Morgan Stanley International Group Limited

Pillar 3 Regulatory Disclosures Report

For the Quarterly Period Ended September 30, 2017

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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, financial institutions and individuals. 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, the MSI Group Pillar 3 disclosure is published on a quarterly basis in line with the requirements. This is in addition to the annual MSI Group disclosure which is located at http://www.morganstanley.com/about-us-ir/pillar-uk.

This disclosure is made on a consolidated basis, rather than on an individual basis for each regulated entity, as permissible by the CRR. The basis of consolidation for prudential purposes is 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 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, 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 ("EU") 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.

This document represents the MSI Group quarterly public Pillar 3 qualitative and quantitative disclosures required by CRDIV, as at 30 September 2017.

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 a measure of 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.

Table 1: Capital Summary

	MSI GROUP[1] $MM	MSIP[2] $MM
CET1 Capital before Regulatory Adjustments	20,051	16,986
Regulatory Adjustments	(1,779)	(1,238)
CET1 Capital	**18,272**	**15,748**
Additional Tier 1 Capital	1,300	1,300
Tier 1 Capital	**19,572**	**17,048**
Tier 2 Capital before Regulatory Adjustments	6,808	7,000
Tier 2 Capital	**6,808**	**7,000**
Total Own Funds	**26,379**	**24,048**
RWAs	133,056	126,302
CET1 Ratio	13.7%	12.5%
Tier 1 Capital Ratio	14.7%	13.5%
Total Capital Ratio	19.8%	19.0%
Leverage Ratio Exposure	443,348	438,745
Leverage Ratio	**4.4%**	**3.9%**

1. MSI Groups Own Funds as at 30 June 2017 were $25,117MM, with CET1, Tier 1 and Total Capital Ratios of 12.1%. 13.1% and 18.1% respectively.
2. MSIP's Own Funds as at 30 June 2017 were $22,282MM with CET1, Tier 1 and Total Capital Ratios of 10.2%. 11.2% and 16.3% respectively.

Additional Capital Buffers

The capital requirements have been supplemented with the following additional buffers to ensure the firm has sufficient capital to meet the minimum requirements.

Countercyclical Capital Buffer ("CCyB")

CCyB was introduced to ensure that excess growth in specific countries is accounted for and increases the minimum capital ratios by between 0% and 2.5% and must be met with CET1 Capital. The below table provides details of the applicable CCYB rates as at 30 September 2017.

Table 2: CCyB

COUNTRY	CCYB RATE %	EFFECTIVE FROM	MSI GROUP IMPACT ON CAPITAL RATIO %	MSIP IMPACT ON CAPITAL RATIO %
Czech Republic	0.50%	1-Jan 2017	0.00%	0.00%
Hong Kong	1.25%	1-Jan 2017	0.02%	0.02%
Iceland	1.00%	1-Mar 2017	0.00%	0.00%
Norway	1.50%	30-Jun 2016	0.00%	0.00%
Slovakia	0.50%	1-Aug 2017	0.00%	0.00%
Sweden	2.00%	19-Mar 2017	0.01%	0.01%
Total			**0.04%**	**0.03%**

On 27 June 2017, the Financial Policy Committee ("FPC") increased the UK CCyB rate to 0.5%, with binding effect from 27 June 2018. Further to this on 28 November 2017, the FPC announced the UK CCyB rate will increase to 1.0% with binding effect from 28 November 2018. The rate will be reviewed on a quarterly basis. Were a rate of 0.5% in place at 30 September 2017, the indicative increase to the minimum capital ratio on MSI Group would have been 0.12%. Were a rate of 1.0% in place, the indicative increase would have been 0.25%.

Capital Conservation Buffer ("CCB")

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 and 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. As at 30 September 2017 the CCB is 1.25%.

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") at least 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 minima are set to ensure the MSI Group and its subsidiaries have sufficient capital to meet their regulatory requirements at all times.

Capital Resources ratios for MSI Group and MSIP have increased over the period from 30 June 2017 to 30 September 2017. This is primarily driven by an increase in CET1 Capital, following recognition of 2016 audited P&L and the PRA granting both MSI Group and MSIP permission to include the interim profits for the period beginning 01 January 2017 and ending on 30 June 2017. On 25 September 2017, MSIP also approved the issuance of an additional 1,000,000,000 of ordinary shares to the Company's immediate parent undertaking for total consideration of $1,000,000,000. Both MSI Group and MSIP remain well capitalised and in compliance with the PRA capital requirements as defined by the CRR.

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.

Future Capital Framework - European Financial Regulation Reform

In November 2016, the European Commission published a comprehensive regulatory reform package which aims to continue the reforms that the EU implemented in the wake of the financial crisis. The proposals seek to amend the existing prudential regime (CRR and CRDIV), the Bank Recovery and Resolution Directive and the Single Resolution Mechanism.

These proposals are currently subject to further discussion and negotiation among European policy-makers and it is not possible to anticipate their final content. Based on current estimates, the proposals are expected to be introduced in the EU in 2019 at the earliest, with Member States implementing the new rules in 2020-21.

In light of these developments, there remains uncertainty as to the rules which may apply to the MSI Group post 2019.

UK Referendum

On 23 June 2016, the UK electorate voted to leave the EU. On 29 March 2017, the UK formally invoked Article 50 of the Lisbon Treaty, which triggered a two-year period, subject to extension, during which the UK government is expected to negotiate its withdrawal agreement with the EU. It is difficult to predict the future of the UK's relationship with the EU, which uncertainty may increase the volatility in the global financial markets in the short- and medium-term. Absent any extension, the UK is expected to leave the EU in early 2019. The terms and conditions of the anticipated withdrawal from the EU, and which of the several alternative models of relationship that the UK might ultimately negotiate with the EU, remain uncertain. However, the UK government has stated that the UK will leave the EU single market and will seek a phased period of implementation for the new relationship that may cover the legal and regulatory framework applicable to financial institutions with significant operations in Europe, such as Morgan Stanley. Potential effects of the UK exit from the EU and potential mitigation actions may vary considerably depending on the timing of withdrawal and the nature of any transition or successor arrangements. Any future limitations on providing financial services into the EU from our UK operations could require us to make potentially significant changes to our operations in the UK and Europe and our legal structure there, which could have an adverse effect on our business and financial results.

Forward Looking Disclosure Framework

IFRS 9

The MSI Group will adopt IFRS 9 Financial Instruments standard (including the requirements relating to impairment) on 1 January, 2018, via its application of FRS 101. The impact is not expected to be material to the MSI Group.

Revised Pillar 3 Requirements

EU institutions are facing stronger market pressure to move towards a more harmonized presentation of institutions Pillar 3 disclosures. Through introducing more specific guidance and formats for disclosures through the use of tables and templates, the guidelines represent a significant step towards enhancing the consistency and comparability of institutions' regulatory disclosures in accordance with Part Eight of the CRR. These guidelines supplement existing disclosure requirements in the CRR regarding the general requirements for disclosures, risk management, scope of application, capital requirements, credit risk, counterparty credit risk (CCR), and market risk and came into effect from 1 January 2017, and will be introduced from the 2017 MSI Group annual disclosure.

3. Capital Requirements

The MSI Group calculates Pillar 1 capital requirements as 8% of RWAs in accordance with CRDIV. As at 30 September 2017, the MSI Group and MSIP had the following capital requirements as detailed in Table 3.

Table 3: Capital Requirements

	MSI GROUP		MSIP	
	RWA[1] $MM	CAPITAL REQUIREMENT $MM	RWA[2] $MM	CAPITAL REQUIREMENT $MM
Credit and Counterparty Credit Risk	49,876	3,990	48,487	3,879
Market Risk	56,501	4,520	53,293	4,263
Operational Risk	10,351	828	6,722	538
Credit Valuation Adjustment	9,288	743	9,038	723
Large Exposures in the Trading Book	7,014	561	8,734	699
Settlement and Delivery Risk	26	2	28	2
Total	**133,056**	**10,644**	**126,302**	**10,104**

1. MSI Groups RWA's as at 30 June 2017 were $139,061MM.
2. MSIP RWA's as at 30 June 2017 were $136,782MM.

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 refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio. The Market Risk capital requirements of the MSI Group comprise of 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. Capital requirements for operational risk are currently calculated under the Basic Indicator Approach.

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. It is calculated using a combination of an advanced approach based on using internal modelling approaches and a standardised approach.

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

In determining its overall capital requirement, the Firm classifies its exposures as either "Non-Trading Book" or "Trading Book." Non-Trading Book positions, which may be accounted for at amortized cost, lower of cost or market, fair value or under the equity method, are subject to credit risk capital requirements. Trading Book positions represent positions that the Firm holds as part of its market-making and underwriting businesses. These positions, which reflect assets or liabilities that are accounted for at fair value, and certain Non-Trading Book positions which are subject to both credit risk and market risk charges as well as positions included in Value-at-Risk ("VaR"), are subject to market risk capital requirements. Some Trading Book positions, such as derivatives, are also subject to counterparty credit risk capital requirements. Trading Book and Non-Trading Book definitions used in this document refer to the regulatory view and may differ from the accounting definitions.

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.

Although there is no current binding leverage requirement under CRDIV, the MSI Group manages its risk of excessive leverage through the application of Business Unit leverage exposure limits and leverage ratio early warning trigger levels. Limits are calibrated in line with legal entity capacity and ensure that leverage exposure remains within the MSI Board's risk appetite.

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 4: Leverage Ratio

	MSI GROUP[1] $MM	MSIP[2] $MM
Tier 1 Capital	19,572	17,048
Leverage Ratio Exposure	443,348	438,745
Leverage Ratio	**4.4%**	**3.9%**

1. MSI Groups Leverage Exposure as at 30 June 2017 were $433,103MM, with a Leverage Ratio of 4.2%
2. MSIP's Leverage Exposure as at 30 June 2017 were $429,634MM, with a Leverage Ratio of 3.6%