Registered number: 34161590

Registered office:
Luna Arena
Herikerbergweg 238
1101 CM
Amsterdam
The Netherlands

MORGAN STANLEY B.V.

Report and financial statements

31 December 2020

MORGAN STANLEY B.V.

CONTENTS **PAGE**

ANNUAL REPORT	
Directors' report	1
Directors' responsibilities statement	12
ANNUAL ACCOUNTS	
Statement of comprehensive income	13
Statement of changes in equity	14
Statement of financial position	15
Statement of cash flows	16
Notes to the financial statements	17
OTHER INFORMATION	
Additional information	69
Independent auditors' report	70

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 26) for Morgan Stanley B.V. (the "Company") for the year ended 31 December 2020.

RESULTS AND DIVIDENDS

The profit for the year, after tax, was €3,023,000 (2019: €765,000).

During the year, dividends of €15,000,000 were paid (2019: €nil).

PRINCIPAL ACTIVITY

The principal activity of the Company is the issuance of financial instruments including notes, certificates and warrants ("Structured Notes") and the hedging of the obligations arising pursuant to such issuances.

The Company was incorporated under Dutch law on 6 September 2001 and has its statutory seat in Amsterdam, The Netherlands. The business office of the Company is at Luna Arena, Herikerbergweg 238, 1101 CM, Amsterdam, The Netherlands.

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.

Emergence of COVID-19

The coronavirus disease ("COVID-19") pandemic and related voluntary and government-imposed social and business restrictions has adversely impacted global economic conditions, resulting in volatility in the global financial markets, increased unemployment, and operational challenges such as the temporary closure of businesses, sheltering-in-place directives and increased remote work protocols.

Governments around the world have been working to develop, manufacture, and distribute COVID-19 vaccines. Moreover, governments and central banks have reacted to the economic crisis caused by the pandemic by implementing stimulus and liquidity programs and cutting interest rates. If the pandemic is prolonged or the actions of governments and central banks are unsuccessful, including adequate distribution of effective vaccines, the adverse impact on the global economy will deepen, and the future results of operations and financial condition of Morgan Stanley and the Company may be adversely affected.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Emergence of COVID-19 (continued)

During 2020 the Company has seen significant market volatility, however the resulting impact has been offset by the Company's hedging strategy.

Morgan Stanley and the Company continue to use their Risk Management framework, including stress testing, to manage the significant uncertainty in the present economic and market conditions.

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

On 31 January 2020, the UK withdrew from the EU under the terms of a withdrawal agreement between the UK and the EU. The withdrawal agreement provided for a transition period to the end of December 2020, during which time the UK would continue to apply EU law as if it were a member state, and UK firms' passporting rights to provide financial services in EU jurisdictions continued.

On 24 December 2020 the UK and the EU announced they had reached agreement on the terms of a trade and cooperation agreement to govern the future relationship between the parties. The agreement consists of three main pillars including: trade, citizens' security, and governance, covering a variety of arrangements in several areas. The agreement is provisionally applicable with effect from 1 January 2021 pending formal ratification by the EU. The Company's results of operations have not been negatively affected.

Planned Replacement of London Interbank Offered Rate ("LIBOR") and Replacement or Reform of Other Interest Rates

Central banks around the world, including the Federal Reserve, the Bank of England and the European Central Bank, have commissioned committees and working groups of market participants and official sector representatives to replace LIBOR and replace or reform other interest rate benchmarks (collectively, the "IBORs"). The Company are a party to a number of LIBOR-linked contracts, some of which extend beyond 2021 and, in the case of U.S. dollar LIBOR, 30 June 2023, comprising structured notes and derivatives.

In 2020, there have been several steps taken by the industry to encourage the transition to alternative reference rates. Certain central bank-sponsored committees have issued recommended best practices to assist market participants in transitioning away from the IBORs in various jurisdictions. These documents include recommended timelines and intermediate steps market participants can take in order to achieve a successful transition.

On 5 March 2021, Intercontinental Exchange ("ICE") Benchmark Administration, which administers LIBOR publication, announced that it will cease the publication of most LIBOR rates as of the end of December 2021, except for the publication until 30 June 2023 of the most widely used US dollar LIBOR tenors, and the UK Financial Conduct Authority ("FCA"), which regulates LIBOR publication, announced that it would not compel panel banks to submit to LIBOR beyond those dates. The United States of America ("US") banking agencies and the UK FCA have encouraged banks to cease entering into new contracts referencing LIBOR as soon as practicable and no later than 31 December 2021. The UK FCA has also announced that is consulting on whether to continue publication on a "synthetic" basis for a limited set of LIBOR settings beyond such cessation dates.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Planned Replacement of London Interbank Offered Rate ("LIBOR") and Replacement or Reform of Other Interest Rates (continued)

Morgan Stanley has established and are undertaking a Morgan Stanley wide and regional IBOR transition plan to promote the transition to alternative reference rates, which is overseen by a global steering committee, with senior management oversight. The transition plan is designed to identify, assess and monitor risks associated with the expected discontinuation or unavailability of one or more of the IBORs, and includes continued engagement with central bank and industry working groups and regulators (including participation and leadership on key committees), active client engagement, internal operational readiness, and risk management, among other things. The review of the contracts which the Company are a party to includes assessing the impact of applicable fallbacks and any amendments that may be warranted or appropriate. Steps are also being taken to update operational processes (including to support alternative reference rates), models, and associated infrastructure through bilaterally negotiated voluntary conversions of outstanding LIBOR products where practicable. The impact on the Company's statement of comprehensive income for the year ended 31 December 2020 of transition steps already taken is not material.

Overview of 2020

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 Euros, the risk of changes in rates of exchange between the Euro 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.

The statement of comprehensive income for the year is set out on page 13. The Company reported a profit before income tax of €4,031,000 for the year ended 31 December 2020, compared to a profit before income tax of €1,013,000 for the prior year.

The profit before income tax for the year ended 31 December 2020 primarily comprises management charges recognised in 'Other revenue' of €5,109,000 compared to €1,013,000 received in the prior year. The increase in profit before income tax is driven by an increase in the Company's share of Europe, Middle East and Africa ("EMEA") derivatives revenues.

The Company has recognised a net expense of €57,448,000 in 'Net trading (expense)/ income' compared to a net income of €882,658,000 for the prior year, with a corresponding net income of €57,448,000 recognised in 'Net income/ (expense) on other financial instruments held at fair value' (2019: net expense of €882,658,000). This is due to fair value changes attributable to market movements on the securities underlying Structured Notes hedged by derivatives classified as trading financial instruments.

The statement of financial position for the Company is set out on page 15. The Company's total assets at 31 December 2020 are €8,428,162,000, a decrease of €628,704,000 or 7% when compared to 31 December 2019. Total liabilities of €8,398,699,000 represent a decrease of €616,727,000 or 7% when compared to total liabilities at 31 December 2019. These movements are primarily attributable to the value of issued Structured Notes and the related hedging instruments held at 31 December 2020. Structured Notes reflected in 'Debt and other borrowings' decreased by 7% compared to 31 December 2019. This is a result of maturities and fair value movements in the year partially being offset by new issuances. The net decrease in the value of the related hedging instruments is primarily the result of market movements.

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.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Risk management

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

Set out below is an overview of the Company's policies for the management of financial risk and other significant business risks. More detailed qualitative and quantitative disclosures about the Company's management of and exposure to financial risks are included in note 20 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 manages the market risk associated with its trading activities at both a trading division and an individual product level.

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

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

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

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

Country risk exposure

Country risk exposure is the risk that events in, or affecting, a foreign country might adversely affect the Company. "Foreign country" means any country other than The Netherlands. 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.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Country risk exposure (continued)

The Company enters into the majority of its financial asset transactions with other Morgan Stanley Group undertakings, primarily in Luxembourg and the US. Both the Company and the other Morgan Stanley Group undertakings are wholly-owned subsidiaries of the same ultimate parent entity, Morgan Stanley. As a result of the implicit support that would be provided by Morgan Stanley, the Company's country risk is considered a component of the Morgan Stanley Group's credit risk.

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

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 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 as well as 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 20.

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

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. Legal and compliance risk is included in the scope of operational risk.

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

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Operational risk (continued)

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

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

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

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

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

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

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Operational risk (continued)

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

The Company maintains a programme that oversees our cyber and information security risks. Our cybersecurity and information security policies 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. The Company has also established policies, procedures and technologies to protect its computers and other assets from unauthorised access.

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

Legal, regulatory and compliance risk

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

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

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Legal, regulatory and compliance risk (continued)

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 industry presents a continuing business challenge for the Company.

Cyber and information security risk management

The Company maintains a program that oversees its cyber and information security risks. 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.

A cyber attack, information or security breach or a technology failure could adversely affect Morgan Stanley's ability to conduct business, manage exposure to risk or result in disclosure or misuse of confidential or proprietary information and otherwise adversely impact results of operations, liquidity and financial condition, as well as cause reputational harm.

Morgan Stanley maintain a significant amount of personal information on customers, clients, employees and certain counterparties that Morgan Stanley are required to protect under various state, federal and international data protection and privacy laws.

These laws may be in conflict with one another, or courts and regulators may interpret them in ways that Morgan Stanley had not anticipated or that adversely affects its business.

Cybersecurity risks for financial institutions have significantly increased in recent years in part because of the proliferation of new technologies, the use of the internet, mobile telecommunications and cloud technologies to conduct financial transactions, and the increased sophistication and activities of organised crime, hackers, terrorists and other external extremist parties, including foreign state actors, in some circumstances as a means to promote political ends.

In addition to the growing sophistication of certain parties, the commoditisation of cyber tools which are able to be weaponised by less sophisticated actors has led to an increase in the exploitation of technological vulnerabilities. Further, foreign state actors have become more sophisticated over time, increasing the risk of such an attack. Any of these parties may also attempt to fraudulently induce employees, customers, clients, vendors or other third parties or users of Morgan Stanley systems.

Cybersecurity risks may also derive from human error, fraud or malice on the part of employees or third parties, including third party providers, or may result from accidental technological failure. These risks may be heightened by the COVID-19 pandemic, which has caused the majority of employees to work remotely and access Morgan Stanley secure networks through their home networks.

There is no guarantee that the measures Morgan Stanley takes will provide absolute security or recoverability given the techniques used in cyber-attacks are complex and frequently change, and may not be able to be anticipated.

Like other financial services firms, Morgan Stanley, its third party providers, and its clients continue to be the subject of unauthorised access attacks, mishandling or misuse of information, computer viruses or malware, and cyber-attacks.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Cyber and information security risk management (continued)

Such events could cause interruptions or malfunctions in Morgan Stanley's, its clients', employees', partners', vendors', counterparties' or third parties' operations, as well as the unauthorised release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information of Morgan Stanley, its employees, its customers or of other third parties. Any of these events could result in reputational damage with Morgan Stanley's clients and the market, client dissatisfaction, additional costs to Morgan Stanley to maintain and update its operational and security systems and infrastructure, regulatory investigations, litigation or enforcement, or regulatory fines or penalties, any of which could adversely affect Morgan Stanley's business, financial condition or results of operations.

Given Morgan Stanley's global footprint and the high volume of transactions processed, the large number of clients, partners, vendors and counterparties with which it does business, and the increasing sophistication of cyber attacks, information or security breach could occur and persist for an extended period of time without detection.

Morgan Stanley expects that any investigation of a cyber attack would be inherently unpredictable and that it would take time before the completion of any investigation and before there is availability of full and reliable information. During such time Morgan Stanley would not necessarily know the extent of the harm or how best to remediate it, and certain errors or actions could be repeated or compounded before they are discovered and remediated, all or any of which would further increase the costs and consequences of a cyber attack.

While many of Morgan Stanley's agreements with partners and third party vendors include indemnification provisions, Morgan Stanley may not be able to recover sufficiently, or at all, under such provisions to adequately offset any losses it may incur. In addition, although Morgan Stanley maintains insurance coverage that may, subject to policy terms and conditions, cover certain aspects of cyber and information security risks, such insurance coverage may be insufficient to cover all losses.

Morgan Stanley continues to make investments with a view toward maintaining and enhancing its cybersecurity posture. The cost of managing cyber and information security risks and attacks along with complying with new, increasingly expansive, and evolving regulatory requirements could adversely affect the results of operations and business.

Culture, values and conduct of employees

All employees of the Morgan Stanley Group are accountable for conducting themselves in accordance with the Morgan Stanley Group's core values 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 (business, control functions such as Risk Management and Compliance, and Internal Audit). The Morgan Stanley Group's Board is responsible for overseeing the Morgan Stanley Group's practices and procedures relating to culture, values and conduct, as set forth in the Morgan Stanley Group's Corporate Governance Policies. The Morgan Stanley Group's Culture, Values and Conduct Committee, along with the Complaince and Conduct Committee, are the senior management committees that oversee the Firmwide 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 must attest to their understanding of and adherence to the Code of Conduct.

DIRECTORS' REPORT

BUSINESS REVIEW (CONTINUED)

Risk management (continued)

Culture, values and conduct of employees (continued)

If an employee believes his or her own, or someone else's, behaviour may violate a law, regulation or the principles of conduct in the Code of Conduct, the employee must promptly inform his or her supervisor, the designated contact for a specific policy or procedure, a member of the Legal and Compliance Division, his or her Human Resources Representative, or call the Integrity Hotline. Supervisors are required to monitor their employees' conduct, notify appropriate persons with any concerns escalated to them and identify and take action to stop any misconduct. All calls to the hotline are treated confidentially, and employees may remain anonymous if they wish. All matters are addressed promptly and tracked to completion by the Compliance Department.

Each year, Managing Directors and other senior staff lead mandatory Firmwide culture conversations, engaging employees and onsite contingent workers in a dialogue about appropriate conduct, behaviour and decision-making. Case studies and other reference materials used during the sessions encourage robust discussion on sustaining the Morgan Stanley Group's culture, and attendance is tracked to ensure participation.

The annual employee performance evaluation process includes an evaluation of employee conduct related to risk management practices and the Morgan Stanley Group's expectations. The Morgan Stanley Group also has several mutually reinforcing processes to identify employee conduct that may have an impact on employment status, current year compensation and/ or prior year compensation. For example, the Global Incentive Compensation Discretion Policy sets forth standards for managers when making annual compensation decisions and specifically requires managers to consider whether their employees effectively managed and/ or supervised risk control practices during the performance year.

Management committees from control functions periodically meet to discuss employees whose conduct does not meet the Firm's standards. These results are incorporated in the employees' performance evaluation, which links to compensation and promotion decisions. The Morgan Stanley Group's clawback and cancellation provisions, which permit recovery of deferred incentive compensation and cover a broad scope of employee conduct, including any act or omission (including with respect to direct supervisory responsibilities) that constitutes a breach of obligation to the Morgan Stanley Group or causes a restatement of the Morgan Stanley Group's financial results, constitutes a violation of the Morgan Stanley Group's global risk management principles, policies and standards, or causes a loss of revenue associated with a position on which the employee was paid and the employee operated outside of internal control policies.

Going concern

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

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

DIRECTORS' REPORT

DIRECTORS

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

H. Herrmann
S. Ibanez
P.J.G. de Reus
TMF Management B.V.
A Doppenberg

EVENTS AFTER THE REPORTING DATE

There have been no significant events since the reporting date.

AUDIT COMMITTEE

The Company qualifies as an organisation of public interest pursuant to Dutch and EU law and has established its own audit committee which complies with the applicable corporate governance rules and composition requirements as detailed in the Articles of Association of the Company.

AUDITOR

Deloitte Accountants B.V. have expressed their willingness to continue in office as auditor of the Company and a resolution to re-appoint them will be proposed at the forthcoming annual general meeting.

Approved by the Board and signed on its behalf by:

26 April 2021

H. Herrmann	S. Ibanez	P.J.G. de Reus
A. Doppenberg	TMF Management B.V.	

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors, the names of whom are set out below, confirm to the best of their knowledge:

- the financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB") and as endorsed by the EU and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the management report represented by the Directors' report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that the Company faces.

Approved by the Board and signed on its behalf by:

26 April 2021

H. Herrmann	S. Ibanez	P.J.G. de Reus
A. Doppenberg	TMF Management B.V.	

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2020

	Note	2020 €'000	2019 €'000
Net trading (expense)/ income on financial assets		(372,108)	286,896
Net trading income on financial liabilities		314,660	595,762
Net trading (expense)/ income		(57,448)	882,658
Net income on other financial assets held at fair value		57,303	270,322
Net income/ (expense) on other financial liabilities held at fair value		145	(1,152,980)
Net income/ (expense) on other financial instruments held at fair value	4	57,448	(882,658)
Other revenue	5	5,109	1,013
Total non-interest revenues		5,109	1,013
Interest income		10,519	12,254
Interest expense		(8,775)	(10,152)
Net interest income	6	1,744	2,102
Net revenues		6,853	3,115
Non-interest expense:			
Other expense	7	(2,202)	(2,102)
Net impairment loss on financial instruments	8	(620)	-
PROFIT BEFORE INCOME TAX		4,031	1,013
Income tax	9	(1,008)	(248)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,023	765

All operations were continuing in the current and prior year.

The notes on pages 17 to 68 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2020

		Share capital €'000	Retained earnings €'000	Total equity €'000
Balance at 1 January 2019		15,018	25,657	40,675
Profit and total comprehensive income for the year		-	765	765
Balance at 31 December 2019		15,018	26,422	41,440
Profit and total comprehensive income for the year			3,023	3,023
Dividends	16	-	(15,000)	(15,000)
Balance at 31 December 2020		15,018	14,445	29,463

The notes on pages 17 to 68 form an integral part of the financial statements.

MORGAN STANLEY B.V.
Registered number: 34161590

STATEMENT OF FINANCIAL POSITION
As at 31 December 2020

	Note	2020 €'000	2019 €'000
ASSETS			
Cash and short-term deposits	10	7,050	4,543
Trading financial assets	10	350,624	447,464
Loan and advances	10	6,763,892	7,065,314
Trade and other receivables	10/ 12	1,306,596	1,536,756
Current tax assets		-	2,789
TOTAL ASSETS		8,428,162	9,056,866
LIABILITIES AND EQUITY			
LIABILITIES			
Trading financial liabilities	10	317,233	193,375
Convertible preferred equity certificates	10/ 11	1,125,281	1,125,281
Trade and other payables	10/ 13	123,016	325,902
Debt and other borrowings	10/ 14	6,832,657	7,370,868
Current tax liability		512	-
TOTAL LIABILITIES		8,398,699	9,015,426
EQUITY			
Share capital	15	15,018	15,018
Retained earnings		14,445	26,422
Equity attributable to owners of the Company		29,463	41,440
TOTAL EQUITY		29,463	41,440
TOTAL LIABILITIES AND EQUITY		8,428,162	9,056,866

These financial statements were approved by the Board and authorised for issue on April 2021.

Signed on behalf of the Board
26 April 2021

H. Herrmann S. Ibanez P.J.G. de Reus

A. Doppenberg TMF Management B.V

Director

The notes on pages 17 to 68 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS
Year ended 31 December 2020

	Note	2020 €'000	2019 €'000
NET CASH FLOWS FROM OPERATING ACTIVITIES	17	17,507	3,640
INVESTING ACTIVITIES			
Repayment of interest from another Morgan Stanley Group undertaking		10,382	12,193
NET CASH FLOWS FROM INVESTING ACTIVITIES		10,382	12,193
FINANCING ACTIVITIES			
Yield paid on convertible preferred equity certificates		(11,494)	(11,545)
Financing received from/ (paid to) another Morgan Stanley Group undertaking		1,112	(648)
Dividends paid		(15,000)	-
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(25,382)	(12,193)
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,507	3,640
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		4,543	903
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		7,050	4,543

The notes on pages 17 to 68 form an integral part of the financial statements.

1. CORPORATE INFORMATION

The Company is incorporated and domiciled in The Netherlands, at the following address:

Luna Arena, Herikerbergweg 238, 1101 CM, Amsterdam, The Netherlands.

The Company is engaged in the issuance of Structured Notes and the hedging of the obligations arising pursuant to such issuances with prepaid equity securities contracts, loans designated at fair value through profit or loss ("FVPL") and derivatives entered into with other Morgan Stanley Group undertakings.

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 Euros, the risk of changes in rates of exchange between the Euro 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.

2. BASIS OF PREPARATION

Statement of compliance

The Company has prepared its annual financial statements in accordance with IFRSs issued by the IASB as adopted by the EU, Interpretations issued by the IFRS Interpretations Committee and Part 9 of Book 2 of the Dutch Civil Code.

New standards and interpretations adopted during the year

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

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

An amendment to IFRS 3 '*Business Combinations*' was issued by the IASB in October 2018, for application in accounting periods beginning on or after 1 January 2020. The amendment was endorsed by the EU in April 2020.

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

New standards and interpretations not yet adopted

At the date of authorisation of these financial statements, the following amendments to standards relevant to the Company's operations were issued by the IASB but not mandatory for accounting periods beginning 1 January 2020 The Company does not expect that the adoption of the following standards, amendments to standards and interpretations will have a material impact on the Company's financial statements.

Amendments to IAS 1 *'Presentation of Financial Statements'*: Classification of Liabilities as Current or Non-current were issued by the IASB in January 2020 and revised in July 2020, for retrospective application in accounting periods beginning on or after 1 January 2023.

Amendments to IAS 37 '*Provisions, Contingent Liabilities and Contingent Assets*': 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. Early application is permitted.

2. BASIS OF PREPARATION (CONTINUED)

New standards and interpretations not yet adopted (continued)

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. Early application is permitted.

Basis of measurement

The financial statements of the Company are prepared under the historical cost basis, except for certain financial instruments that have been measured at fair value as explained in the accounting policies below.

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.

The key source of estimation uncertainty is the valuation of Level 3 financial instruments. Valuation techniques used to measure the fair value of instruments categorised in Level 3 of the fair value hierarchy are dependent on unobservable parameters, and as such require the application of judgement, involving estimations and assumptions. The fair value for these financial instruments has been determined using parameters appropriate for the valuation methodology based on prevailing market evidence. It is recognised that the unobservable parameters could have a range of reasonably possible alternative values. See accounting policy 3(d) and note 22 'Sensitivity of fair values to changing significant assumptions to reasonably possible alternatives'.

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

The going concern assumption

The Company's business activities, together with the factors likely to affect its future development, performance and position, are reflected in the Future Outlook and Business Review section of the Directors' report on pages 1 to 10. 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.

The existing and potential effects of COVID-19 on the operational capacity of the business, access to liquidity and capital, contractual obligations have been considered on pages 1 and 2 .

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Functional currency

Items included in the financial statements are measured and presented in Euros, 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 Euros.

b. Foreign currencies

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

c. Financial instruments

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

Trading financial instruments

Trading financial instruments, including all derivatives, are initially recorded on trade date at fair value (see note 3(d) below). All subsequent changes in fair value, foreign exchange differences, 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'.

Non-trading financial assets at FVPL

Non-trading financial assets at FVPL include prepaid equity securities contracts.

Non-trading financial assets at FVPL are principally financial assets where the Company makes decisions based upon the assets' fair value and generally recognised on settlement date at fair value (see note 3(d) below), since they are neither regular way nor are they derivatives. From the date the terms are agreed (trade date), until the financial asset is funded (settlement date), the Company recognises any unrealised fair value changes in the financial asset as non-trading financial assets at FVPL. On settlement date, the fair value of consideration given is recognised as a non-trading financial asset at FVPL. All subsequent changes in fair value, foreign exchange differences and interest are reflected in the statement of comprehensive income in 'Net (expense)/ income on other financial instruments held at fair value'.

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

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 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 (see note 3(d) below).

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

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

iii) Financial assets and financial liabilities at amortised cost

Financial assets classified at amortised cost include cash and short-term deposits and certain trade and other receivables. Financial liabilities classified at amortised cost include Convertible Preferred Equity Certificates ("CPECs") and trade and other payables.

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 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 losses ("ECL") allowance. Interest is recognised in the statement of comprehensive income in 'Interest income', using the effective interest rate ("EIR") method as described below. Transaction costs that are directly attributable to the acquisition of the financial asset are added to the fair value on initial recognition. ECL and reversals thereof are recognised in the statement of comprehensive income in 'Net impairment loss on financial instruments'.

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

The CPECs issued by the Company are classified as financial liabilities at amortised cost in accordance with the substance of the contractual arrangement and IAS 32 *'Financial Instruments: Presentation – offsetting financial instruments'*. The yield on the CPECs is recognised in the statement of comprehensive income in 'Interest expense' using the EIR method as described below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

iii) Financial assets and financial liabilities at amortised cost (continued)

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

d. Fair value

Fair value measurement

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

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

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

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

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

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

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

- Level 2 – Valuation techniques using observable inputs

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

- Level 3 – Valuation techniques with significant unobservable inputs

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

Fair value measurement (continued)

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

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 value amount is disclosed in the level appropriate for the lowest level input that is significant to the total fair value of the asset or liability.

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

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

Valuation techniques

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

Valuation techniques (continued)

The Company applies credit-related valuation adjustments to its borrowings (primarily Structured Notes) which are designated at fair value through profit or loss 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.

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

Model Review

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

Independent Price Verification

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

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

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

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

Level 3 Transactions

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

Gains and losses on inception

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Modification and derecognition of financial assets and liabilities

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

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

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

The renegotiation or modification of the contractual cash flows of a financial asset can lead to derecognition where the modification is “substantial”, determined by qualitative assessment of whether the revised contractual terms of a financial asset, such as a loan, are significantly different from those of the original financial asset. In the event that the qualitative assessment is unclear, a quantitative 10% cash flow test is performed.

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Impairment of financial instruments

The Company recognises loss allowances for ECL on financial assets measured at amortised cost.

Measurement of ECL

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

Where a financial asset is credit-impaired at the reporting date, the ECL is measured as the difference between the asset's gross carrying amount and the present value of future cash flows, discounted at the original EIR.

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

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

Assessment of SICR

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

The probability of default ("PD") is derived from internal credit rating grades (based on available information about the borrower) and multiple forward-looking macroeconomic scenarios which are probability weighted. Credit risk is considered to have increased significantly if the PD has significantly increased at the reporting date relative to the PD of the facility, at the date of initial recognition. The assessment of whether a change in PD is "significant" is based both on a consideration of the relative change in PD and on qualitative indicators of the credit risk of the facility, which indicate whether a loan is performing or in difficulty. In addition, as a backstop, the Company considers that SICR has occurred in all cases when an asset is more than 30 days past due.

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

In general, ECL are measured so that they reflect:

- A probability-weighted range of possible outcomes
- The time value of money
- Relevant information relating to past, current and future economic conditions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Impairment of financial instruments (continued)

Calculation of ECL

ECL are calculated using three main components:

- PD: for accounting purposes, the 12 month and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and over the remaining lifetime of the financial instrument respectively, based on conditions existing at the balance sheet date and future economic conditions.
- Expected loss given default ("LGD"): the LGD represents expected loss conditional on default, taking into account the mitigating effect of collateral, including the expected value of the collateral when realised and the time value of money.
- Estimated exposure at default ("EAD"): this represents the expected EAD, taking into account the expected repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of the facility over that period.

These parameters are generally derived from internally developed statistical models, incorporating historical, current and forward-looking macro-economic data and country risk expert judgement. The macro-economic scenarios are reviewed quarterly.

The 12 month ECL is equal to the sum over the next 12 months of quarterly PD multiplied by LGD and EAD, with such expected losses being discounted at the EIR. Lifetime ECL is calculated using the discounted present value of total quarterly PDs multiplied by LGD and EAD, over the full remaining life of the facility.

When measuring ECL, the Company considers multiple scenarios, except where practical expedients are used to determine ECL. Practical expedients are used where they are consistent with the principles described above. ECL on certain trade receivables are calculated using a 'matrix' approach which reflects the previous history of credit losses on these financial assets, applying different provision levels based on the age of the receivable. Alternatively where there is a history of no credit losses and where this is expected to persist into the future for structural or other reasons, such as collateral or other credit enhancement, it is determined that the ECL for a financial instrument is de minimis (highly immaterial) and it may not be necessary to recognise the ECL.

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

If a financial asset has been the subject of modification which does not lead to its derecognition (refer accounting policy 3(e)), SICR is assessed by comparing the risk of default of the financial instrument, based on the modified terms at the reporting date, with the risk of default of the financial instrument at inception, based on the financial instrument's original, unmodified, terms.

Where the modification of contractual cash flows of a financial asset leads to its derecognition and the recognition of a new asset (refer to note 3(e)), the date of modification is treated as the date of initial recognition for the new financial asset when determining whether a SICR has occurred for that modified financial asset. In rare circumstances, after modification, the new asset is considered to be credit impaired, in which case it is treated as an asset which was credit-impaired at origination.

More information on measurement of ECL is provided in note 20, Financial risk management.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Impairment of financial instruments (continued)

Presentation of ECL

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

Credit-impaired financial instruments

In assessing the impairment of financial instruments under the ECL model, the Company defines credit-impaired financial instruments in accordance with the Credit Risk Management Department's policies and procedures. A financial instrument is credit-impaired when, based on current information and events, it is probable that the Company will be unable to collect all scheduled payments of principal or interest when due according to the contractual terms of the agreement.

Definition of Default

In assessing the impairment of financial instruments under the ECL model, the Company defines default in accordance with the Credit Risk Management Department's policies and procedures. This considers whether the borrower is unlikely to pay its credit obligations to the Company in full and takes into account qualitative indicators, such as breaches of covenants. The definition of default also includes a presumption that a financial asset which is more than 90 days past due has defaulted.

Write-offs

Loans are written off (either partially or in full) when they are deemed uncollectible which generally occurs when all commercially reasonable means of recovering the loan balance have been exhausted. Such determination is based on an indication that the borrower can no longer pay the obligation, or that the proceeds from collateral will not be sufficient to pay the loan. Partial write-offs are made when a portion of the loan is uncollectable. However, financial assets that are written off could still be subject to enforcement activities for recoveries of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is reflected directly in the statement of comprehensive income within 'Net impairment loss on financial instruments' and is not recognised in the loss allowance account. Any subsequent recoveries are credited to 'Net reversal of impairment losses on financial instruments' within the statement of comprehensive income.

g. Cash and cash equivalents

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Income tax

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

The tax currently payable is calculated based on taxable profit for the year. Taxable profit may differ from profit before income tax as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Taxable profit is also adjusted if it is considered that it is not probable that a taxation authority will accept an uncertain tax treatment. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date. Current tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to other comprehensive income, in which case the current tax is also recorded within other comprehensive income.

Current tax assets are offset against current tax liabilities when there is a legally enforceable right to set off current tax assets against current tax liabilities and the Company intends to settle its current tax assets and current tax liabilities on a net basis or to realise the asset and settle the liability simultaneously.

i. Offsetting of financial assets and financial liabilities

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

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

	2020 €'000	2019 €'000
Net (expense)/ income on:		
Non-trading financial assets at FVPL:		
Trade and other receivables:		
Prepaid equity securities contracts	(11,539)	9,543
Financial assets designated at FVPL:		
Loans and advances:		
Loans	68,842	260,779
Financial liabilities designated at FVPL:		
Debt and other borrowings:		
Issued Structured Notes	145	(1,152,980)
	57,448	(882,658)

5. OTHER REVENUE

	2020 €'000	2019 €'000
Management charges to other Morgan Stanley Group undertakings	5,109	1,013
	5,109	1,013

6. 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)).

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

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

‘Interest expense’ includes the yield payable on CPECs (see note 11).

7. OTHER EXPENSE

	2020 €'000	2019 €'000
Auditors' remuneration:		
Fees payable to the Company's auditor and its associates for the audit of the Company's financial statements	98	103
Bank charges	65	62
Net foreign exchange losses	1,994	254
Management charges from other Morgan Stanley Group undertakings	-	1,637
Other	45	46
	2,202	2,102

The Company employed no staff during the year (2019: none).

The Company actively manages its foreign currency exposure risk arising on its assets and liabilities in currencies other than Euro. Net foreign exchange losses include translation differences that have arisen due to foreign exchange exposure created as a result of hedging assets and liabilities recognised for Morgan Stanley Group reporting purposes.

8. NET IMPAIRMENT LOSS ON FINANCIAL INSTRUMENTS

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

	2020 €'000	2019 €'000
Trade and other receivables	(620)	-
	(620)	-

There were no write-offs during the current or prior year.

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

9. INCOME TAX

	2020	2019
	€'000	€'000
Current tax expense		
Current year	1,008	253
Adjustment in respect of prior years	-	(5)
Income tax	1,008	248

Reconciliation of effective tax rate

The current year income tax expense is equal to (2019: lower than) that resulting from applying the average standard rate of corporation tax in The Netherlands for the year of 25% (2019: 25%). The main differences are explained below:

	2020	2019
	€'000	€'000
Profit before income tax	4,031	1,013
Income tax using the average standard rate of corporation tax in The Netherlands of 25% (2019: 25%)	1,008	253
Impact on tax of:		
Tax (over) provided in prior years	-	(5)
Total income tax expense in the statement of comprehensive income	1,008	248

The Company is included in a fiscal unity with Archimedes Investments Coöperatieve U.A. and is not a stand-alone taxpayer for Dutch corporate income tax purposes. If, and to the extent that, the Company would benefit from losses of other members of the fiscal unity, these may be settled via inter-company mechanisms.

10. FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY

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

31 December 2020	**FVPL (mandatorily) €'000**	**FVPL (designated) €'000**	**Amortised cost €'000**	**Total €'000**
Cash and short-term deposits	-	-	7,050	7,050
Trading financial assets:				
Derivatives	350,624	-	-	350,624
Loans and advances:				
Loans	-	6,763,892	-	6,763,892
Trade and other receivables:				
Trade receivables	-	-	33,452	33,452
Other receivables	-	-	1,257,308	1,257,308
Prepaid equity securities contracts	15,836	-	-	15,836
Total financial assets	366,460	6,763,892	1,297,810	8,428,162
Trading financial liabilities:				
Derivatives	317,233	-	-	317,233
Convertible preferred equity certificates	-	-	1,125,281	1,125,281
Trade and other payables:				
Trade payables	-	-	116,440	116,440
Other payables	-	-	6,576	6,576
Debt and other borrowings:				
Issued Structured Notes	-	6,832,657	-	6,832,657
Total financial liabilities	317,233	6,832,657	1,248,297	8,398,187

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

31 December 2019	FVPL (mandatorily) €'000	FVPL (designated) €'000	Amortised cost €'000	Financial liabilities at amortised cost €'000
Cash and short-term deposits	-	-	4,543	4,543
Trading financial assets:				
Derivatives	447,464	-	-	447,464
Loans and advances:				
Loans	-	7,065,314	-	7,065,314
Trade and other receivables:				
Trade receivables	-	-	20,222	20,222
Other receivables	-	-	1,485,410	1,485,410
Prepaid equity securities contracts	31,124	-	-	31,124
Total financial assets	478,588	7,065,314	1,510,175	9,054,077
Trading financial liabilities:				
Derivatives	193,375	-	-	193,375
Convertible preferred equity certificates	-	-	1,125,281	1,125,281
Trade and other payables:				
Trade payables	-	-	300,354	300,354
Other payables	-	-	25,548	25,548
Debt and other borrowings:				
Issued Structured Notes	-	7,370,868	-	7,370,868
Total financial liabilities	193,375	7,370,868	1,451,183	9,015,426

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:

Structured Notes: These relate to financial liabilities which arise from selling structured products generally in the form of notes, certificates and warrants. 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 prepaid equity securities contracts and 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.

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

Financial assets and financial liabilities designated at FVPL (continued)

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 designated at FVPL was €3,706,000 lower than the contractual amount due at maturity (31 December 2019: €8,638,000 lower).

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 prepaid equity securities contracts, 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.

The following table presents the change in fair value and the cumulative change recognised in the statement of comprehensive income attributable to own credit risk for issued Structured Notes and counterparty credit risk for loans.

	Gain or (loss) recognised in the statement of comprehensive income		**Cumulative gain or (loss) recognised in the statement of comprehensive income**	
	2020 €'000	**2019 €'000**	**2020 €'000**	**2019 €'000**
Issued Structured Notes	(22,026)	(118,181)	(113,819)	(91,793)
Loans	22,026	118,181	113,819	91,793
	-	-	-	-

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

Financial assets and financial liabilities designated at FVPL (continued)

The following tables present the carrying value of the Company's financial liabilities designated at FVPL, classified according to underlying security type, including, single name equities, equity indices and equity portfolio.

2020	Single name equities €'000	Equity indices €'000	Equity portfolio €'000	Other[(1)] €'000	Total €'000
Certificates and warrants	156,903	5,861	61,544	-	224,308
Notes	1,898,605	2,237,929	1,582,724	889,091	6,608,349
Total debt and other borrowings	2,055,508	2,243,790	1,644,268	889,091	6,832,657

2019	Single name equities €'000	Equity indices €'000	Equity portfolio €'000	Other[(1)] €'000	Total €'000
Certificates and warrants	303,770	8,991	79,196	-	391,957
Notes	845,708	3,318,552	1,741,472	1,073,179	6,978,911
Total debt and other borrowings	1,149,478	3,327,543	1,820,668	1,073,179	7,370,868

(1) Other includes Structured Notes that have coupon or repayment terms linked to the performance of funds, debt securities, currencies or commodities.

The majority of the Company's financial liabilities designated at FVPL provide exposure to an underlying single name equity, an equity index or portfolio of equities. The prepaid equity securities contracts, derivative contracts and loans held at FVPL that the Company enters into in order to hedge the Structured Notes are valued as detailed in note 3(d) and note 22(a) and have similar valuation inputs to the liabilities they hedge.

11. CONVERTIBLE PREFERRED EQUITY CERTIFICATES

On 30 March 2012, the Company issued 11,252,813 of CPECs of €100 each, classified as financial liabilities at amortised cost. The CPECs were issued to one of the Company's shareholders, Archimedes Investments Coöperatieve U.A. (a Morgan Stanley Group undertaking), in exchange for cash consideration of €1,125,281,000.

The CPECs carry no voting rights. The Company and the holder have the right to convert each issued CPEC into one ordinary share with a nominal value of €100.

On 27 February 2018, the maturity date of the CPECs was amended from 150 years to 49 years from the date of issuance. The CPECs may be redeemed earlier at the option of the Company or on liquidation of the Company.

The CPECs rank ahead of the ordinary shares in the event of liquidation.

The holder of the CPECs is entitled to receive an annual yield on a date agreed by the Company and the holder. The yield for each CPEC is calculated as income deriving from the Company's activities less the necessary amounts to cover the costs of the Company divided by the number of CPECs then in issue. Other income relating to management charges received from other Morgan Stanley Group undertakings and gains or losses from financial instruments designated or mandatorily at fair value through profit or loss are excluded from the calculation.

11. CONVERTIBLE PREFERRED EQUITY CERTIFICATES (CONTINUED)

On 27 March 2020, the Company paid the accrued yield of €11,494,000 to the holders of the CPECs. An accrued yield for the year ended 31 December 2020 of €8,930,000 has been recognised in the statement of comprehensive income in 'Interest expense' (2019: €10,770,000). The liability to the holders of the CPECs at 31 December 2020, recognised within 'Trade and other payables', is €6,330,000 (31 December 2019: €8,893,000).

12. TRADE AND OTHER RECEIVABLES

	2020 €'000	2019 €'000
Trade and other receivables (amortised cost)		
Trade receivables:		
Amounts due from other Morgan Stanley Group undertakings	33,452	20,222
Other receivables:		
Amounts due from other Morgan Stanley Group undertakings	1,257,932	1,485,414
Less: ECL allowance	(624)	(4)
	1,257,308	1,485,410
Total trade and other receivables (amortised cost)	1,290,760	1,505,632
Trade and other receivables (non-trading at FVPL)		
Prepaid equity securities contracts	15,836	31,124
Total	1,306,596	1,536,756

13. TRADE AND OTHER PAYABLES

	2020 €'000	2019 €'000
Trade and other payables (amortised cost)		
Trade payables:		
Amounts due to other Morgan Stanley Group undertakings	116,440	300,354
Other payables:		
Amounts due to other Morgan Stanley Group undertakings	6,576	25,548
	123,016	325,902

14. DEBT AND OTHER BORROWINGS

	2020 €'000	2019 €'000
Debt and other borrowings (designated at FVPL)		
Issued Structured Notes	6,832,657	7,370,868

Refer to note 10 for details of issued Structured Notes included within debt and other borrowings designated at FVPL.

15. EQUITY

Ordinary share capital

	Ordinary shares of €100 each
	€'000
Issued and fully paid	
At 1 January 2019, 31 December 2019 and 31 December 2020	15,018

On 9 December 2013 the Articles of Association of the Company were amended whereby the concept of authorised share capital was abolished. Each share confers the right to cast one vote, provided that subject to mandatory law, all resolutions of the General Meeting shall be adopted by unanimous vote in a meeting in which the entire share capital is present or represented.

The holders of ordinary shares are entitled to receive dividends as declared from time to time.

Reserves

The Company uses the contracts that it purchases from other Morgan Stanley Group undertakings to hedge the market price, interest rate, foreign currency and other market risks associated with the issuance of the Structured Notes, consistent with the Company's risk management strategy. Both the contracts and the Structured Note issuances are valued at fair value through profit or loss and no net cumulative gain or loss is expected to be realised over the life of the financial instrument contracts. Therefore, a legal revaluation reserve under Part 9, Book 2 of the Dutch Civil Code (BW2, article 390(1)) is not necessary.

Appropriation of the net result for the year

The statement of financial position is presented after the proposed appropriation of net result for the year ended 31 December 2020. The Directors propose to add the profit to retained earnings as part of the equity shareholders' funds.

16. DIVIDENDS

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

	2020		2019	
	Per share €	Total €'000	Per share €	Total €'000
Dividends on ordinary shares	100	15,000	-	-

17. ADDITIONAL CASH FLOW INFORMATION

17.1. 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:

	2020 €'000	2019 €'000
Cash and short-term deposits	7,050	4,543

17.2. Reconciliation of cash flows from operating activities

	2020 €'000	2019 €'000
Profit for the year	3,023	765
Adjustments for:		
Interest income	(10,519)	(12,254)
Interest expense	8,775	10,152
Income tax expense	1,008	248
Impairment loss on financial instruments	620	-
Operating cash flows before changes in operating assets and liabilities	2,907	(1,089)
Changes in operating assets		
Decrease/ (increase) in trading financial assets	96,840	(176,198)
Decrease in loans and advances	301,422	718,318
Decrease/ (increase) in trade and other receivables	228,536	(101,746)
	626,798	440,374
Changes in operating liabilities		
Increase/ (decrease) in trading financial liabilities	123,858	(558,778)
(Decrease)/ increase in trade and other payables	(200,164)	138,921
(Decrease) in debt and other borrowings	(538,211)	(17,184)
	(614,517)	(437,041)
Interest received	29	48
Interest paid	(3)	(4)
Income taxes received	2,293	1,352
Net cash flows from operating activities	17,507	3,640

18. 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 2020			At 31 December 2019		
	Less than or equal to twelve months €'000	More than twelve months €'000	Total €'000	Less than or equal to twelve months €'000	More than twelve months €'000	Total €'000
ASSETS						
Cash and short-term deposits	7,050	-	7,050	4,543	-	4,543
Trading financial assets	118,532	232,092	350,624	162,734	284,730	447,464
Loans and advances	2,253,783	4,510,109	6,763,892	2,146,766	4,918,548	7,065,314
Trade and other receivables	165,479	1,141,117	1,306,596	383,997	1,152,759	1,536,756
Current tax assets	-	-	-	2,789	-	2,789
	2,544,844	5,883,318	8,428,162	2,700,829	6,356,037	9,056,866
LIABILITIES						
Trading financial liabilities	124,341	192,892	317,233	79,191	114,184	193,375
Convertible preferred equity certificates	-	1,125,281	1,125,281	-	1,125,281	1,125,281
Trade and other payables	123,016	-	123,016	325,902	-	325,902
Debt and other borrowings	2.267,512	4,565,145	6,832,657	2,254,296	5,116,572	7,370,868
Current tax liability	512	-	512	-	-	-
	2,515,381	5,883,318	8,398,699	2,659,389	6,356,037	9,015,426

19. 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.

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.

19. SEGMENT REPORTING (CONTINUED)

Geographical segments

The Company operates in three geographic regions as listed below:

- EMEA
- Americas
- Asia

The following table presents selected statement of comprehensive income and statement of financial position information of the Company's operations by geographic area. The external revenues (net of interest expense) and total assets disclosed in the following table reflect the regional view of the Company's operations, on a managed basis. The basis for attributing external revenues (net of interest expense) and total assets is determined by trading desk location.

	EMEA		Americas		Asia		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
External revenues net of interest	4,638	2,753	1,579	237	636	125	6,853	3,115
Profit before income tax	1,816	651	1,579	237	636	125	4,031	1,013
Total assets	3,883,590	4,966,427	3,254,311	2,756,664	1,290,261	1,333,775	8,428,162	9,056,866

All of the Company's external revenue (2019: 100%) arises from transactions with other Morgan Stanley Group undertakings. Further details of such transactions are disclosed in the related party disclosures in note 25.

20. FINANCIAL RISK MANAGEMENT

Risk management procedures

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

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

Credit risk

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

The Company's credit risk management policies and procedures establish the framework for identifying, measuring, monitoring and controlling credit risk whilst ensuring transparency of material credit risks, ensuring compliance with established limits and escalating risk concentrations to appropriate senior management.

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

The Company enters into the majority of its financial asset transactions with other Morgan Stanley Group undertakings, and both the Company and the other Morgan Stanley Group undertakings are wholly-owned subsidiaries of the same ultimate parent entity, Morgan Stanley. As a result of the implicit support that would be provided by Morgan Stanley, the Company is considered exposed to the credit risk of Morgan Stanley, except where the Company transacts with other Morgan Stanley Group undertakings that have a higher credit rating to that of Morgan Stanley.

Exposure to credit risk

The maximum exposure to credit risk ("gross credit exposure") of the Company as at 31 December 2020 is the carrying amount of the financial assets held in the statement of financial position. The table below 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. This table does not include receivables arising from pending securities transactions with market counterparties as credit risk is considered insignificant. Where the Company enters into credit enhancements, including receiving cash as collateral and master netting agreements, to manage the credit exposure on these financial instruments, the financial effect of the credit enhancements is also disclosed below. The net credit exposure represents the credit exposure remaining after the effect of the credit enhancements.

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

Collateral and other credit enhancements

The Company has entered into collateral arrangements with other Morgan Stanley Group undertakings to mitigate credit risk. Collateral held is managed in accordance with the Morgan Stanley Group's guidelines and the relevant underlying agreements.

Exposure to credit risk by class

Class	31 December 2020			31 December 2019		
	Gross credit exposure [(1)]	Credit enhancements	Net credit Exposure	Gross credit exposure [(1)]	Credit enhancements	Net credit exposure
€'000						
Subject to ECL:						
Cash and short-term deposits	7,050	-	7,050	4,543	-	4,543
Trade and other receivables[(2)]	1,290,760	-	1,290,760	1,505,632	-	1,505,632
Not subject to ECL:						
Trading financial assets[(2)]	350,624	(281,714)	68,910	447,464	(394,777)	52,687
Loans and advances	6,763,892	-	6,763,892	7,065,314	-	7,065,314
Trade and other receivables[(2)]:						
Prepaid equity securities contracts	15,836	(15,836)	-	31,124	(31,124)	-
	8,428,162	(297,550)	8,130,612	9,054,077	(425,901)	8,628,176

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

(2) At 31 December 2020, net cash collateral pledged of €6,217,000 was recognised in trade and other receivables in the statement of financial position against derivatives classified as trading financial assets/liabilities and prepaid equity securities contract. At 31 December 2019, trade and other receivables included net cash collateral pledged of €nil. Cash collateral is determined and settled on a net basis.

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Exposure to credit risk by internal rating grades

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

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

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

At 31 December 2020	**AA**	**A**	**BBB**	**Total**	**Loss Allowance**	**Net of ECL**
€'000						
Subject to ECL:						
Cash and short term deposits	151	6,899	-	7,050	-	7,050
Trade and other receivables(1)	-	1,159,893	131,491	1,291,384	(624)	1,290,760
Total subject to ECL	151	1,166,792	131,491	1,298,434	(624)	1,297,810
Not subject to ECL:						
Trading financial assets - derivatives	-	265,388	85,236	350,624	-	350,624
Loans and advances	-	-	6,763,892	6,763,892	-	6,763,892
Trade and other receivables:						
Prepaid equity securities contracts	-	15,836	-	15,836	-	15,836
Total not subject to ECL	-	281,224	6,849,128	7,130,352	-	7,130,352
At 31 December 2019						
€'000						
Subject to ECL:						
Cash and short term deposits	96	4,447	-	4,543	-	4,543
Trade and other receivables(1)	-	1,152,640	352,996	1,505,636	(4)	1,505,632
Total subject to ECL	96	1,157,087	352,996	1,510,179	(4)	1,510,175
Not subject to ECL:						
Trading financial assets - derivatives	-	334,200	113,264	447,464	-	447,464
Loans and advances	-	-	7,065,315	7,065,315	-	7,065,315
Trade and other receivables:						
Prepaid equity securities contracts	-	31,124	-	31,124	-	31,124
Total not subject to ECL	-	365,324	7,178,579	7,543,903	-	7,543,903

(1) The Company has no financial assets at stage 3. At 31 December 2020 there were no financial assets past due but not impaired or individually impaired (31 December 2019: nil).

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Reconciliations of gross carrying amount and ECL

	Gross carrying / nominal amount €'000	Allowance for ECL €'000
Other receivables		
As at 1 January 2020	**1,485,414**	**4**
Net cash inflows	(227,482)	-
Change in credit risk	-	620
As at 31 December 2020	**1,257,932**	**624**
As at 1 January 2019	**1,165,764**	**4**
Net cash outflows	319,650	-
As at 31 December 2019	**1,485,414**	**4**

The above gross carrying amounts are Stage 1 and excludes financial assets at amortised cost of £40,502,000 (2019: £24,765,000) as the corresponding ECL is immaterial.

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

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

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

The liquidity risks identified by these processes are summarised in reports produced by the Liquidity Risk Department that are circulated to and discussed with senior management, as appropriate.

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

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

The Company's liquidity risk management policies and procedures are consistent with those of the Morgan Stanley Group.

The primary goal of the Company's liquidity risk 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 Company's liquidity risk management framework:

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

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

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. 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, that support our target liquidity profile, which includes consideration of the liquidity risk for each individual legal entity, are the Required Liquidity Framework, Liquidity Stress Tests and the Liquidity Resources.

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

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.

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Liquidity Resources

The Morgan Stanley Group maintains sufficient liquidity resources, which consist of unencumbered highly liquid securities and cash deposits with banks (including central 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 total amount of the Liquidity Resources is actively managed by the Morgan Stanley Group 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 within the Morgan Stanley Group is based on the Morgan Stanley Group's risk tolerance and is subject to change depending on market and firm-specific events. Unencumbered highly liquid securities consist of netted trading assets, investment securities and securities received as collateral.

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.

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.

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

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 2020 and 31 December 2019. 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.

31 December 2020	On demand €'000	Less than 1 year €'000	1 year - 2 years €'000	2 years - 5 years €'000	Greater than 5 years €'000	Total €'000
Financial assets						
Cash and short-term deposits	7,050	-	-	-	-	7,050
Trading financial assets:						
Derivatives	17,701	109,313	27,584	127,361	68,665	350,624
Loans and advances:						
Loans	171,826	2,139,203	861,619	2,017,239	1,574,005	6,763,892
Trade and other receivables:						
Trade receivables	33,452	-	-	-	-	33,452
Other receivables	1,257,308	-	-	-	-	1,257,308
Prepaid equity securities contracts	15,836	-	-	-	-	15,836
Total financial assets	1,503,173	2,248,516	889,203	2,144,600	1,642,670	8,428,162
Financial liabilities						
Trading financial liabilities:						
Derivatives	22,794	116,655	54,763	75,746	47,275	317,233
Convertible preferred equity certificates	1,125,281	-	-	-	-	1,125,281
Trade and other payables:						
Trade payables	116,440	-	-	-	-	116,440
Other payables	6,576	-	-	-	-	6,576
Debt and other borrowings:						
Issued Structured Notes	202,107	2,131,861	834,440	2,068,854	1,595,395	6,832,657
Total financial liabilities	1,473,198	2,248,516	889,203	2,144,600	1,642,670	8,398,187

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Maturity analysis (continued)

31 December 2019	On demand €'000	Less than 1 year €'000	1 year - 2 years €'000	2 years - 5 years €'000	Greater than 5 years €'000	Total €'000
Financial assets						
Cash and short-term deposits	4,543	-	-	-	-	4,543
Trading financial assets:						
Derivatives	61,667	116,270	47,510	135,904	86,113	447,464
Loans and advances:						
Loans	281,885	1,927,130	1,094,600	1,938,880	1,822,819	7,065,314
Trade and other receivables:						
Trade receivables	20,222	-	-	-	-	20,222
Other receivables	1,485,410	-	-	-	-	1,485,410
Prepaid equity securities contracts	31,124	-	-	-	-	31,124
Total financial assets	1,884,851	2,043,400	1,142,110	2,074,784	1,908,932	9,054,077
Financial liabilities						
Trading financial liabilities:						
Derivatives	29,254	52,934	35,247	36,054	39,886	193,375
Convertible preferred equity certificates	1,125,281	-	-	-	-	1,125,281
Trade and other payables:						
Trade payables	300,354	-	-	-	-	300,354
Other payables	25,548	-	-	-	-	25,548
Debt and other borrowings:						
Issued Structured Notes	365,763	1,990,466	1,106,863	2,038,730	1,869,046	7,370,868
Total financial liabilities	1,846,200	2,043,400	1,142,110	2,074,784	1,908,932	9,015,426

20. 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.

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

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

Equity price sensitivity analysis

The sensitivity analysis below is determined based on the exposure to equity price risk at 31 December 2020 and 31 December 2019 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)	
	2020	**2019**
	€'000	**€'000**
Trading financial instruments	(681,682)	(733,975)
Trade and other receivables – at FVPL	(1,584)	(3,112)
Debt and other borrowings	683,266	737,087
	-	-

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

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 Euros, the risk of changes in rates of exchange between the Euro 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.

The net foreign exchange losses recognised in 'Other expense' have arisen as a result of exposure to hedging on assets and liabilities recognised for Morgan Stanley Group purposes, under the Morgan Stanley Group's local reporting requirements.

21. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING

In order to manage credit exposure arising from its business activities, the Company applies various credit risk management policies and procedures, see note 20 for further details. Primarily in connection with derivative contracts, prepaid equity securities contracts and issued Structured Notes, the Company enters into master netting arrangements and collateral arrangements with its counterparties. These agreements provide the Company with the right, in the ordinary course of business and/ or in the event of a counterparty default (such as bankruptcy or a counterparty's failure to pay or perform), to net a counterparty's rights and obligations under such agreement and, in the event of counterparty default, set off collateral held by the Company against the net amount owed by the counterparty.

However, in certain circumstances, the Company may not have such an agreement in place; the relevant insolvency regime (which is based on type of counterparty entity and the jurisdiction of organisation of the counterparty) may not support the enforceability of the agreement; or the Company may not have sought legal advice to support the enforceability of the agreement. In cases where the Company has not determined an agreement to be enforceable, the related amounts are not offset in the tabular disclosures.

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

The following tables present information about the offsetting of financial instruments and related collateral amounts. The effect of master netting arrangements, collateral agreements and other credit enhancements on the Company's exposure to credit risk is disclosed in note 20.

21. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING (CONTINUED)

	Gross and net amounts presented in the statement of financial position (1)	Amounts not offset in the statement of financial position (2) (4)		Net exposure
		Financial instruments	Cash collateral (3)	
	€'000	€'000	€'000	€'000
31 December 2020				
Assets				
Trading financial assets:				
Derivatives	350,624	-	(281,714)	68,910
Trade and other receivables:				
Prepaid equity securities contracts	15,836	-	(15,836)	-
TOTAL	366,460	-	(297,550)	68,910
Liabilities				
Trading financial liabilities:				
Derivatives	317,233	-	(241,139)	76,094
Debt and other borrowings:				
Issued Structured Notes	6,832,657	-	-	6,832,657
TOTAL	7,149,890	-	(241,139)	6,908,751
31 December 2019				
Assets				
Trading financial assets:				
Derivatives	447,464	-	(394,777)	52,687
Trade and other receivables:				
Prepaid equity securities contracts	31,124	-	(31,124)	-
TOTAL	478,588	-	(425,901)	52,687
Liabilities				
Trading financial liabilities:				
Derivatives	193,375	-	(149,608)	43,767
Debt and other borrowings:				
Issued Structured Notes	7,370,868	-	-	7,370,868
TOTAL	7,564,243	-	(149,608)	7,414,635

(1) Amounts include €68,910,000 (31 December 2019: €52,687,000) of trading financial assets – derivatives, €nil (31 December 2019: €nil) of trade and other receivables – prepaid equity securities contracts, €75,797,000 (31 December 2019: €43,767,000) of trading financial liabilities – derivatives and €6,720,483,000 (31 December 2019: €7,146,869,000) of debt and other borrowings – issued Structured Notes which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Company has not determined the agreements to be legally enforceable.

(2) Amounts relate to master netting arrangements and collateral arrangements which have been determined by the Company to be legally enforceable but do not meet all criteria required for net presentation within the statement of financial position.

(3) Cash collateral used to mitigate credit risk on exposures arising under derivatives contracts and prepaid equity securities contracts is determined and settled on a net basis and has been recognised in the statement of financial position within 'Trade and other receivables' and 'Trade and other payables' in 2020 (2019 – 'Trade and other payables').

(4) In addition to the balances disclosed in the table above, certain 'Trade and other receivables' and 'Trade and other payables' of €27,285,000 (31 December 2019: €19,737,000) not presented net within the statement of financial position have legally enforceable master netting agreements in place and can be offset in the ordinary course of business and/or in the event of default.

22. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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

The following tables present the carrying value of the Company's financial assets and financial liabilities recognised at fair value on a recurring basis, classified according to the fair value hierarchy.

31 December 2020	**Quoted prices in active market (Level 1) €'000**	**Valuation techniques using observable inputs (Level 2) €'000**	**Valuation techniques with significant unobservable inputs (Level 3) €'000**	**Total €'000**
Trading financial assets:				
Derivatives				
Interest rate contracts	-	16,282	16,512	32,794
Equity contracts	-	277,381	39,998	317,379
Foreign exchange contracts	-	319	-	319
Commodity contracts	-	132	-	132
	-	294,114	56,510	350,624
Trade and other receivables:				
Prepaid equity securities contracts	-	15,836	-	15,836
Loans and advances:				
Loans	-	6,763,892	-	6,763,892
Total financial assets measured at fair value	-	7,073,842	56,510	7,130,352
Trading financial liabilities:				
Derivatives				
Interest rate contracts	-	7,302	21,052	28,354
Equity contracts	-	212,075	76,792	288,867
Foreign exchange contracts	-	10	-	10
Commodity contracts	-	2	-	2
	-	219,389	97,844	317,233
Debt and other borrowings:				
Certificates and warrants	-	215,580	8,728	224,308
Notes	-	6,203,699	404,650	6,608,349
Total debt and other borrowings	-	6,419,279	413,378	6,832,657
Total financial liabilities measured at fair value	-	6,638,668	511,222	7,149,890

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

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

31 December 2019	Quoted prices in active market (Level 1) €'000	Valuation techniques using observable inputs (Level 2) €'000	Valuation techniques with significant unobservable inputs (Level 3) €'000	Total €'000
Trading financial assets:				
Derivatives				
Interest rate contracts	-	10,611	15,676	26,287
Equity contracts	-	398,916	21,064	419,980
Commodity contracts	-	1,197	-	1,197
	-	410,724	36,740	447,464
Trade and other receivables:				
Prepaid equity securities contracts	-	31,124	-	31,124
Loans and advances:				
Loans	-	7,065,314	-	7,065,314
Total financial assets measured at fair value	-	7,507,162	36,740	7,543,902
Trading financial liabilities:				
Derivatives				
Interest rate contracts	-	7,306	14,407	21,713
Equity contracts	-	140,850	28,720	169,570
Foreign exchange contracts	-	1,918	21	1,939
Commodity contracts	-	153	-	153
	-	150,227	43,148	193,375
Debt and other borrowings:				
Certificates and warrants	-	387,802	4,155	391,957
Notes	-	6,578,957	399,954	6,978,911
Total debt and other borrowings	-	6,966,759	404,109	7,370,868
Total financial liabilities measured at fair value	-	7,116,986	447,257	7,564,243

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

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

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:

Derivatives

Asset and Liability / Valuation Technique	Valuation Hierarchy Classification
Derivatives	
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 closed-form 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. • More complex OTC derivative products are typically less liquid and require more judgment in the implementation of the valuation technique since direct trading activity or quotes are unobservable. This includes certain types of interest rate derivatives with both volatility and correlation exposure, equity, commodity or foreign currency derivatives that are either longer-dated or include exposure to multiple underlyings, and credit derivatives, including CDSs on certain mortgage- or asset-backed securities and basket CDSs. Where required these inputs are unobservable, relationships to observable data points, based on historical and/ or implied observations, may be employed as a technique to estimate the model input values.	• Generally Level 2 - OTC derivative products valued using observable inputs, or where the unobservable input is not deemed significant. • Level 3 - OTC derivative products for which the unobservable input is deemed significant

Prepaid OTC contracts and issued Structured Notes

Prepaid equity securities contracts and issued Structured Notes designated at fair value through profit or loss • The Company issues Structured Notes and trades prepaid OTC contracts 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 and traded prepaid equity securities contracts is determined using valuation models for the derivative and 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.	• Generally Level 2 • Level 3 - in instances where the unobservable inputs are deemed significant

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

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

Prepaid OTC contracts and issued structured notes (continued)

Notes • 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 underlyings 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. • The Company has a small number of notes where the cash flows due on the notes is dependent on embedded derivatives linked to the interest rate, foreign exchange or commodity markets. The Company values these notes in the same way as for equity-linked notes, by using market standard models and marking the inputs to match prices observed in the inter-dealer OTC markets. Similarly to equity-linked notes, these issuances bear Morgan Stanley's credit risk, and the valuation is assessed accordingly.	• Generally Level 2 • Level 3 - Notes with significant unobservable inputs
Certificates and warrants • Certificates and warrants provide exposure to the underlying single name equity, equity index or portfolio of equities. They therefore provide risk exposure to the value of the underlying position and to the dividends paid or received. The Company values the underlying position using observable data where available (for instance, exchange closing prices), or alternatively using information from third parties (for example net asset values obtained from fund administrators) or using Morgan Stanley's own valuation assumptions if required. The Company estimates future dividend payments using a variety of available data, including market prices for forwards and futures, analytical review and estimates of future tax rates, incorporating the Company's own assumptions where required. The certificates and warrants can typically be redeemed at short notice and so the certificates and warrants provide minimal exposure to the credit risk of Morgan Stanley.	• Level 2 • Level 3 - in instances where the unobservable inputs are deemed significant
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 Level 1 and Level 2 of the fair value hierarchy for financial assets and liabilities recognised at fair value on a recurring basis

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

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

c. Changes in Level 3 financial assets and liabilities recognised at fair value on a recurring basis

The following tables present the changes in the fair value of the Company's Level 3 financial assets and financial liabilities for the years ended 31 December 2020 and 31 December 2019. Level 3 instruments may be hedged with instruments classified in Level 2. As a result, the realised and unrealised gains/ (losses) for assets and liabilities within the Level 3 category presented in the following tables do not reflect the related realised and unrealised gains/ (losses) on hedging instruments that have been classified by the Company within the Level 2 category.

Unrealised gains/ (losses) during the period for assets and liabilities within the Level 3 category presented in the following tables herein may include changes in fair value during the period that were attributable to both observable and unobservable inputs.

31 December 2020

	Balance at 1 January 2020 €'000	Total gains or (losses) recognised in statement of comprehensive income (1) €'000	Purchases €'000	Issuances €'000	Settlements €'000	Net transfers in and/ or out of Level 3(2) €'000	Balance at 31 December 2020 €'000	Unrealised gains or (losses) for Level 3 assets /(liabilities) outstanding as at 31 December 2020(3) €'000
Trading financial liabilities:								
Net derivative contracts (4)	(6,408)	(30,845)	13,397	(3,574)	(17,857)	3,953	(41,334)	(23,302)
Debt and other borrowings:								
Issued Structured Notes	(404,109)	31,060	-	(74,526)	61,720	(27,523)	(413,378)	30,787
Total financial liabilities measured at fair value	**(410,517)**	**215**	**13,397**	**(78,100)**	**43,863**	**(23,570)**	**(454,712)**	**7,485**

(1) The total gains or (losses) are recognised in the statement of comprehensive income as detailed in the financial instruments accounting policy (note 3 (c)).

(2) For financial assets and financial liabilities that were transferred into and out of Level 3 during the period, gains or (losses) are presented as if the assets or liabilities had been transferred into or out of Level 3 as at the beginning of the period.

(3) Amounts represent unrealised gains or (losses) for the period ended 31 December related to assets and liabilities still outstanding at 31 December. The unrealised gains or (losses) are recognised in the statement of comprehensive income as detailed in the financial instruments accounting policy (note 3 (c)).

(4) Net derivative contracts represent trading financial assets – derivative contracts net of trading financial liabilities – derivative contracts.

During the year, the Company reclassified approximately €nil net derivative contracts (2019: €7,984,000) and €179,321,000 of issued Structured Notes (2019: €13,966,000) from Level 2 to Level 3. The reclassifications were due to a reduction in the volume of recently executed transactions or a lack of available broker quotes for these instruments, such that certain significant inputs became unobservable.

During the year, the Company reclassified approximately €3,953,000 of net derivative contracts (2019: €44,412,000) and €151,798,000 of issued Structured Notes (2019: €167,667,000) from Level 3 to Level 2. The reclassifications were due to the availability of market data for these or comparable instruments, or available broker quotes, or consensus data such that certain significant inputs became observable. There were no other material transfers from Level 3 to Level 2 of the fair value hierarchy (2019: nil).

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

c. Changes in Level 3 financial assets and liabilities recognised at fair value on a recurring basis (continued)

31 December 2019

	Balance at 1 January 2019 €'000	Total gains or (losses) recognised in statement of comprehensive income (1) €'000	Purchases €'000	Issuances €'000	Settlements €'000	Net transfers in and/ or out of Level 3(2) €'000	Balance at 31 December 2019 €'000	Unrealised gains or (losses) for Level 3 assets /(liabilities) outstanding as at 31 December 2019(3) €'000
Trade and other receivables:								
Prepaid equity securities contracts	63,752	255	-	796	(61,157)	(3,646)	-	-
Total financial assets measured at fair value	**63,752**	**255**	**-**	**796**	**(61,157)**	**(3,646)**	**-**	**-**
Trading financial liabilities:								
Net derivative contracts (4)	(103,708)	79,396	819	(3,364)	(15,979)	36,428	(6,408)	59,657
Debt and other borrowings:								
Issued Structured Notes	(529,505)	(73,506)	-	(168,138)	213,339	153,701	(404,109)	(49,300)
Total financial liabilities measured at fair value	**(633,213)**	**5,890**	**819**	**(171,502)**	**197,360**	**190,129**	**(410,517)**	**10,357**

(1) The total gains or (losses) are recognised in the statement of comprehensive income as detailed in the financial instruments accounting policy (note 3 (c)).

(2) For financial assets and financial liabilities that were transferred into and out of Level 3 during the period, gains or (losses) are presented as if the assets or liabilities had been transferred into or out of Level 3 as at the beginning of the period.

(3) Amounts represent unrealised gains or (losses) for the period ended 31 December related to assets and liabilities still outstanding at 31 December. The unrealised gains or (losses) are recognised in the statement of comprehensive income as detailed in the financial instruments accounting policy (note 3 (c)).

(4) Net derivative contracts represent trading financial assets – derivative contracts net of trading financial liabilities – derivative contracts.

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

d. Valuation of Level 3 financial assets and liabilities recognised at fair value on a recurring basis

The following disclosures provide information on the sensitivity of fair value measurements to key inputs and assumptions.

1. Quantitative information about and qualitative sensitivity of significant unobservable inputs.

   The following table provides information on the valuation techniques, significant unobservable inputs and their ranges and averages for each material category of assets and liabilities measured at fair value on a recurring basis.

   The level of aggregation and breadth of products cause the range of inputs to be wide and not evenly distributed across the inventory. Further, the range of unobservable inputs may differ across firms in the financial services industry because of diversity in the types of products included in each firm's inventory. The following disclosures also include qualitative information on the sensitivity of the fair value measurements to changes in the significant unobservable inputs. There are no predictable relationships between multiple significant unobservable inputs attributable to a given valuation technique. A single amount is disclosed when there is no significant difference between the minimum, maximum and average (weighted average or similar average / median).

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

d. Valuation of Level 3 financial assets and liabilities recognised at fair value on a recurring basis (continued)

31 December 2020	Fair value €'000	Predominant valuation techniques/ Significant unobservable inputs	Range [2] (Averages)[3]
LIABILITIES			
- Net derivative contracts: [1]			
- Interest rate	(4,540)	Option model	
		Interest rate - Foreign exchange correlation	55% to 59% (mean 56%, median 56%)
		Interest rate - Interest rate curve correlation	46% to 97% (mean 75%, median 75%)
		Net asset value ("NAV")	
		NAV	0% (0%)
- Equity	(36,794)	Option model	
		At the money volatility	9% to 67% (26%)
		Volatility skew	-2% to 0% (-1%)
		Equity – Equity correlation	37% to 95% (71%)
		Equity – Foreign exchange correlation	-72% to 10% (-29%)
Debt and other borrowings:			
- Issued Structured Notes	(413,378)	Option model	
		At the money volatility	14% to 67% (25%)
		Volatility skew	-2% to 0% (-1%)
		Equity – Equity correlation	37% to 93% (64%)
		Equity – Foreign exchange correlation	-72% to 10% (-32%)

(1) Net derivative contracts represent trading financial liabilities – derivative contracts net of trading financial assets – derivative contracts.

(2) The ranges of significant unobservable inputs are represented in percentages.

(3) Amounts represent weighted averages except where simple averages and the median of the inputs are provided when more relevant.

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

d. Valuation of Level 3 financial assets and liabilities recognised at fair value on a recurring basis (continued)

31 December 2019	Fair value €'000	Predominant valuation techniques/ Significant unobservable inputs	Range [(2)] (Averages)[(3)]
ASSETS			
Trade and other receivables:			
- Prepaid equity securities contracts	-	Option model	
		At the money volatility	0% (0%)
LIABILITIES			
- Net derivative contracts: [(1)]			
- Interest rate	1,269	Option model	
		Interest rate - Foreign exchange correlation	55% to 58% (mean 56%, median 56%)
		Interest rate - Interest rate curve correlation	56% to 93% (mean 74%, median 75%)
		Net asset value ("NAV")	
		NAV	100% (100%)
- Equity	(7,656)	Option model	
		At the money volatility	12% to 69% (23%)
		Volatility skew	-2% to 0% (-1%)
		Equity – Equity correlation	30% to 94% (69%)
		Equity – Foreign exchange correlation	-80% to 10% (-29%)
- Foreign exchange	(21)		
- Commodities	-	Option model	
		Quanto correlation	0% to 0% (0%)
Debt and other borrowings:			
- Issued Structured Notes	(404,109)	Option model	
		At the money volatility	12% to 69% (23%)
		Volatility skew	-2% to 0% (-1%)
		Equity – Equity correlation	38% to 93% (67%)
		Equity – Foreign exchange correlation	-51% to 12% (-27%)
		Interest rate - Foreign exchange correlation	55% to 58% (mean 56%, median 56%)
		Interest rate - Interest rate curve correlation	56.1% to 92.5% (mean 74%, median 75%)
		NAV	
		NAV	99% (101%)

(1) Net derivative contracts represent trading financial liabilities – derivative contracts net of trading financial assets – derivative contracts.

(2) The ranges of significant unobservable inputs are represented in percentages.

(3) Amounts represent weighted averages except where simple averages and the median of the inputs are provided when more relevant.

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

d. Valuation of Level 3 financial assets and liabilities recognised at fair value on a recurring basis (continued)

An increase (decrease) to the following inputs would generally result in an impact to the fair value, but the magnitude and direction of the impact would depend on whether the Company is long or short the exposure:

- Correlation: A pricing input where the payoff is driven by more than one underlying risk. Correlation is a measure of the relationship between the movements of two variables (i.e. how the change in one variable influences a change in the other variable).
- Volatility: The measure of the variability in possible returns for an instrument given how much that instrument changes in value over time. Volatility is a pricing input for options, and, generally, the lower the volatility, the less risky the option. The level of volatility used in the valuation of a particular option depends on a number of factors, including the nature of the risk underlying that option, the tenor and the strike price of the option.
- Volatility skew: The measure of the difference in implied volatility for options with identical underliers and expiry dates but with different strikes.
- NAV: A pricing input that is the value of an company's assets minus the value of its liabilities, often in relation to open-end or mutual funds, since shares of such funds registered with the US Securities and Exchange Commission are redeemed at their net asset value. Shares and interests in such funds are not traded between investors, but are issued by the fund to each new investor and redeemed by the fund when an investor withdraws. A fund will issue and redeem shares and interests at a price calculated by reference to the NAV of the fund, with the intention that new investors receive a fair proportion of the fund and redeeming investors receive a fair proportion of the fund's value in cash.

2. Sensitivity of fair values to changing significant assumptions to reasonably possible alternatives.

As detailed in note 2, the valuation of Level 3 financial instruments requires the application of critical accounting judgement, involving estimations and assumptions and it is recognised that there could be a range of reasonably possible alternative values.

The Company has reviewed the unobservable parameters to identify those which would change the fair value measurement significantly if replaced by a reasonably possible alternative assumption.

In estimating the potential variability, the unobservable parameters were varied individually using statistical techniques and historic data. The potential variability estimated is likely to be greater than the actual uncertainty relating to the financial instruments as any diversification effect has been excluded.

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

d. Valuation of Level 3 financial assets and liabilities recognised at fair value on a recurring basis (continued)

The following table presents the potential impact of both favourable and unfavourable changes, both of which would be reflected in the statement of comprehensive income:

	2020		2019[(2)(3)]	
	Favourable changes	**Unfavourable changes**	**Favourable changes**	**Unfavourable changes**
	€'000	**€'000**	**€'000**	**€'000**
Trading financial liabilities:				
Net derivatives contracts[(1)]	941	(3,523)	2,336	(3,296)
Debt and other borrowings:				
Issued Structured Notes	4,052	(2,182)	9,226	(5,908)
	4,993	(5,705)	11,562	(9,204)

(1) Net derivative contracts represent trading financial assets – derivative contracts net of trading financial liabilities – derivative contracts. The reasonably possible alternative assumptions are applied to derivative assets and derivative liabilities separately when assessing potential variability of the fair value measurement.

(2) The decrease in the potential impact of favourable and unfavourable changes compared to the prior year is primarily driven by a decrease in the carrying value of financial assets and financial liabilities classified as Level 3.

(3) The difference between the total favourable and total unfavourable changes is primarily a result of net derivative contracts classified as Level 3 in the fair value hierarchy hedging issued Structured Notes which can be classified as either Level 2 or Level 3 in the fair value hierarchy.

e. 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.

23. 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.

Regarding the CPECs, their carrying value including the accrued yield in 'Trade and other payables', as detailed in note 11, is considered in aggregate as an approximation of their fair value.

24. 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 common equity. The Morgan Stanley Group generally holds Parent common equity for prospective regulatory requirements, organic growth, acquisitions and other capital needs.

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

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

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

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

The Company manages the following items as capital:

	2020 €'000	2019 €'000
Share capital	15,018	15,018
Reserves	14,445	26,422
	29,463	41,440

25. RELATED PARTY DISCLOSURES

Parent and ultimate controlling entity

The Company's immediate parent undertaking is Archimedes Investments Coöperatieve U.A. which is registered in The Netherlands.

The ultimate parent undertaking and controlling entity and the largest group of which the Company is a member and for which group financial statements are prepared is Morgan Stanley. Morgan Stanley 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 plus key business unit management.

Key management personnel compensation comprised the following:

	2020	**2019**
	€'000	**€'000**
Short-term employee benefits	20	23
Post-employment benefits	1	1
Share-based payments	2	2
Other long-term employee benefits	1	2
	24	28

The share-based payment costs disclosed above reflect the amortisation of equity-based awards granted to key management personnel. Key management personnel compensation is borne by other Morgan Stanley Group undertakings in both the current and prior year.

In addition to the above, TMF Management B.V., not in the Morgan Stanley Group, provided key management personnel services to the Company for which a fee of €905,000 was charged for the year (2019: €582,000) and of which €nil was accrued at 31 December 2020 (2019: €nil).

25. 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. All the amounts outstanding as disclosed below are unsecured and will be settled via inter-company mechanisms.

In addition, the management and execution of business strategies on a global basis results in many Morgan Stanley transactions impacting a number of Morgan Stanley Group undertakings. The Morgan Stanley Group operates a number of intra-group policies to ensure that, where possible, revenues and related costs are matched. For the year ended 31 December 2020, a net loss of €2,037,000 (2019: €624,000) was recognised in the statement of comprehensive income arising from such policies.

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. 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.

Other funding

Other funding includes CPECs issued to the Company's direct parent undertaking, Archimedes Investments Coöperatieve U.A.. The specific terms of the related yield are detailed in note 11.

25. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions with related parties (continued)

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 year are shown in the table below:

	2020		2019	
	Interest €'000	Balance €'000	Interest €'000	Balance €'000
Amounts due from the Company's indirect parent undertaking	11,418	1,133,583	10,804	1,133,302
Amounts due from other Morgan Stanley Group undertakings	146	123,725	1,445	352,208
	11,564	1,257,308	12,249	1,485,510
Amounts due to the Company's direct and indirect parent undertakings	8,930	1,131,611	10,770	1,134,175
Amounts due to other Morgan Stanley Group undertakings	116	246	133	16,654
	9,046	1,131,857	10,903	1,150,829

Trading and risk management

The Company issues Structured Notes and hedges the obligations arising from the issuance by entering into prepaid equity securities contracts, 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 as well as the collateral on derivative and prepaid equity securities contracts, reported within 'trade receivables' and 'trade payables', were as follows:

	2020		2019	
	Interest €'000	Balance €'000	Interest €'000	Balance €'000
Amounts due from other Morgan Stanley Group undertakings	1,074	7,163,805	43	7,564,126
Amounts due to other Morgan Stanley Group undertakings	(284)	545,846	(755)	717,931

The Company has received net cash collateral of €95,475,000 from other Morgan Stanley Group undertakings (2019: net received €295,929,000) in order to mitigate credit risk on exposures arising under derivatives contracts and prepaid equity securities contracts between the Company and other Morgan Stanley Group undertakings.

Infrastructure services

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

26. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events since the reporting date.

ADDITIONAL INFORMATION
Year ended 31 December 2020

Independent auditor's report

The independent auditor's report is recorded on the next page.

Statutory rules concerning appropriation of the net result

The Articles of Association of the Company provide that the net result for the year is at the disposition of the General Meeting of Shareholders.

Distribution can only be made to the extent that the Shareholder's equity exceeds the reserves provided for by the Articles of Association. The Board of Directors must grant its approval which it can only withhold in the event that it knows or reasonably should have known that, following the distribution, the Company will not be able to continue with the payments of its debts becoming due and payable in the foreseeable future.

Deloitte.

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Independent auditor's report

To the shareholders of Morgan Stanley B.V.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS 2020 INCLUDED IN THE ANNUAL ACCOUNTS

Our opinion

We have audited the accompanying financial statements 2020 of Morgan Stanley B.V., based in Amsterdam.

In our opinion the accompanying financial statements give a true and fair view of the financial position of Morgan Stanley B.V. as at 31 December 2020 and of its result and its cash flows for 2020 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

1. The statement of financial position as at 31 December 2020.
2. The following statements for 2020: the statements of comprehensive income, changes in equity and cash flows.
3. The notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Morgan Stanley B.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 84,000,000. The materiality is based on 1% of total assets. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

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We agreed with the Audit Committee that misstatements in excess of EUR 1,600,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Audit Committee. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Level 3 financial instruments	
Relevant references in the financial statements	• Note 2 – Basis of Preparation – Critical judgements and key sources of estimation uncertainty • Note 3 – Summary of significant accounting policies – (d) Fair value • Note 22 – Assets and liabilities measured at fair value – (a) (c) (d) (e)
Key audit matter description	Morgan Stanley B.V.'s (the Company) trading and financing activities will at times result in the Company carrying material financial asset and liability positions which are valued at fair value using unobservable inputs, thus having limited price transparency. Under IFRS 13 *Fair Value Measurement*, these financial instruments are classified as Level 3 financial assets or liabilities. The valuation of financial instruments classified as Level 3 are inherently subjective and often involve the use of proprietary valuation models whose underlying algorithms and valuation methodologies are more complex than other financial instruments whose values or inputs are readily observable. This degree of subjectivity may also give rise to potential fraud through management intentionally manipulating fair vales or incorporating management bias in determining fair values. Auditing the Morgan Stanley's valuation of Level 3 financial instruments therefore contains subjectivity and presents certain challenges in evaluating the appropriateness of the valuation judgements and estimates. Significant judgements made include the use of key model inputs which are not observable in the marketplace and the underlying valuation methodologies used by the pricing model to determine an appropriate fair value. Performing our audit procedures to evaluate the appropriateness of these models and inputs involved a high degree of auditor's judgement, professionals with specialised skills and knowledge, and an increased extent of testing.
How the scope of our audit responded to the key audit matter	To address the complexities associated with auditing the value of Level 3 financial instruments, our team included valuation specialists having significant quantitative and modelling expertise to assist in performing our audit procedures.

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	Our valuation audit procedures included the following procedures: - We obtained an understanding and tested Morgan Stanley B.V.'s valuation controls including the: - Model Risk Management control, which is designed to review a model's theoretical soundness and the appropriateness of its valuation methodology and calibration techniques developed by the business units; - Price Verification control, which is designed to review the appropriateness of valuation methodologies to derive model inputs which are not observable and determine whether such methodologies are consistent with how a market participant would arrive at the unobservable input. - We also performed the following procedures on a sample basis in line with our audit methodology: - evaluated management's significant valuation methodologies, including the input assumptions, considering the expected assumptions of other market participants, and external data, when available; - performed a retrospective assessment of management's valuation estimate by comparing such estimate against relevant subsequent transactions; - developed independent valuation estimates, using externally sourced inputs and independent valuation models, and used such estimates to further evaluate management's fair value estimate, by investigating the differences between our estimate and that of Morgan Stanley, including; comparing the fair value estimate with similar transactions; and, evaluating management's assumptions inclusive of the inputs, as applicable; - tested the revenues arising from the trade date valuation estimate for certain structured transactions classified as Level 3 financial instruments. For a selection of such transactions, we developed independent valuation estimates test the valuation inputs and assumptions used by management and evaluated whether the methods were consistent with the relevant Morgan Stanley's valuation policies; - assessed the consistency by which management has applied significant and unobservable valuation assumptions; - performed a retrospective assessment of management's valuation estimates for a sample of financial instrument selections by comparing such estimates to relevant transactions; - assessment of financial statement disclosures related to financial instruments measured at fair value, to include the aspects of this which provide information on the sensitivity of fair value measurements to key inputs and assumptions.
Key observations	Based on our audit procedures performed, we concluded that the valuation of Level 3 financial instruments was appropriate based on the circumstances and in line with the accounting policies of the company.

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REPORT ON THE OTHER INFORMATION INCLUDED IN THE ANNUAL ACCOUNTS

In addition to the financial statements and our auditor's report thereon, the annual accounts contain other information that consists of:

- Directors' Report.
- Directors' Responsibilities Statement.
- Other Information as required by Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements.
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Management Board's Report in accordance with Part 9 of Book 2 of the Dutch Civil Code, and the other information as required by Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Engagement

We were engaged by Audit Committee as auditor of Morgan Stanley B.V. as of the year 2001 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

DESCRIPTION OF RESPONSIBILITIES REGARDING THE FINANCIAL STATEMENTS

Responsibilities of management and the Audit Commitee for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Audit Commitee is responsible for overseeing the company’s financial reporting process

Consideration of fraud in the audit of financial statements

Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

We performed the following procedures:

- We made inquiries of management and those charged with governance regarding the risk of material misstatements in the financial statements due to fraud, their process for identifying and responding to the risk of fraud, the internal communication regarding their views on business practices and ethical behavior and whether they have knowledge of any actual, suspected or alleged fraud affecting the Company.

- We obtained an understanding of how those charged with governance exercise oversight of management’s processes for identifying and responding to the risks of fraud in the Company and the internal control that management has established to mitigate these risks.

- We evaluated whether unusual or unexpected relationships have been identified in performing analytical procedures that may indicate risks of material misstatement due to fraud.

- We held discussions amongst team members to identify fraud risk factors and considered whether other information obtained from our risk assessment procedures indicated risks of material misstatement due to fraud.

- We determined overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level or at the assertion level by:
  - assigning and supervising personnel with the adequate knowledge, skills and ability;
  - evaluating whether the selection and application of accounting policies, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting;
  - testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
  - evaluating whether the judgments and decisions made by management in making the accounting estimates included in the financial statements indicate a possible bias that may represent a risk of material misstatement due to fraud;
  - for significant transactions evaluating whether the business rationale of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.

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Consideration of laws and regulations in the audit of financial statements

We are responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether due to fraud or error taking into account the applicable legal and regulatory framework. However, we are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations. In the context of laws and regulations, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for such reasons as the following:

- There are many laws and regulations, relating principally to the operating aspects of an entity, that typically do not affect the financial statements and are not captured by the entity's information systems relevant to financial reporting.
- Non-compliance may involve conduct designed to conceal it, such as collusion, forgery, deliberate failure to record transactions, management override of controls or intentional misrepresentations being made to the auditor.
- Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

Ordinarily, the further removed non-compliance is from the events and transactions reflected in the financial statements, the less likely the auditor is to become aware of it or to recognize the non-compliance.

We performed the following procedures:

- As part of obtaining an understanding of the Company and its environment we obtained a general understanding of (i) the legal and regulatory framework applicable to the Company and the industry in which it operates and (ii) how the Company is complying with that framework.
- We obtained sufficient appropriate audit evidence regarding provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements such as (corporate) tax and pension laws and financial reporting regulations and the requirements under Part 9 of Book 2 of the Dutch Civil Code.
- Apart from these, the Company is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts and/or disclosures in the financial statements, for instance, through imposing fines of litigation. Given the nature of Company's business and the complexity of laws and regulation, there is a risk of non-compliance with the requirements of such laws of regulations.
- Our procedures are more limited with respect to these laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements. Compliance with these laws and regulations may be fundamental to the operating aspects of the business, to the Company's ability to continue its business, or to avoid material penalties (e.g., compliance with the terms of operating licenses and permits or compliance with environmental regulations) and therefore non-compliance with such laws and regulations may have a material effect on the financial statements. Our responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements.

- Our procedures are limited to (i) inquiry of management and others within the Company as to whether the Company is in compliance with such laws and regulations and (ii) inspecting correspondence, if any, with the relevant licensing or regulatory authorities to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements.

- Naturally, we remained alert to the indications of (suspected) non-compliance throughout the audit.

- Finally, we obtained written representations that all known instances of (suspected) fraud or non-compliance with laws and regulations have been disclosed to us.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

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. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.

- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Audit Commitee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identified during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit Committee, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 26 April 2021

Deloitte Accountants B.V.

Signed on the original: J. Penon