Pillar 3

Regulatory Disclosure (UK)

Morgan Stanley International Limited Group

As at 30 September 2016

1. Morgan Stanley International Limited Group

The principal activity of Morgan Stanley International Limited ("MSI") together with its subsidiaries (the "MSI Group") is the provision of financial services to corporations, governments and financial institutions. There have not been any significant changes in the principal activities during the period.

In accordance with Articles 431(1), 432(2) and 433 of the Capital Requirements Regulation ("CRR") and per European Banking Authority ("EBA") guidelines on materiality, proprietary, confidentiality and frequency of disclosures, it has been deemed appropriate to publish the Pillar 3 disclosure on a quarterly basis in line with the requirements. This is in addition to the annual MSI Group disclosure, which can be accessed at http://www.morganstanley.com/about-us-ir/pillar-uk.

This disclosure is made on a consolidated basis, as permissible by the CRR. The basis of consolidation for prudential purposes is materially the same as consolidation for financial statement purposes. The MSI Group completes its prudential consolidation in compliance with the CRR Part One, Title II Chapter 2, with all entities fully consolidated. The MSI Group's Pillar 3 Disclosures are not required to be, and have not been, audited by the Company's independent registered public accounting firm. This document does not constitute a set of financial statements and does not represent any form of forward looking statement.

The MSI Group has policies and procedures in place to assess the appropriateness of its Pillar 3 disclosures, including their verification. The firm has a comprehensive governance framework in place which includes Board approved policies and defined senior management risk oversight and escalation process. Further details of this can be found in the Annual MSI Group Pillar 3 disclosure.

The most significant subsidiary of the MSI Group is Morgan Stanley & Co. International plc ("MSIP"), the results of which are material to the MSI Group. The risk profile of MSIP is materially the same as the MSI Group and risk management policies and procedures are applied consistently. This disclosure comprehensively conveys the risk profile of the MSI Group and MSIP.

Parent Relationship

The MSI Group's ultimate parent undertaking and controlling entity is Morgan Stanley, a Delaware corporation, which together with its consolidated subsidiaries, form the Morgan Stanley Group. Morgan Stanley is a Financial Holding Company as defined by the Bank Holding Company Act of 1956, as amended, and is subject to regulation by The Board of Governors of the Federal Reserve System (the "Federal Reserve").

The MSI Group is a wholly owned subgroup of the Morgan Stanley Group. Whilst the MSI Group is a material sub-group, the information disclosed in this document is not necessarily indicative of the Morgan Stanley Group as a whole, nor is it comprehensively representative of the Morgan Stanley Group's activity in any particular region. Investors, stakeholders, creditors or other users seeking information on capital adequacy, risk exposure and risk management policies should consult the public disclosures of Morgan Stanley Group.

Details of the latest Morgan Stanley Group Pillar 3 disclosure can be accessed at http://www.morganstanley.com/about-us-ir/pillar-us/content/msdotcom/en/about-us-ir/pillar-us. Morgan Stanley is listed on the New York Stock Exchange and is required, by the US Securities and Exchange Commission ("SEC"), to file public disclosures, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. These disclosures can be found at http://www.morganstanley.com/pub/content/msdotcom/en/about-us-ir/sec-filings.html.

2. Capital Summary

The Basel Capital Accord provides a global regulatory framework for capital and liquidity. This was revised in 2010 following the financial crisis through a number of reforms collectively known as Basel III. The revised Basel Capital Accord has been implemented in the European Union via the Capital Requirements Directive ("CRD") and the CRR (collectively known as "CRDIV"). The framework consists of three pillars:

- Pillar 1 - Minimum capital requirements: defines rules for the calculation of credit, market and operational risk;

- Pillar 2 - Supervisory review process: including a requirement for firms to undertake an Internal Capital Adequacy Assessment Process ("ICAAP");

- Pillar 3 - Market discipline: requires expanded disclosures to allow investors and other market participants to understand capital adequacy, particular risk exposures and risk management processes of individual firms.

The Pillar 3 disclosures are based on Pillar 1 capital requirements. The MSI Group is required to maintain a minimum ratio of Capital Resources, known as Own Funds, to Risk Weighted Assets ("RWAs").

The Firm's Own Funds consist of the following:

- Common Equity Tier 1 ("CET1"), broadly defined as Issued Share Capital plus retained earnings.
- Additional Tier 1.
- Tier 1 Capital is CET1 capital plus Additional Tier 1 Capital.
- Tier 2 Capital is supplementary capital, which includes subordinated debt.

RWAs are firm assets and off balance sheet exposures with a weighting applied to reflect the riskiness of these exposures. The calculation of the minimum ratio is set for each level of Own Funds divided by RWAs.

Table 1 summarises this information. The capital ratios will be supplemented with the following buffers to ensure the firm has sufficient capital to meet minimum requirements:

- Countercyclical Capital Buffer ("CCyB"); was introduced to ensure that excess growth in specific countries has been accounted for and supplements the minimum capital ratios by between 0% and 2.5%. This is required to be met with CET1 capital.

- Capital Conservation Buffer ("CCB"); requires banks to build up a capital buffer that can be utilised to absorb losses during period of stress, whilst remaining compliant with minimum requirements; it must be met with CET1 capital. The phased increase to supplement the minimum capital ratios was introduced from 1 January 2016 at 0.625% of RWAs, with further increments of 0.625% per year, until it reaches 2.5% of RWAs on 1 January 2019.

Table 1: Capital Summary

	MSI GROUP $MM	MSIP $MM
CET1 Capital before Regulatory Adjustments	18,903	15,193
Regulatory Adjustments	(1,661)	(1,190)
CET1 Capital	**17,242**	**14,003**
Additional Tier 1 Capital	1,300	1,300
Tier 1 Capital	**18,542**	**15,303**
Tier 2 Capital before Regulatory Adjustments	6,158	7,906
Tier 2 Capital	**6,158**	**7,906**
Total Own Funds	**24,700**	**23,209**
RWAs	118,473	110,064
CET1 Ratio	14.6%	12.7%
Tier 1 Capital Ratio	15.7%	13.9%
Total Capital Ratio	20.8%	21.1%

Capital Management

The MSI Group views capital as an important source of financial strength. It actively manages and monitors its capital in line with established policies and procedures and in compliance with local regulatory requirements. The MSI Group conducts an Individual Capital Adequacy Assessment Process ("ICAAP") annually in order to meet its obligations under CRDIV. The PRA reviews the MSI Group ICAAP through its Supervisory Review Process ("SREP") and sets an Individual Capital Guidance ("ICG") which establishes the minimum level of regulatory capital for the MSI Group. In addition, the PRA requires a buffer which is available to support the MSI Group in a stressed market environment. MSI Group capital is managed to ensure risk and leverage based requirements assessed through the ICAAP and SREP are met. Internal capital ratio targets are set to ensure the MSI Group and its subsidiaries have sufficient capital to meet their regulatory and internal minimum requirements at all times.

There are no current or foreseen material, practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities among the MSI Group and its subsidiary undertakings.

3. Capital Requirements

The MSI Group calculates Pillar 1 capital requirements in accordance with the CRR as 8% of RWAs. The MSI Group capital requirements as at 30 September 2016 are detailed in Table 2 below:

Table 2: Capital Requirements

	MSI GROUP		MSIP	
	RWA $MM	CAPITAL REQUIREMENT $MM	RWA $MM	CAPITAL REQUIREMENT $MM
Credit and Counterparty Credit Risk	46,366	3,709	43,846	3,508
Market Risk	49,434	3,955	46,663	3,733
Operational Risk	10,060	805	6,551	524
Credit Valuation Adjustment	9,782	783	9,443	755
Large Exposures in the Trading Book	2,815	225	3,545	284
Settlement and Delivery Risk	16	1	16	1
Total	**118,473**	**9,478**	**110,064**	**8,805**

Credit and Counterparty Credit Risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations. Credit and Counterparty Credit capital requirements are derived from RWAs, determined using approved internal modelling approaches – the Foundation Internal Ratings Based approach ("IRB") for credit risk and the Internal Models Method ("IMM") for counterparty risk – as well as the Standardised Approach ("SA").

Market Risk is the risk of loss resulting from adverse changes in market prices and other factors. The Market Risk capital requirements of the MSI Group comprise capital associated with the Internal Modelling Approaches ("IMA") approved by the PRA and those associated with the Standardised Approach.

Operational Risk refers to the risk of loss or damage to Morgan Stanley's reputation, resulting from inadequate or failed processes, people and systems or from external events. This definition includes legal risk, but excludes strategic risk.

Credit Valuation Adjustment ("CVA") is the capital requirement that covers the risk of mark-to-market losses on the counterparty risk of Over-the-Counter ("OTC") derivatives.

Large Exposures in the Trading Book is the capital requirement that covers the risk due to concentrated exposures to a single counterparty or group of connected counterparties.

Trading book positions represent positions held as part of the market-making and underwriting business. These positions reflect assets and liabilities that are accounted for at fair value, and are subject to market risk capital requirements. Non-Trading Book positions, which may be accounted for at amortized cost, lower of cost or market value, or under the equity method, are subject to credit risk capital requirements.

4. Leverage

The Basel III framework introduced a simple, transparent, non-risk based leverage ratio to act as a credible supplementary measure to the risk-based capital requirements. The leverage ratio is expressed as a percentage and calculated as Tier 1 capital divided by total exposure. The total exposure measure is the sum of the exposure values of all assets and off-balance sheet items not already deducted from Tier 1 capital. There is no current binding leverage requirement under the CRR.

The information in the table below has been made in accordance with the EU Delegated Act and is disclosed on a fully phased in basis.

Table 3 : Leverage Ratio

	MSI GROUP $MM	MSIP $MM
Tier 1 Capital	18,542	15,303
Leverage Ratio Exposure	390,448	387,252
Leverage Ratio	**4.7%**	**4.0%**