31 December 2022

	Note	2022 $'000	2021 $'000
NET CASH FLOWS FROM OPERATING ACTIVITIES		814	981
NET INCREASE IN CASH AND CASH EQUIVALENTS		814	981
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		981	—
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	13	1,795	981

All cash is available for use by management.

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2022

1. CORPORATE INFORMATION

The Company is incorporated and domiciled in Jersey, at the following address: 47 Esplanade, St. Helier, Jersey, JE1 0BD. The Company is engaged in the issuance of financial instruments and the hedging of the obligations arising pursuant to such issuances.

The Company's immediate parent undertaking, ultimate undertaking and controlling entity is Morgan Stanley, which, together with the Company and Morgan Stanley's other subsidiary undertakings, form the Morgan Stanley Group. Morgan Stanley is incorporated in the State of Delaware, in the United States of America. Copies of its financial statements can be obtained from www.morganstanley.com/investorrelations.

2. BASIS OF PREPARATION

Statement of compliance

The Company prepares its annual financial statements in accordance with IFRSs issued by the International Accounting Standards Board ("IASB") as adopted by the EU, Interpretations issued by the IFRS Interpretations Committee ("IFRIC") and Companies (Jersey) Law 1991.

New standards and interpretations adopted during the year

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

Amendments to IAS 37 '*Provisions, Contingent Liabilities and Contingent Assets*' ('IAS 37'): Onerous Contracts - Cost of Fulfilling a Contract were issued by the IASB in May 2020, for modified retrospective application in accounting periods beginning on or after 1 January 2022. The amendments were endorsed by the EU in July 2021.

As part of the 2018-2020 Annual Improvements Cycle published in May 2020, the IASB made an amendment to IFRS 9 *'Financial Instruments',* relating to the treatment of fees in the assessment of whether financial liabilities are modified or exchanged, where such transactions occur on or after 1 January 2022. The amendments were endorsed by the EU in July 2021.

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

New standards and interpretations not yet adopted

At the date of authorisation of these financial statements, the following standards, amendments to standards and interpretations relevant to the Company's operations were issued by the IASB but not mandatory for accounting periods beginning 1 January 2022. 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 8 *'Accounting Policies, Changes in Accounting Estimates and Errors'*: Definition of Accounting Estimates were issued by the IASB in February 2021, for prospective application in accounting periods beginning on or after 1 January 2023. Early application is permitted. The amendments were endorsed by the EU in March 2022.

Amendments to IAS 1: Disclosure of Accounting Policies were issued by the IASB in February 2021, for prospective application in accounting periods beginning on or after 1 January 2023. Early application is permitted. The amendments were endorsed by the EU in March 2022.

2. BASIS OF PREPARATION (CONTINUED)

New standards and interpretations not yet adopted (continued)

Amendments to IAS 12 *'Income Taxes'* ('IAS 12'): Deferred Tax related to Assets and Liabilities arising from a Single Transaction were issued by the IASB in May 2021, for retrospective application in accounting periods beginning on or after 1 January 2023. Early application is permitted. The amendments were endorsed by the EU in August 2022.

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

The going concern assumption

The Company's business activities, together with the factors likely to affect its future development, performance and position, are reflected in the Business Review section of the Directors' report on pages 1 to 9. 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

Although the Company has reported a loss for the year ended 31 December 2022, the Company is performing in line with expectations.

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

Restatement of comparative amounts

The financial statements include a prior year restatement relating to the Statement of Comprehensive Income presentation of gains and losses on trading and other financial instruments held at fair value. The restated presentation appropriately reflects the gross components of net revenue. The restatement resulted in a $41,167,000 increase in both 'Net income on other financial instruments held at fair value' and 'Net trading expense'. The restatement had no impact to the Company's Statement of Financial Position or net results in the Statement of Comprehensive Income.

2. BASIS OF PREPARATION (CONTINUED)

Restatement of comparative amounts (continued)

The Company has also presented additional line items in the Statement of Comprehensive Income which are considered relevant to the understanding of its financial performance.

Net trading income/(expense)

- 'Net trading expense on financial assets' have been presented separately from the 'net trading income/(expense) on financial liabilities'.

Net (expense)/income on financial instruments held at fair value

- 'Net income on other financial assets held at fair value' have been presented separately from the 'net (expense)/income on financial liabilities held at fair value'.

The comparative year amounts have been revised to enhance comparability with the current year presentation

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 Directors' report are rounded to the nearest thousand US dollars.

b. Foreign currencies

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

c. Financial instruments

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

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

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. 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'.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2022

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

ii) Financial instruments designated at fair value through profit or loss

Financial assets designated at fair value through profit and loss ("FVPL") include loans and financial liabilities designated at FVPL include structured notes.

The Company has designated certain financial assets at FVPL when the designation at fair value eliminates or significantly reduces an accounting mismatch which would otherwise arise. The Company has also designated certain financial liabilities at FVPL where the financial liabilities are managed, evaluated and reported internally on a fair value basis.

From the date the transaction in a financial instrument designated at FVPL is entered into (trade date) until settlement date, the Company recognises any unrealised fair value changes in the contract as financial instruments designated at FVPL in the statement of financial position. On settlement date, the fair value of consideration given or received is recognised as a financial instrument designated at FVPL.

All subsequent changes in fair value, foreign exchange differences, interest and dividends are reflected in the statement of comprehensive income in 'Net trading income/(expense)' on financial instruments designated at fair value.

iii) Financial assets at amortised cost

Financial assets at amortised cost include cash and short-term deposits and certain 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 income statement in 'Interest income', using the Effective Interest Rate ("EIR") method as described below. Transaction costs that are directly attributable to the acquisition of the financial asset are added to the fair value on initial recognition. ECL and reversals thereof are recognised in the income statement in 'Net impairment loss on financial instruments'.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

Fair value measurement (continued)

Where the Company manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risk 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, block discounts and discounts for equity-specific restrictions that would not transfer to market participants are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgement.

- Level 2 - Valuation techniques using observable inputs

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

- Level 3 - Valuation techniques with significant unobservable inputs

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

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

Fair value measurement (continued)

The Company incorporates Funding Valuation Adjustment ("FVA") into 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 and funding in order to arrive at fair value.

Adjustments for liquidity risk adjust model-derived mid-market amounts 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.

The Company applies credit-related valuation adjustments to its borrowings which are designated at FVPL and to OTC derivatives. The Company considers the impact of changes in own credit spreads based upon observations of the secondary bond market spreads when measuring the fair value for borrowings.

For OTC derivatives, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

Fair value measurement (continued)

The Company may apply concentration adjustments to certain of its OTC derivative 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 Finance is responsible for ensuring that the inventory carried at fair value in the Group and Company's financial statements and associated disclosures is presented in accordance with applicable accounting standards. 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 inventory. 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 Control

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. VC is responsible for reviewing that the model valuation methodology is appropriate, model inputs and valuations are consistent with accounting standards and an independent price verification can be performed. The Company generally subjects valuations and models to a review process initially and on a periodic basis thereafter.

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 performs an independent review of the valuation in the books and records 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. External pricing data used to validate the valuation must meet minimum quality standards set by VC.

The results of this independent price verification and any adjustments made 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 reviews the models and valuation methodology used to price new material Level 2 and Level 3 transactions and both Finance and MRM must approve the fair value of the trade that is initially recognised.

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 become observable, maturity or disposal of the instrument.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Derecognition of financial assets and liabilities

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

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

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

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

f. Impairment of financial assets

The Company recognises loss allowances for 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 assets 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’.

g. Cash and cash equivalents

For the purposes of the statement of cash flows, 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.

4. NET (EXPENSE)/INCOME ON OTHER FINANCIAL INSTRUMENTS HELD AT FAIR VALUE

	2022 $'000	2021 $'000
Net income / (expense) on:		
Financial assets designated at FVPL		
Loans and advances:		
Loans	6,697	189
Financial liabilities designated at FVPL		
Debt and other borrowings:		
Issued structured notes	(21,173)	40,791
	(14,476)	40,980

5. INTEREST INCOME AND INTEREST EXPENSE

All interest income and expense relates to financial assets and financial liabilities at amortised cost and is calculated using the EIR method (refer to note 3(c)).

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2022

6. OTHER EXPENSES

Other expenses of $3,000 (2021: $1,000) relates to bank charges. In addition, audit fees of $100,000 (2021: $67,000) and administration fees of $75,000 (2021: $42,000) have been borne by another Morgan Stanley Group undertaking in the current year.

The Company employed no staff during the year (2021: nil).

7. INCOME TAX

The Company is subject to Jersey income tax at the rate 0.00% (2021: 0.00%).

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 the IFRS 9 measurement classifications.

31 December 2022	**FVPL (mandatorily)**	**FVPL (designated)**	**Amortised cost**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Cash and short-term deposits	—	—	1,795	1,795
Loans and advances:				
Loans	—	355,009	—	355,009
Trading financial assets:				
Derivatives	14,396	—	—	14,396
Trade and other receivables:				
Trade receivables	—	—	2,242	2,242
Other receivables	—	—	7,620	7,620
Total financial assets	14,396	355,009	11,657	381,062
Trading financial liabilities:				
Derivatives	19,996	—	—	19,996
Debt and other borrowings:				
Issued structured notes	—	350,657	—	350,657
Trade and other payables:				
Trade payables	—	—	9	9
Total financial liabilities	19,996	350,657	9	370,662

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2022

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY (CONTINUED)

31 December 2021	FVPL (mandatorily)	FVPL (designated)	Amortised cost	Total
	$'000	$'000	$'000	$'000
Cash and short-term deposits	—	—	981	981
Loans and advances:				
Loans	—	311,810	—	311,810
Trading financial assets:				
Derivatives	1,104	—	—	1,104
Total financial assets	1,104	311,810	981	313,895
Trading financial liabilities:				
Derivatives	55,308	—	—	55,308
Debt and other borrowings:				
Issued structured notes	—	257,583	—	257,583
Loans	—	—	525	525
Total financial liabilities	55,308	257,583	525	313,416

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

Financial assets and financial liabilities designated at FVPL

The financial assets and financial liabilities shown in the tables above which are designated at FVPL consist primarily of the following financial assets and financial liabilities:

Issued Structured Notes: These relate to financial liabilities which arise from selling structured products generally in the form of notes. These instruments contain an embedded derivative which significantly modifies the cash flows of the issuance. The return on the instrument is linked to an underlying that is not clearly and closely related to the debt host including, but not limited to, equity-linked notes. These structured notes are designated at FVPL as the risks to which the Company is a contractual party are risk managed on a fair value basis as part of the Company's trading portfolio and the risk is reported to key management personnel on this basis.

Loans: These are loans to other Morgan Stanley Group undertakings that, along with the derivative contracts classified as mandatorily at FVPL, are part of the hedging strategy for the obligations arising pursuant to the issuance of the structured notes. These loans are designated at FVPL to eliminate or significantly reduce an accounting mismatch which would otherwise arise.

The Company determines the amount of changes in fair value attributable to changes in counterparty credit risk or own credit risk, as relating to loans and issued structured notes, by first determining the fair value including the impact of counterparty credit risk or own credit risk, and then deducting those changes in fair value representing managed market risk. In determining fair value, the Company considers the impact of changes in own credit spreads based upon observations of the secondary bond market spreads when measuring the fair value for issued structured notes. The Company considers that this approach most faithfully represents the amount of change in fair value due to both counterparty credit risk and the Company's own credit risk.

The carrying amount of financial liabilities held at fair value was equal to the contractual amount due at maturity (2021: $48,000 higher).

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2022

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY (CONTINUED)

Financial assets and financial liabilities designated at FVPL (continued)

At initial recognition of a specific structured note issuance program, the Company's issuance process, and any planned hedging structure relating to the issuance of those structured notes, has been considered, to determine whether the presentation of fair value changes attributable to credit risk of those structured notes through other comprehensive income would create or enlarge an accounting mismatch in the income statement. If financial instruments, such as derivatives and loans held at FVPL, for which changes in fair value incorporating counterparty credit risk are reflected within the income statement, are traded to economically hedge the structured note issuances in full, the fair value incorporating any counterparty credit risk arising on the hedging instruments may materially offset any changes in the credit risk of these liabilities ("DVA") applied to structured notes, where the counterparties of the hedging instruments are part of the Morgan Stanley Group. In such cases, the DVA of those structured notes is not reflected within other comprehensive income, and instead is presented in the income statement.

9. TRADE AND OTHER RECEIVABLES

	2022	2021
	$'000	$'000
Trade and other receivables (amortised cost)		
Trade receivables		
Other receivables	2,242	—
Other receivables		
Amounts due from other Morgan Stanley Group undertakings	7,620	—
Total	9,862	—

10. TRADE AND OTHER PAYABLES

	2022	2021
	$'000	$'000
Trade and other payables (amortised cost)		
Trade payables:		
Amounts due to other Morgan Stanley Group undertakings	9	—

11. DEBT AND OTHER BORROWINGS

	2022	2021
	$'000	$'000
Debt and other borrowings		
Issued structured notes (designated FVPL)	350,657	257,583
Loans (amortised cost)	—	525
	350,657	258,108

Refer to note 8 for details of issued structured notes included within debt and other borrowings designated at FVPL.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2022

12. EQUITY

Ordinary share capital

	Ordinary shares of £1 each Number	Ordinary shares of £1 each $'000
Issued and fully paid		
At 1 January 2021, 31 December 2021 and 31 December 2022	10,000	14

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled, on a show of hands, to one vote and, on a poll, one vote per share at meetings of the shareholders of the Company. All shares rank equally with regard to the Company's residual assets.

Ordinary share capital (continued)

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

Capital contribution reserves

The 'Capital contribution reserve' of $10,000,000 (2021: $nil) comprises non-cash contributions of capital from the Company's parent company.

13. ADDITIONAL CASHFLOW INFORMATION

a. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances, which have less than three months maturity from the date of acquisition:

	2022 $'000	2021 $'000
Cash and short-term deposits	1,795	981

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2022

13. ADDITIONAL CASHFLOW INFORMATION (CONTINUED)

b. Reconciliation of cash flows from operating activities

	2022 $'000	2021 $'000
Loss for the year	(79)	(4)
Adjustments for:		
Net interest expense	76	3
Operating cash flows before changes in operating assets and liabilities	(3)	(1)
Changes in operating assets		
Increase in trading financial assets	(13,292)	(1,104)
Increase in loans and advances	(43,199)	(311,810)
Decrease in trade and other receivables	177	483
	(56,314)	(312,431)
Changes in operating liabilities		
(Decrease)/Increase in trading financial liabilities	(35,312)	55,305
Increase in trade and other payables	9	—
Increase in debt and other borrowings(1)	92,434	258,108
	57,131	313,413
Net cash flows from operating activities	814	981

(1) $350,657,000 of debt and other borrowings do not arise from financing activities as at 31 December 2022. There were no debt and other borrowings arising from financing activities as at 1 January 2021 and 31 December 2021.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2022

14. 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 2022			At 31 December 2021		
	Less than or equal to twelve months	More than twelve months	Total	Less than or equal to twelve months	More than twelve months	Total
	$'000	$'000	$'000	$'000	$'000	$'000
ASSETS						
Cash and short- term deposits	1,795	—	1,795	981	—	981
Loans and advances	304,881	50,128	355,009	311,810	—	311,810
Trading financial assets	14,170	226	14,396	1,104	—	1,104
Trade and other receivables	2,242	7,620	9,862	—	—	—
	323,088	57,974	381,062	313,895	—	313,895
LIABILITIES						
Trading financial liabilities	11,996	8,000	19,996	55,308	—	55,308
Trade and other payables	9	—	9	—	—	—
Debt and other borrowings	308,303	42,354	350,657	257,583	525	258,108
	320,308	50,354	370,662	312,891	525	313,416

15. SEGMENT REPORTING

Segment information is presented in respect of the Company’s business and geographical segments. The business and geographical segments are based on the Company’s management and internal reporting structure. Transactions between business segments are on normal commercial terms and conditions

Business segments

Morgan Stanley structures its business segments primarily based upon the nature of the financial products and services provided to customers and Morgan Stanley’s internal management structure. The Company’s own business segments are consistent with those of Morgan Stanley.

The Company has one reportable business segment, Institutional Securities, which provides financial services to financial institutions. Its business includes the issuance of financial instruments and the hedging of the obligations arising pursuant to such issuances.

Geographical segments

The Company operates in three geographic regions as listed below:

- Europe, Middle East and Africa (“EMEA”)
- Americas
- Asia

15. SEGMENT REPORTING (continued)

Geographical segments (continued)

The following table presents selected statement of financial position information of the Company's operations by geographic area. The total assets disclosed in the following table reflect the regional view of the Company's operations, on a managed basis. The attribution of total assets is determined by trading desk location.

	EMEA		Americas		Asia		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
External revenues net of interest	—	—	—	—	—	—	—	—
Loss before income tax	—	—	(79)	(4)	—	—	(79)	(4)
Total assets	771	—	336,561	312,466	43,730	1,429	381,062	313,895

All of the Company's external revenue (2021: 100%) arises from transactions with other Morgan Stanley Group undertakings. Further details of such transactions are disclosed in the related party disclosures in note 20.

16. 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 is managed as part of policies and procedures of the Morgan Stanley Group's risk management policy framework. The risk management policy framework include escalation to the appropriate senior management personnel when necessary.

Set out below is an overview of the Morgan Stanley Group's policies for the management of financial risk and other significant business risks.

Credit risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company. Primarily its concentration of exposure is to other Morgan Stanley Group undertakings.

Credit risk management

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.

The Company enters into all of its financial asset transactions with Morgan Stanley. As a result of the implicit support that would be provided by Morgan Stanley, the Company is considered exposed to the credit risk of Morgan Stanley.

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Year ended 31 December 2022

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Exposure to credit risk

The maximum exposure to credit risk ("gross credit exposure") of the Company as at 31 December 2022 is disclosed below, based on the carrying amounts of the financial assets. The table includes financial instruments subject to ECL and not subject to ECL. Those financial instruments that bear credit risk but are not subject to ECL are subsequently measured at fair value.

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

Exposure to credit risk by class

	Gross and net credit exposure(1)	
Class	**31 December 2022**	**31 December 2021**
	$'000	**$'000**
Subject to ECL:		
Cash and short-term deposits	1,795	981
Trade and other receivables	9,862	—
Not subject to ECL(2):		
Loans and advances	355,009	311,810
Trading financial assets	14,396	1,104
	381,062	313,895

(1) The carrying amount recognised in the statement of financial position best represents the Company's maximum exposure to credit risk.. The Company does not enter into credit enhancements

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

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

Exposure to credit risk by internal rating grades

Internal credit ratings, as below, are derived using methodologies generally consistent with those used by external agencies:

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

All gross carrying amounts have an internal rating grade of A. All exposures subject to ECL are Stage 1.

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.

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

The Morgan Stanley Group's Liquidity Risk Management Framework is critical to helping ensure that the Company maintains sufficient liquidity resources 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 is subject to the Firm's liquidity risk management policies and procedures are consistent with those of the Morgan Stanley Group.

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

The following principles guide the Morgan Stanley Group'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 account for stressed liquidity requirements and the amount of liquidity held should be greater than those stressed requirements.

The Company hedges all of its financial liabilities with financial assets entered into with the parent entity, Morgan Stanley. Further, the maturity profile of the financial assets matches the maturity profile of the financial liabilities.

The core components of the Morgan Stanley Group's liquidity management framework, which includes consideration of the liquidity risk for each individual legal entity, are the Required Liquidity Framework, Liquidity Stress Tests and the Liquidity Resources (as defined below), which support the Morgan Stanley Group's target liquidity profile.

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

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 Morgan Stanley Group 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 market 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.

The Liquidity Stress Tests are produced for Morgan Stanley and its major operating subsidiaries, as well as at major currency levels, to capture specific cash requirements and cash availability at various legal entities. The Liquidity Stress Tests assume that subsidiaries will use their own liquidity first to fund their obligations before drawing liquidity from Morgan Stanley. It is also assumed that Morgan Stanley will support its subsidiaries and will not have access to cash that may be held at certain subsidiaries. In addition to the assumptions underpinning the Liquidity Stress Tests, Morgan Stanley Group takes into consideration the settlement risk related to intra-day settlement and clearing of securities and financial activities.

Since the Company hedges the liquidity risk of its financial liabilities with financial assets that match the maturity profile of the financial liabilities, the Company is not considered a major operating subsidiary for the purposes of liquidity risk. However, the Company would have access to the cash or liquidity reserves held by Morgan Stanley in the unlikely event that it was unable to access adequate financing to service its financial liabilities when they become payable.

The Required Liquidity Framework and Liquidity Stress Tests are evaluated on an ongoing basis and reported to the Firm Risk Committee, Asset/ Liability Management Committee, and other appropriate risk committees.

Liquidity Resources

The Company maintains sufficient liquidity resources which consists of cash deposits with banks ("Liquidity Resources") to cover daily funding needs and to meet strategic liquidity targets sized by the Required Liquidity Framework and Liquidity Stress Tests. The Liquidity Resources of the Company are managed 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. The amount of liquidity resources the Company holds is based on the Company's risk appetite and is calibrated to meet various internal and regulatory requirements and to fund prospective business activities.

The Morgan Stanley Group's Liquidity Resources, to which the Company has access, is held within Morgan Stanley and its major operating subsidiaries and is composed of diversified cash and cash equivalents and unencumbered highly liquid securities.

Eligible unencumbered highly liquid securities include US government securities, US agency securities, US agency mortgage-backed securities, non-US government securities and other highly liquid investment grade securities.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2022

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Liquidity Resources (continued)

Liquidity Resources may fluctuate from period to period based on the overall size and composition of the balance sheet, the maturity profile of our unsecured debt and estimates of funding needs in a stressed environment, among other factors.

The ability to monetise assets during a liquidity crisis is critical. The Morgan Stanley Group believes that the assets held in its Liquidity Resources can be monetised within five business days in a stressed environment given the highly liquid and diversified nature of the reserves.

Funding management

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

The Morgan Stanley Group funds its balance sheet on a global basis through diverse sources, which includes consideration of the funding risk of each legal entity. These sources include the Morgan Stanley Group's equity capital, long-term borrowing, securities sold under agreements to repurchase ("repurchase agreements"), securities lending, deposits, letters of credit and lines of credit. The Morgan Stanley Group 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 assets and financial liabilities, derivative contracts and other financial instruments held at FVPL are disclosed according to their earliest contractual maturity; all such amounts are presented at their fair value, consistent with how these financial instruments are managed. All other amounts represent undiscounted cash flows receivable and payable by the Company arising from its financial assets and financial liabilities to earliest contractual maturities as at 31 December 2022. Receipts of financial assets and repayments of financial liabilities that are subject to immediate notice are treated as if notice were given immediately and are classified as on demand. This presentation is considered by the Company to appropriately reflect the liquidity risk arising from these financial assets and financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial assets and financial liabilities is managed by the Company.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2022

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Maturity analysis (continued)

31 December 2022	**On demand**	**Less than 1 year**	**1-2 Years**	**2-5 Years**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets					
Cash and short-term deposits	1,795	—	—	—	1,795
Loans and advances:					
Loans	—	304,881	7,114	43,014	355,009
Trading financial assets:					
Derivatives	—	14,170	12	214	14,396
Trade and other receivables:					
Trade receivables	2,242	—	—	—	2,242
Other receivables	—	—	7,620	—	7,620
Total financial assets	4,037	319,051	14,746	43,228	381,062
Financial liabilities					
Trading financial liabilities:					
Derivatives	—	11,996	369	7,631	19,996
Trade and other payables:					
Trade payables	9	—	—	—	9
Debt and other borrowings:					
Issued structured notes	—	308,303	6,757	35,597	350,657
Total financial liabilities	9	320,299	7,126	43,228	370,662

31 December 2021	**On demand**	**Less than 1 year**	**1-2 Years**	**2-5 Years**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets					
Cash and short-term deposits	981	—	—	—	981
Loans and advances:					
Loans	—	311,810	—	—	311,810
Trading financial assets:					
Derivatives	—	1,104	—	—	1,104
Total financial assets	981	312,914	—	—	313,895
Financial liabilities					
Trading financial liabilities:					
Derivatives	—	55,308	—	—	55,308
Debt and other borrowings:					
Issued structured notes	—	257,583	—	—	257,583
Loans	—	—	525	—	525
Total financial liabilities	—	312,891	525	—	313,416

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2022

16. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk

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

The Morgan Stanley Group's market risk management policy framework ensures transparency of material market risks, monitors compliance with established limits, and escalates risk concentrations to appropriate senior management when necessary.

To execute these responsibilities, the Morgan Stanley Group monitors the market risk of the Firm against limits on aggregate risk exposure, 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 equity investments price risk under this definition.

Equity price sensitivity analysis

The sensitivity analysis below is determined based on the exposure to equity price risk at 31 December 2022 and 31 December 2021 respectively.

The market risk related to such equity price risk is measured by estimating the potential reduction in total comprehensive income associated with a 10% decline in the underlying equity price as shown in the table below.

	Impact on Total Comprehensive Income gains/(losses)	
	2022	**2021**
	$'000	**$'000**
Trading financial instruments	(35,066)	(25,758)
Debt and other borrowings	35,066	25,758
	—	—

The Company's equity risk price risk is mainly concentrated on equity securities in the Americas.

The Company enters into the majority of its financial asset transactions with other Morgan Stanley Group undertakings, where both the Company and the other Morgan Stanley Group undertakings are wholly-owned subsidiaries of the same group parent entity, Morgan Stanley.

The issued structured notes expose the Company to the risk of changes in market prices of the underlying securities, interest rate risk and, where denominated in currencies other than US dollars, the risk of changes in rates of exchange between the US dollar and the other relevant currencies. The Company uses the contracts that it purchases from other Morgan Stanley Group undertakings to hedge the market price, interest rate and foreign currency risks associated with the issuance of the structured notes, consistent with the Company's risk management strategy. As such, the Company is not exposed to any net market risk on these financial instruments.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2022

17. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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

All financial assets and financial liabilities recognised at fair value on a recurring basis as at 31 December 2022 and 31 December 2021 are classified as level 2 (valuation techniques using observable inputs).

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 is as follows:

Asset and Liability / Valuation Techniques	Valuation Hierarchy Classification
Issued Structured Notes designated at fair value through profit or loss • The Company issues Structured Notes which are primarily composed of instruments whose payments and redemption values are linked to the performance of a specific index, a basket of stocks, a specific security, a commodity, a credit exposure or basket of credit exposures, and instruments with various interest-rate related features including step-ups, step-downs, and zero coupons. • Fair value of Structured Notes is determined using debt portions of the Structured Notes and traded prepaid equity securities contracts. These models incorporate observable inputs referencing identical or comparable securities, including prices to which the notes are linked, interest rate yield curves, option volatility and currency rates, and commodity or equity prices. • Independent, external and traded prices for the notes are considered as well as the impact of the Company's own credit spreads which are based on observed secondary bond market spreads. • Structured notes give a risk exposure tailored to market views and risk appetite and mainly provide exposure to the underlying single name equity, equity index or portfolio of equities. Typically, the redemption payment of the note is significantly dependent on the value of embedded equity derivatives. In general, call and put options, digital options, straddles and callability features are combined to create a bespoke coupon rate or redemption payoff for each note issuance, with risk exposure to one or more equity underlying or indices. The Company values the embedded derivatives using market standard models, which are assessed for appropriateness at least annually. Model inputs, such as equity forward rates, equity implied volatility and equity correlations are marked such that the fair value of the derivatives match prices observable in the inter-dealer markets. In arriving at fair value, the Company uses discount rates appropriate to the funding rates specific to the instrument. In general, this results in overnight rates being used to discount the Company assets and liabilities. In addition, since the notes bear Morgan Stanley's credit risk, the Company considers this when assessing the fair value of the notes, by adjusting the discount rates to reflect the prevailing credit spread at the reporting date.	• Generally Level 2

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2022

17. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

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

OTC Derivative Contracts • OTC derivative contracts include forward, swap and option contracts related to interest rates, foreign currencies, credit standing of reference entities, equity prices or commodity prices. • Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be modeled using a series of techniques, including closedform analytic formulas, such as the Black-Scholes option-pricing model, simulation models or a combination thereof. Many pricing models do not entail material subjectivity as the methodologies employed do not necessitate significant judgment, since model inputs may be observed from actively quoted markets, as is the case for generic interest rate swaps, many equity, commodity and foreign currency option contracts, and certain CDSs. In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry.	• Level 2
Loans • The fair value of loans to other Morgan Stanley Group undertakings is estimated based on the present value of expected future cash flows using its best estimate of interest rate yield curves.	• Level 2

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

There were no transfers between levels of the fair value hierarchy during the current or prior year.

c. Assets and liabilities measured at fair value on a non-recurring basis

Non-recurring fair value measurements of assets and liabilities are those which are required or permitted in the statement of financial position in particular circumstances. There were no assets or liabilities measured at fair value on a non-recurring basis during the current or prior year.

18. ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

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.

19. 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, potential future acquisitions and other capital needs.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2022

19. CAPITAL MANAGEMENT (CONTINUED)

The Required Capital Framework is expected to evolve over time in response to changes in the business and regulatory environment, for example, to incorporate changes in 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 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 adjust its capital base to in reaction to 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, or sell assets to reduce debt.

The Company manages the following items as capital:

	2022 $'000	2021 $'000
Stated capital	14	14
Reserves	386	465
Capital contribution reserve	10,000	—
	10,400	**479**

20. RELATED PARTY DISCLOSURES

The Company's immediate and 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 is incorporated in the State of Delaware, the United States of America. Copies of its financial statements can be obtained from www.morganstanley.com/investorrelations.

Key management compensation

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company. Key management personnel include the Board of Directors of the Company.

The Company has one director who is employed by another Morgan Stanley Group undertaking. The Director's services to the Company are considered to be incidental to their other responsibilities within the Morgan Stanley Group and as such, their remuneration for key management personnel services to the Company is $nil for the current and prior year.

In addition to the above, Crestbridge Limited, not in the Morgan Stanley Group, provided key management personnel services to the Company for which a fee of $40,000 (2021: $42,000) was charged for the year and of which $nil was accrued at 31 December 2022 (2021: $nil).

Key management personnel compensation is borne by other Morgan Stanley Group undertakings in the current and prior year. None of the Directors received remuneration from the Company during the current or prior year.

20. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions with related parties

The Morgan Stanley Group conducts business for clients globally through a combination of both functional and legal entity organisational structures. Accordingly, the Company is closely integrated with the operations of the Morgan Stanley Group and enters into transactions with other Morgan Stanley Group undertakings on an arm's length basis for the purposes of utilising financing, trading and risk management, and infrastructure services. The nature of these relationships along with information about the transactions and outstanding balances is given below. Settlement of the outstanding balances will be made via inter-company mechanisms.

The Company has not recognised any expense and has made no provision for impairment relating to the amount of outstanding balances from related parties (31 December 2021: $nil).

Funding

The Company receives funding from and provides funding to other Morgan Stanley Group undertakings in the following forms:

General funding

General funding is undated, unsecured, floating rate lending, other than certain funding which is dated on a rolling 395 day term. Funding may be received or provided for specific transaction related funding requirements, or for general operational purposes. The interest rates are established by the Morgan Stanley Group Treasury function for all entities within the Morgan Stanley Group and approximate the market rate of interest that the Morgan Stanley Group incurs in funding its business.

Details of the outstanding balances on these funding arrangements and the related interest income or expense recognised in the statement of comprehensive income during the current and prior year are shown in the table below:

	2022		2021	
	Interest	**Balance**	**Interest**	**Balance**
	$'000	**$'000**	**$'000**	**$'000**
Amounts due from the Company's direct parent undertakings	39	7,620	27	—
Amounts due to the Company's direct parent undertakings	(115)	—	(30)	525

Trading and risk management

The Company issues structured notes and hedges the obligations arising from the issuance by entering into derivative contracts and loans designated at fair value through profit or loss with other Morgan Stanley Group undertakings. All such transactions are entered into on an arm's length basis. The total amounts receivable and payable on the above financial instruments were as follows:

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2022

20. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions with related parties (continued)

Trading and risk management (continued)

	2022 Balance	2021 Balance
	$'000	$'000
Amounts due from the Company's direct parent undertakings	369,405	312,914
Amounts due to the Company's direct parent undertakings	20,005	55,308

Infrastructure services

The Company uses infrastructure services, including the provision of office facilities, operated by other Morgan Stanley Group undertakings at no charge.

Amounts outstanding at the reporting date are included within the general funding balances disclosed above.

21. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events since the reporting date.