

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

Interim Financial Disclosure Statements

For the six months ended 30 June 2018

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

INTERIM FINANCIAL DISCLOSURE STATEMENTS

For the six months ended 30 June 2018

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MORGAN STANLEY ASIA INTERNATIONAL LIMITED

INTERIM FINANCIAL DISCLOSURE STATEMENTS

For the six months ended 30 June 2018

The Directors of Morgan Stanley Asia International Limited (the “Company”) hereby announce the unaudited interim financial disclosure statements of the Company for the period ended 30 June 2018. The interim financial disclosure statements are prepared under the Banking (Disclosure) Rules pursuant to Section 60A of the Hong Kong Banking Ordinance.

PRINCIPAL ACTIVITIES

The Company is a restricted licence bank under the Banking Ordinance in Hong Kong, regulated by the Hong Kong Monetary Authority (“HKMA”). It is also a registered institution under the Hong Kong Securities and Futures Ordinance. The Company is a private limited company incorporated in Hong Kong, with a head office in Hong Kong and a branch in Singapore (“Branch”) which is regulated by the Monetary Authority of Singapore (“MAS”).

The principal activities of the Company are to engage in the business of banking including deposit taking and lending. It also acts (a) as agent on behalf of its customers in connection with the provision of general investment, securities and futures dealing, as well as discretionary management and (b) as introducing broker to Morgan Stanley & Co. International plc for the provision of clearance, settlement and custody services in relation to the aforementioned transactions.

The Company’s ultimate parent undertaking and controlling entity is Morgan Stanley which, together with the Company and Morgan Stanley’s other subsidiary undertakings, form the Morgan Stanley Group (the “Morgan Stanley Group”).

REQUIREMENT IN CONNECTION WITH PUBLICATION OF FINANCIAL STATEMENTS

The financial information relating to the year ended 31 December 2017 that is included in the unaudited interim financial disclosure statements for the six months ended 30 June 2018 as comparative information does not constitute the Company’s statutory annual financial statements for the year ended 31 December 2017 but is derived from the audited financial statements for the year ended 31 December 2017. Further information related to the audited financial statements for the year ended 31 December 2017 required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

As the Company is a private company, the Company is not required to deliver its financial statements to the Registrar of Companies, and has not done so.

The Company’s auditor has reported on the audited financial statements for the year ended 31 December 2017. The auditor’s report was unqualified; did not include a reference to any matter to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

INTERIM RESULTS

The half-yearly unaudited profit after tax for the period ended 30 June 2018 was US\$46 million (period ended 30 June 2017: US\$12 million). The revenue of the Company is mainly contributed by fee and commission income relating to equities and fixed income market activities. The increase in the Company’s profit after tax is primarily due to (a) the increase in the volume of transactions which has resulted in higher fees and commissions, and (b) the increase in banking and financing revenue in the period.

Signed on behalf of the Board

Chui, Vincent Yik Chiu
Director

20 September 2018

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

UNAUDITED INCOME STATEMENT For the six months ended 30 June 2018

	Note	For the six months ended 30 June 2018 US\$'000	For the six months ended 30 June 2017 US\$'000
Interest income	2	34,859	12,259
Interest expense	2	(14,935)	(16,856)
Net interest income/ (expense)		19,924	(4,597)
Fee and commission income	3	141,563	108,770
Net trading income/ (losses)		10,184	(74,562)
Net income from other financial assets held at fair value	4	-	80,623
Net gains on derecognition of financial assets at fair value through other comprehensive income ("FVOCI")	5	21	-
Other income		3,044	6,466
Other expenses	6	(120,767)	(102,227)
PROFIT BEFORE INCOME TAX		53,969	14,473
Income tax expense	7	(8,139)	(2,145)
PROFIT FOR THE PERIOD		45,830	12,328

The notes on pages 6 to 34 form an integral part of the financial disclosure statements.

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

UNAUDITED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2018

	For the six months ended 30 June 2018 US\$'000	For the six months ended 30 June 2017 US\$'000
PROFIT FOR THE PERIOD	45,830	12,328
OTHER COMPREHENSIVE INCOME, NET OF TAX		
Items that may be reclassified subsequently to profit or loss:		
Debt instruments at FVOCI:		
Net change in fair value	792	-
Net amount reclassified to income statement	(21)	-
Available-for-sale reserve:		
Net change in fair value	-	(160)
Net amount reclassified to income statement	-	240
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	771	80
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNER OF THE COMPANY	46,601	12,408

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

UNAUDITED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2018

	Share capital US\$'000	FVOCI reserve US\$'000	Available -for-sale reserve US\$'000	Retained earnings US\$'000	Total equity US\$'000
Balance at 1 January 2017	170,000	-	(421)	38,618	208,197
Profit for the year	-	-	-	25,046	25,046
Other comprehensive income for the period					
Available-for-sale reserve:					
Net change in fair value	-	-	(572)	-	(572)
Net amount reclassified to income statement	-	-	297	-	297
Total comprehensive income	<u>-</u>	<u>-</u>	<u>(275)</u>	<u>25,046</u>	<u>24,771</u>
Balance at 31 December 2017 and 1 January 2018	<u>170,000</u>	<u>-</u>	<u>(696)</u>	<u>63,664</u>	<u>232,968</u>
Impact of adoption of new accounting standards	-	(696)	696	-	-
Profit for the period	-	-	-	45,830	45,830
Other comprehensive income for the period					
Debt instruments at FVOCI:					
Net change in fair value	-	792	-	-	792
Net amount reclassified to income statement	-	(21)	-	-	(21)
Total comprehensive income	<u>-</u>	<u>771</u>	<u>-</u>	<u>45,830</u>	<u>46,601</u>
Balance at 30 June 2018	<u><u>170,000</u></u>	<u><u>75</u></u>	<u><u>-</u></u>	<u><u>109,494</u></u>	<u><u>279,569</u></u>

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

UNAUDITED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

		As at 30 June 2018 US\$'000	As at 31 December 2017 US\$'000
	Note		
ASSETS			
Cash and short-term deposits	9	361,093	188,267
Trading financial assets	10	20,656	2,813
Loans and advances to customers	11	1,493,570	1,430,416
Investment securities	12	2,145,859	2,410,435
Trade receivables		52,318	15,314
Other receivables		3,648	3,467
Deferred tax assets		4,025	6,452
Prepayments		116	215
TOTAL ASSETS		<u>4,081,285</u>	<u>4,057,379</u>
LIABILITIES			
Deposits	13	3,696,967	3,686,326
Trading financial liabilities	10	1,419	15,771
Trade payables		24,278	254
Other payables		71,537	119,785
Current tax liabilities		7,093	1,667
Accruals		422	608
TOTAL LIABILITIES		<u>3,801,716</u>	<u>3,824,411</u>
EQUITY			
Share capital		170,000	170,000
FVOCI reserve		75	-
Available-for-sale reserve		-	(696)
Retained earnings		109,494	63,664
Equity attributable to owner of the Company		<u>279,569</u>	<u>232,968</u>
TOTAL EQUITY		<u>279,569</u>	<u>232,968</u>
TOTAL LIABILITIES AND EQUITY		<u>4,081,285</u>	<u>4,057,379</u>

The notes on pages 6 to 34 form an integral part of the financial disclosure statements.

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

NOTES TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2018

1. TRANSITION TO HKFRS 9 AND HKFRS 15

The Company adopted two new standards from 1 January 2018, Hong Kong Financial Reporting Standards (“HKFRS”) 9 and HKFRS 15, which have no impact to retained earnings at the date of adoption.

1.1 HKFRS 9

The following disclosures set out the impact of adopting HKFRS 9 on the statement of financial position and retained earnings, including the effect of replacing Hong Kong Accounting Standard (“HKAS”) 39’s incurred credit loss models with the expected credit loss (“ECL”) framework under HKFRS 9.

1.1.1 HKFRS 9: CLASSIFICATION OF FINANCIAL INSTRUMENTS ON THE DATE OF INITIAL APPLICATION

The following table shows the original measurement categories in accordance with HKAS 39 and the new measurement categories under HKFRS 9 for the Company’s financial assets and financial liabilities as at 1 January 2018.

	Note	Original classification under HKAS 39	New classification under HKFRS 9	Original carrying amount under HKAS 39	New carrying amount under HKFRS 9
				US\$’000	US\$’000
Financial assets					
Cash and short term deposits		Loans and receivables	Financial assets at amortised cost	188,267	188,267
Trading financial assets		Financial instruments classified as fair value through profit or loss (“FVPL”)	FVPL (trading)	2,813	2,813
Loans and advances		Loans and receivables	Financial assets at amortised cost	1,430,416	1,430,416
Investment securities	a	Available-for-sale	FVOCI	2,410,435	2,410,435
Trade receivables		Loans and receivables	Financial assets at amortised cost	15,314	15,314
Other receivables		Loans and receivables	Financial assets at amortised cost	3,467	3,467
Total financial assets				4,050,712	4,050,712

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

NOTES TO THE UNAUDITED FINANCIAL INFORMATION
For the six months ended 30 June 2018

1. TRANSITION TO HKFRS 9 AND HKFRS 15 (CONTINUED)

1.1 HKFRS 9 (CONTINUED)

1.1.1 HKFRS 9: CLASSIFICATION OF FINANCIAL INSTRUMENTS ON THE DATE OF INITIAL APPLICATION (CONTINUED)

	Original classification under HKAS 39	New classification under HKFRS 9	Original carrying amount under HKAS 39	New carrying amount under HKFRS 9
Financial liabilities			US\$'000	US\$'000
Deposits	Financial liabilities at amortised cost	Financial liabilities at amortised cost	3,686,326	3,686,326
Trading financial liabilities	FVPL	FVPL	15,771	15,771
Trade payables	Financial liabilities at amortised cost	Financial liabilities at amortised cost	254	254
Other payables	Financial liabilities at amortised cost	Financial liabilities at amortised cost	119,785	119,785
Total financial liabilities			3,822,136	3,822,136

The application of the Company's accounting policies resulted in the reclassifications set out in the table above and explained below.

- a. The liquidity portfolio was classified as available-for-sale debt under HKAS 39. These instruments are managed within a business model of collecting contractual cash flows and selling financial assets and therefore, on transition to HKFRS 9, are classified as FVOCI.

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

NOTES TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2018

1. TRANSITION TO HKFRS 9 AND HKFRS 15 (CONTINUED) 1.1 HKFRS 9 (CONTINUED) 1.1.1 HKFRS 9: CLASSIFICATION OF FINANCIAL INSTRUMENTS ON THE DATE OF INITIAL APPLICATION (CONTINUED)

The following table reconciles the carrying amounts of financial instruments under HKAS 39 to the carrying amounts of financial instruments under HKFRS 9 on transition to HKFRS 9 on 1 January 2018.

	HKAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	HKFRS 9 carrying amount 1 January 2018
Financial assets	US\$'000	US\$'000	US\$'000	US\$'000
Amortised cost				
Cash and short term deposits	188,267	-	-	188,267
Loans and advances	1,430,416	-	-	1,430,416
Trade receivables	15,314	-	-	15,314
Other receivables	3,467	-	-	3,467
Total amortised cost	1,637,464	-	-	1,637,464
Available-for-sale				
Investment securities:				
To FVOCI	2,410,435	(2,410,435)	-	-
Total available-for-sale	2,410,435	(2,410,435)	-	-
FVOCI				
Investment securities:				
From available-for-sale	-	2,410,435	-	2,410,435
Total FVOCI	-	2,410,435	-	2,410,435
Total FVPL (trading)	2,813	-	-	2,813

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

NOTES TO THE UNAUDITED FINANCIAL INFORMATION
For the six months ended 30 June 2018

1. TRANSITION TO HKFRS 9 AND HKFRS 15 (CONTINUED)
1.1 HKFRS 9 (CONTINUED)
1.1.1 HKFRS 9: CLASSIFICATION OF FINANCIAL INSTRUMENTS ON THE DATE OF INITIAL APPLICATION (CONTINUED)

Financial liabilities	HKAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	HKFRS 9 carrying amount 1 January 2018
	US\$'000	US\$'000	US\$'000	US\$'000
Amortised cost				
Deposits	3,686,326	-	-	3,686,326
Trade payables	254	-	-	254
Other payables	119,785	-	-	119,785
Total amortised cost	3,806,365	-	-	3,806,365
FVPL	15,771	-	-	15,771

The following table analyses the impact, net of tax, of transition to HKFRS 9 on reserves.

	Impact of adopting HKFRS 9 at 1 January 2018
	US\$'000
Available-for-sale reserve	
Closing balance under HKAS 39 (31 December 2017)	(696)
Reclassification of investment securities (debt) from available-for-sale to FVOCI	696
Opening balance under HKFRS 9 (1 January 2018)	-
FVOCI reserve	
Closing balance under HKAS 39 (31 December 2017)	-
Reclassification of investment securities (debt) from available-for-sale to FVOCI	(696)
Opening balance under HKFRS 9 (1 January 2018)	(696)

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

NOTES TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2018

1. TRANSITION TO HKFRS 9 AND HKFRS 15 (CONTINUED)

1.1 HKFRS 9 (CONTINUED)

1.1.2 HKFRS 9: EXPECTED CREDIT LOSSES

The Company had no impairment provisions under HKAS 39 at 31 December 2017 and has no expected credit loss impairment allowance as at 1 January 2018.

1.2 HKFRS 15

At 1 January 2018, the Company adopted HKFRS 15, in accordance with the transition provisions therein. The Company has applied the provisions of HKFRS 15 retrospectively only to contracts that are not completed as at 1 January 2018, the date of initial application. The Company has not retrospectively restated contracts for modifications before the beginning of the earliest period presented, which has no impact on retained earnings. This adoption had the following impact:

	For the six months ended 30 June 2018 US\$'000
Increase in other income	2,996
Increase in other expenses	2,996

2. INTEREST INCOME AND INTEREST EXPENSE

'Interest income' and 'Interest expense' represent total interest income and total interest expense for financial assets and financial liabilities measured at amortised costs and financial assets measured at FVOCI.

No other gains or losses have been recognised in respect of financial assets measured at amortised cost other than as reported as 'Interest income' and foreign exchange differences reported in 'Other expenses'.

No other gains or losses have been recognised in respect of financial liabilities measured at amortised cost other than as reported as 'Interest expense' within the income statement and foreign exchange differences reported in 'Other expenses'.

The table below presents interest income and expense by measurement categories. Interest income and expense is calculated using the effective interest method for financial assets and financial liabilities measured at amortised cost and financial assets measured at FVOCI.

	For the six months ended 30 June 2018 US\$'000	For the six months ended 30 June 2017 US\$'000
Financial asset not measured at FVPL		
Financial assets measured at amortised cost	17,369	-
Financial assets measured at FVOCI	17,490	-
Loans and receivables	-	12,259
Total interest income	34,859	12,259
Financial liabilities measured at amortised cost		
Total interest expense	14,935	16,856

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

NOTES TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2018

3. FEE AND COMMISSION INCOME

	For the six months ended 30 June 2018 US\$'000	For the six months ended 30 June 2017 US\$'000
Sales commissions and fees	141,563	108,759
Other fees	-	11
	<u>141,563</u>	<u>108,770</u>
<i>Of which, revenue from contracts with customers</i>	<i>11,669</i>	<i>N/A</i>

Revenue from contracts with customers

'Revenue from contracts with customers' was introduced by HKFRS 15, for which comparative periods have not been restated. The equivalent figure for the six months ended 30 June 2017 of US\$2,708,000 is presented within 'fee and commission income'.

4. NET INCOME FROM OTHER FINANCIAL ASSETS HELD AT FAIR VALUE

	For the six months ended 30 June 2018 US\$'000	For the six months ended 30 June 2017 US\$'000
Available-for-sale financial assets		
Interest income	N/A	10,517
Foreign exchange revaluation	N/A	70,346
Net fair value losses reclassified from the available-for-sale reserve on disposal of assets	N/A	(240)
	<u>N/A</u>	<u>80,623</u>

The 'Net income from other financial assets held at fair value' is nil from 1 January 2018 with the adoption of HKFRS 9. Upon transition to HKFRS 9, the available-for-sale financial assets are reclassified to financial assets measured at FVOCI. For the six months ended 30 June 2018, the equivalent interest income of US\$17,490,000 is presented in 'Interest income', the equivalent foreign exchange revaluation losses of US\$13,200,000 is presented in 'Other expenses' and the equivalent net fair value gains reclassified from the available-for-sale reserve on disposal of assets of US\$21,000 is presented in 'Net gains on derecognition of financial assets at FVOCI'. The Company has no other non-trading financial assets at FVPL or financial assets designated at FVPL (see note 8).

5. NET GAINS ON DERECOGNITION OF FINANCIAL ASSETS AT FVOCI

The table below summarises the carrying amount of the derecognised financial assets measured at FVOCI and the gain on derecognition.

	For the six months ended 30 June 2018	
	Carrying amount of financial assets sold US\$'000	Gains arising from derecognition US\$'000
Investment securities	<u>647,609</u>	<u>21</u>

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

NOTES TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2018

6. OTHER EXPENSES

	For the six months ended 30 June 2018 US\$'000	For the six months ended 30 June 2017 US\$'000
Staff costs	75,895	68,826
Management charges from other Morgan Stanley Group undertakings	33,383	27,150
Net foreign exchange losses	6,801	-
Other expenses	4,688	6,251
	<u>120,767</u>	<u>102,227</u>

7. INCOME TAX EXPENSE

	For the six months ended 30 June 2018 US\$'000	For the six months ended 30 June 2017 US\$'000
Current income tax		
Hong Kong	4,476	999
Other jurisdictions	1,364	4
Deferred tax expense	2,299	1,142
	<u>8,139</u>	<u>2,145</u>

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

NOTES TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2018

8. FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORY

The following table analyses financial assets and financial liabilities as at 30 June 2018 by HKFRS 9 classifications.

2018	FVPL (trading) US\$'000	FVOCI US\$'000	Amortised cost US\$'000	Total US\$'000
Cash and short-term deposits	-	-	361,093	361,093
Trading financial assets	20,656	-	-	20,656
Loans and advances to customers	-	-	1,493,570	1,493,570
Investment securities	-	2,145,859	-	2,145,859
Trade receivables	-	-	52,318	52,318
Other receivables	-	-	3,648	3,648
Total financial assets	20,656	2,145,859	1,910,629	4,077,144
Deposits	-	-	3,696,967	3,696,967
Trading financial liabilities	1,419	-	-	1,419
Trade payables	-	-	24,278	24,278
Other payables	-	-	71,537	71,537
Total financial liabilities	1,419	-	3,792,782	3,794,201

The following table analyses financial assets and financial liabilities as at 31 December 2017 by HKAS 39 classifications.

2017	FVPL (held for trading) US\$'000	Available -for-Sale US\$'000	Loans and receivables US\$'000	Financial liabilities at amortised cost US\$'000	Total US\$'000
Cash and short-term deposits	-	-	188,267	-	188,267
Trading financial assets	2,813	-	-	-	2,813
Loans and advances to customers	-	-	1,430,416	-	1,430,416
Investment securities	-	2,410,435	-	-	2,410,435
Trade receivables	-	-	15,314	-	15,314
Other receivables	-	-	3,467	-	3,467
Total financial assets	2,813	2,410,435	1,637,464	-	4,050,712
Deposits	-	-	-	3,686,326	3,686,326
Trading financial liabilities	15,771	-	-	-	15,771
Trade payables	-	-	-	254	254
Other payables	-	-	-	119,785	119,785
Total financial liabilities	15,771	-	-	3,806,365	3,822,136

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

NOTES TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2018

9. CASH AND SHORT-TERM DEPOSITS

Included in cash and short-term deposits as at 30 June 2018 is an aggregate sum of US\$7,989,000 (31 December 2017: US\$14,212,000) which is placement with the MAS. There were no placements with banks with residual contract maturity more than one month as at 30 June 2018 and 31 December 2017.

10. TRADING FINANCIAL ASSETS AND LIABILITIES

	Notional Amount US\$'000	As at 30 June 2018 Fair Value	
		Assets	Liabilities
		US\$'000	US\$'000
Derivatives			
Exchange rate swap contracts	1,220,403	20,622	1,419
Interest rate swap contracts	500,000	34	-
	<u>1,720,403</u>	<u>20,656</u>	<u>1,419</u>

	Notional Amount US\$'000	As at 31 December 2017 Fair Value	
		Assets	Liabilities
		US\$'000	US\$'000
Derivatives			
Exchange rate swap contracts	2,179,821	2,522	15,771
Interest rate swap contracts	1,050,000	291	-
	<u>3,229,821</u>	<u>2,813</u>	<u>15,771</u>

The above derivative assets and liabilities are computed at a transaction level and shown on a gross basis with no offsetting presentation due to bilateral netting agreements.

11. LOANS AND ADVANCES TO CUSTOMERS

	As at 30 June 2018 US\$'000	As at 31 December 2017 US\$'000
Loans and advances to customers at amortised cost	<u>1,493,570</u>	<u>1,430,416</u>

There were no impaired loan and advances, collective and specific provisions, as at 30 June 2018 and 31 December 2017.

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

NOTES TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2018

12. INVESTMENT SECURITIES

	As at 30 June 2018 US\$'000	As at 31 December 2017 US\$'000
Investment securities (FVOCI)		
Government debt securities:		
Singapore government treasury bills	673,792	-
US treasury bills and securities	1,472,067	-
Available-for-sale financial assets		
Government debt securities:		
Singapore government treasury bills	-	1,287,352
US treasury bills and securities	-	1,123,083
Total	<u>2,145,859</u>	<u>2,410,435</u>

13. DEPOSITS

	As at 30 June 2018 US\$'000	As at 31 December 2017 US\$'000
Deposits of banks		
Current account balances	1,578	1,734
Deposits of non-bank customers		
Current account balances	2,920,275	2,644,840
Term deposits	325,180	254,478
Deposits of other Morgan Stanley Group undertakings	<u>449,934</u>	<u>785,274</u>
	<u>3,696,967</u>	<u>3,686,326</u>

14. OFF-BALANCE SHEET EXPOSURE OTHER THAN DERIVATIVE TRANSACTIONS

There were no off-balance sheet exposures other than derivative transactions for the period ended 30 June 2018 and 31 December 2017.

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

NOTES TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2018

15. INTERNATIONAL CLAIMS

International claims are on-balance sheet exposures of counterparties based on the location of the counterparties after taking into account any risk transfer. The risk transfers have been made if the claims are guaranteed by a party in a geographical area which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another geographical area.

	Bank US\$'000	Official sector US\$'000	Non-bank private sector		Total US\$'000
			Non-bank financial institutions US\$'000	Non-financial private sector US\$'000	
As at 30 June 2018					
Developed countries	339,222	1,472,067	2,218	3,160	1,816,667
United States	246,243	1,472,067	35	8	1,718,353
Offshore centres	64,887	-	44,390	749,780	859,057
Hong Kong	39,392	-	32,740	482,197	554,329
Developing Asia-Pacific	-	-	247	594,587	594,834

	Bank US\$'000	Official sector US\$'000	Non-bank private sector		Total US\$'000
			Non-bank financial institutions US\$'000	Non-financial private sector US\$'000	
As at 31 December 2017					
Developed countries	150,693	1,121,974	2,850	1,847	1,277,364
United States	36,276	1,121,974	664	-	1,158,914
Offshore centres	39,216	-	19,537	822,813	881,566
Hong Kong	35,376	-	11,120	601,667	648,163
Developing Asia-Pacific	-	-	1	568,319	568,320

16. LOAN AND ADVANCES – SECTOR INFORMATION

	As at 30 June 2018 US\$'000	As at 31 December 2017 US\$'000
Sector classification		
Loans and advances for use in Hong Kong		
Industrial, commercial and financial:		
- Others	462,036	463,374
Individuals		
- Others	136,042	148,296
Loans and advances for use outside Hong Kong	895,492	818,746
Total	1,493,570	1,430,416

The total loans were fully secured by collateral as at 30 June 2018 and 31 December 2017.

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

NOTES TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2018

16. LOAN AND ADVANCES – SECTOR INFORMATION (CONTINUED)

	As at 30 June 2018 US\$'000	As at 31 December 2017 US\$'000
Geographical Areas		
Hong Kong	598,078	611,670
Mainland China	252,220	205,766
Singapore	201,090	176,914
Taiwan	149,720	156,947
Others	292,462	279,119
Total	<u>1,493,570</u>	<u>1,430,416</u>

Loan and Advances are exposures of counterparties based on the location of the counterparties after taking into account any risk transfer. The risk transfers have been made if the claims are guaranteed by a party in a geographical area which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another geographical area.

17. OVERDUE AND RESCHEDULED ASSETS

There were no impaired, overdue or rescheduled assets as at 30 June 2018 and 31 December 2017.

18. MAINLAND ACTIVITIES

Below is a breakdown of the Company's Mainland exposures to non-bank counterparties on the Hong Kong office into the specified categories, in accordance with the numbers reported in the Return of Mainland Activities submitted to the HKMA.

As at 30 June 2018 Type of counterparties	On-balance sheet exposures US\$'000	Off-balance sheet exposures US\$'000	Total US\$'000
Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	39,338	-	39,338
Total	<u>39,338</u>	<u>-</u>	<u>39,338</u>

There were no Mainland exposures on the Hong Kong office of the Company as at 31 December 2017.

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

NOTES TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2018

19. CURRENCY RISK

The currency risk arising from the Company's operation for those individual currencies which each constitutes more than 10% of the total net positions in all foreign currencies are as follows:

	SGD ⁽¹⁾ US\$'000	USD ⁽¹⁾ US\$'000
As at 30 June 2018		
Spot assets	951,420	2,902,629
Spot liabilities	(435,348)	(3,150,196)
Forward purchases	-	751,789
Forward sales	(517,431)	(496,628)
Net (short)/ long position	<u>(1,359)</u>	<u>7,594</u>
	SGD ⁽¹⁾ US\$'000	USD ⁽¹⁾ US\$'000
As at 31 December 2017		
Spot assets	1,474,645	2,548,341
Spot liabilities	(256,869)	(3,438,507)
Forward purchases	-	1,555,596
Forward sales	(1,219,468)	(656,159)
Net (short)/ long position	<u>(1,692)</u>	<u>9,271</u>

(1) Net (short)/ long positions in individual currencies of the Company are reported in gross, i.e. interoffice balances and transactions between the head office in Hong Kong and the Branch are not eliminated.

The Company has no option and structural positions in any particular foreign currency as at 30 June 2018 and 31 December 2017.

20. PILLAR 3 DISCLOSURE

The capital adequacy ratios of the Company were calculated in accordance with Banking (Capital) Rules ("BCR") of the Banking Ordinance. The Company uses the following approaches to calculate its capital charge for:

- (a) credit risk: Standardised (Credit Risk) Approach ("STC approach"); and
- (b) operational risk: Basic Indicator Approach ("BIA approach").

There was no risk-weighted amount ("RWA") for market risk for the Company because the Company was exempted by the HKMA from the calculation of market risk.

Below shows the standard disclosure templates and tables specified by the HKMA in relation to the Pillar 3 disclosure required under the Banking (Disclosure) Rules. Other Pillar 3 templates or tables not disclosed below are either not applicable to the Company or having no reportable amount for the period.

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

NOTES TO THE UNAUDITED FINANCIAL INFORMATION
For the six months ended 30 June 2018

20. PILLAR 3 DISCLOSURE (CONTINUED)

a. Template KM1: Key Prudential Ratios

		As at 30 June 2018	As at 31 March 2018	As at 31 December 2017	As at 30 September 2017	As at 30 June 2017
		USD'000	USD'000	USD'000	USD'000	USD'000
	Regulatory capital (amount)					
1	Common Equity Tier 1 ("CET1")	259,078	232,685	219,236	215,856	209,257
2	Tier 1	259,078	232,685	219,236	215,856	209,257
3	Total capital	266,401	239,638	225,816	223,229	215,526
	RWA (amount)					
4	Total RWA	1,021,646	987,955	954,272	1,024,216	898,241
	Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%)	25%	24%	23%	21%	23%
6	Tier 1 ratio (%)	25%	24%	23%	21%	23%
7	Total capital ratio (%)	26%	24%	24%	22%	24%
	Additional CET1 buffer requirements (as a percentage of RWA)					
8	Capital conservation buffer requirement (%)	1.875%	1.875%	1.250%	1.250%	1.250%
9	Countercyclical capital buffer requirement (%)	0.806%	0.747%	0.528%	0.465%	0.363%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	0%	0%	0%	0%	0%
11	Total Authorised Institution ("AI")-specific CET1 buffer requirements (%)	2.681%	2.622%	1.778%	1.715%	1.613%
12	CET1 available after meeting the AI's minimum capital requirements (%)	18%	16%	16%	14%	16%
	Basel III leverage ratio					
13	Total leverage ratio ("LR") exposure measure	4,071,075	4,423,128	4,049,844	4,705,903	4,742,496
14	LR (%)	6.36%	5.26%	5.41%	4.59%	4.41%
	Liquidity Maintenance Ratio ("LMR")					
17a	LMR (%) (Note b)	52%	53%	52%	61%	60%
	Core Funding Ratio ("CFR")					
20a	CFR (%) (Note b)	262%	291%	Note a	Note a	Note a

Note a: The Company is subject to the CFR requirement with effect from 1 January 2018.

Note b: The LMR and CFR disclosed above represent the arithmetic mean of the average LMR and average CFR of the 3 calendar months within each quarter respectively. The Company is not required, under the Banking (Liquidity) Rules, to calculate Liquidity Coverage Ratio or Net Stable Funding Ratio for its liquidity risk.

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

NOTES TO THE UNAUDITED FINANCIAL INFORMATION
For the six months ended 30 June 2018

20. PILLAR 3 DISCLOSURE (CONTINUED)

b. Template OV1: Overview of risk-weighted amount

		RWA		Minimum capital requirements
		As at 30 June 2018 USD'000	As at 31 March 2018 USD'000	As at 30 June 2018 USD'000
1	Credit risk for non-securitization exposures	581,452	551,650	46,516
2	Of which Standardised (Credit Risk) Approach (“STC approach”)	581,452	551,650	46,516
2a	Of which Basic Approach (“BSC approach”)	-	-	-
3	Of which foundation Internal Ratings-Based (“IRB”) Approach	-	-	-
4	Of which supervisory slotting criteria approach	-	-	-
5	Of which advanced IRB approach	-	-	-
6	Counterparty default risk and default fund contributions (Note)	4,401	4,544	352
7	Of which Standardised Approach for measuring Counterparty Credit Risk (“SA-CCR”)	Not applicable		
7a	Of which Current Exposure Method (“CEM”)	4,401	4,544	352
8	Of which Internal Models (Counterparty Credit Risk) Approach (“IMM(CCR) approach”)	-	-	-
9	Of which others	-	-	-
10	Credit Valuation Adjustment (“CVA”) risk (Note)	2,001	2,066	160
11	Equity positions in banking book under the simple risk-weight method and internal models method	-	-	-
12	Collective investment scheme (“CIS”) exposures – Look-Through Approach (“LTA”)	Not applicable		
13	CIS exposures – Mandate-Based Approach (“MBA”)	Not applicable		
14	CIS exposures – Fall-Back Approach (“FBA”)	Not applicable		
14a	CIS exposures – combination of approaches	Not applicable		
15	Settlement risk	-	-	-
16	Securitization exposures in banking book	-	-	-
17	Of which Securitization Internal Ratings-Based Approach (“SEC-IRBA”)	-	-	-
18	Of which Securitization External Ratings-Based Approach (“SEC-ERBA”)	-	-	-
19	Of which Securitization Standardised Approach (“SEC-SA”)	-	-	-
19a	Of which Securitization Fall-Back Approach (“SEC-FBA”)	-	-	-
20	Market risk	-	-	-
21	Of which Standardised (Market Risk) Approach (“STM approach”)	-	-	-
22	Of which Internal Models Approach (“IMM approach”)	-	-	-
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)	Not applicable		
24	Operational risk	442,898	440,021	35,432
25	Amounts below the thresholds for deduction (subject to 250% Risk-Weight (“RW”))	-	-	-
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	9,106	10,326	728
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	9,106	10,326	728
26c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	-	-	-
27	Total	1,021,646	987,955	81,732

Note: CVA risks as at 30 June 2018 and 31 March 2018 are separately reported under row 10, based on the standard disclosure templates revised by the HKMA.

The disclosure on minimum capital requirement is made by multiplying the Company’s RWA derived from the relevant calculation approach by 8%, not the Company’s actual “regulatory capital”.

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

NOTES TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2018

20. PILLAR 3 DISCLOSURE (CONTINUED)

c. Template CC1: Composition of regulatory capital

As at 30 June 2018		Amount USD'000	Source based on reference numbers of the balance sheet under the regulatory scope of consolidation (Template CC2)
CET1 capital: instruments and reserves			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	170,000	(1)
2	Retained earnings	109,494	(2)
3	Disclosed reserves	75	(3)
4	<i>Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)</i>	Not applicable	Not applicable
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-	
6	CET1 capital before regulatory adjustments	279,569	
CET1 capital: regulatory deductions			
7	Valuation adjustments	37	
8	Goodwill (net of associated deferred tax liabilities)	-	
9	Other intangible assets (net of associated deferred tax liabilities)	-	
10	Deferred tax assets (net of associated deferred tax liabilities)	4,025	(4)
11	Cash flow hedge reserve	-	
12	Excess of total EL amount over total eligible provisions under the IRB approach	-	
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	-	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in CET1 capital instruments	-	
18	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
20	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
22	Amount exceeding the 15% threshold	Not applicable	Not applicable
23	of which: significant investments in the ordinary share of financial sector entities	Not applicable	Not applicable
24	of which: mortgage servicing rights	Not applicable	Not applicable
25	of which: deferred tax assets arising from temporary differences	Not applicable	Not applicable
26	National specific regulatory adjustments applied to CET1 capital	-	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	-	
26b	Regulatory reserve for general banking risks	16,429	
26c	Securitization exposures specified in a notice given by the MA	-	

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

NOTES TO THE UNAUDITED FINANCIAL INFORMATION
For the six months ended 30 June 2018

20. PILLAR 3 DISCLOSURE (CONTINUED)

c. Template CC1: Composition of regulatory capital (continued)

As at 30 June 2018		Amount USD'000	Source based on reference numbers of the balance sheet under the regulatory scope of consolidation (Template CC2)
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-	
26e	Capital shortfall of regulated non-bank subsidiaries	-	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-	
28	Total regulatory deductions to CET1 capital	20,491	
29	CET1 capital	259,078	
AT1 capital: instruments			
30	Qualifying AT1 capital instruments plus any related share premium	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	<i>Capital instruments subject to phase-out arrangements from AT1 capital</i>	-	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-	
35	<i>of which: AT1 capital instruments issued by subsidiaries subject to phase-out arrangements</i>	-	
36	AT1 capital before regulatory deductions	-	
AT1 capital: regulatory deductions			
37	Investments in own AT1 capital instruments	-	
38	Reciprocal cross-holdings in AT1 capital instruments	-	
39	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
41	National specific regulatory adjustments applied to AT1 capital	-	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-	
43	Total regulatory deductions to AT1 capital	-	
44	AT1 capital	-	
45	Tier 1 capital (T1 = CET1 + AT1)	259,078	
Tier 2 capital: instruments and provisions			
46	Qualifying Tier 2 capital instruments plus any related share premium	-	
47	<i>Capital instruments subject to phase-out arrangements from Tier 2 capital</i>	-	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-	
49	<i>of which: capital instruments issued by subsidiaries subject to phase-out arrangements</i>	-	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	7,323	
51	Tier 2 capital before regulatory deductions	7,323	

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

NOTES TO THE UNAUDITED FINANCIAL INFORMATION
For the six months ended 30 June 2018

20. PILLAR 3 DISCLOSURE (CONTINUED)

c. Template CC1: Composition of regulatory capital (continued)

As at 30 June 2018		Amount USD'000	Source based on reference numbers of the balance sheet under the regulatory scope of consolidation (Template CC2)
	Tier 2 capital: regulatory deductions		
52	Investments in own Tier 2 capital instruments	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments	-	
54	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments applied to Tier 2 capital	-	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	-	
57	Total regulatory adjustments to Tier 2 capital	-	
58	Tier 2 capital (T2)	7,323	
59	Total regulatory capital (TC = T1 + T2)	266,401	
60	Total RWA	1,021,646	
	Capital ratios (as a percentage of RWA)		
61	CET1 capital ratio	25%	
62	Tier 1 capital ratio	25%	
63	Total capital ratio	26%	
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)	2.681%	
65	of which: capital conservation buffer requirement	1.875%	
66	of which: bank specific countercyclical capital buffer requirement	0.806%	
67	of which: higher loss absorbency requirement	0%	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	18%	
	National minima (if different from Basel 3 minimum)		
69	National CET1 minimum ratio	Not applicable	Not applicable
70	National Tier 1 minimum ratio	Not applicable	Not applicable
71	National Total capital minimum ratio	Not applicable	Not applicable
	Amounts below the thresholds for deduction (before risk weighting)		
72	Insignificant capital investments in CET1, AT1 and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
74	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

NOTES TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2018

20. PILLAR 3 DISCLOSURE (CONTINUED)

c. Template CC1: Composition of regulatory capital (continued)

As at 30 June 2018		Amount USD'000	Source based on reference numbers of the balance sheet under the regulatory scope of consolidation (Template CC2)
Applicable caps on the inclusion of provisions in Tier 2 capital			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	-	
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	-	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	-	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	<i>Current cap on CET1 capital instruments subject to phase-out arrangements</i>	Not applicable	Not applicable
81	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	Not applicable	Not applicable
82	<i>Current cap on AT1 capital instruments subject to phase-out arrangements</i>	-	
83	<i>Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)</i>	-	
84	<i>Current cap on Tier 2 capital instruments subject to phase-out arrangements</i>	-	
85	<i>Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)</i>	-	

Elements where a more conservative definition has been applied in the BCR relative to that set out in Basel III capital standards are disclosed below in Notes to the Template.

Notes to the Template

Description	Hong Kong basis	Basel III basis
	USD'000	USD'000
10 Deferred tax assets ("DTAs") (net of associated deferred tax liabilities)	4,025	4,025
<u>Explanation</u> As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs of the bank to be realised are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 10 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.		

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

NOTES TO THE UNAUDITED FINANCIAL INFORMATION
For the six months ended 30 June 2018

20. PILLAR 3 DISCLOSURE (CONTINUED)

d. Template CC2: Reconciliation of regulatory capital to balance sheet

As at 30 June 2018	Balance sheet as in published financial disclosure statements (Note) USD'000	Reference to template CC1
Assets		
Cash and short-term deposits	361,093	
Trading financial assets	20,656	
Loans and advances to customers	1,493,570	
Investment securities	2,145,859	
Trade receivables	52,318	
Other receivables	3,648	
Deferred tax assets	4,025	(4)
Prepayments	116	
Total assets	4,081,285	
Liabilities		
Deposits	3,696,967	
Trading financial liabilities	1,419	
Trade payables	24,278	
Other payables	71,537	
Current tax liabilities	7,093	
Accruals	422	
Total liabilities	3,801,716	
Shareholders' equity		
Share capital	170,000	
Of which: amount eligible for CET1	170,000	(1)
FVOCI reserve	75	(3)
Retained earnings	109,494	(2)
Total shareholders' equity	279,569	

Note: The Company's scope of accounting consolidation and its scope of regulatory consolidation are the same.

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

NOTES TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2018

20. PILLAR 3 DISCLOSURE (CONTINUED)

e. Table CCA: Main features of regulatory capital instruments

		Quantitative / qualitative information
1	Issuer	Morgan Stanley Asia International Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Not applicable
3	Governing law(s) of the instrument	Hong Kong Law
	<i>Regulatory treatment</i>	
4	Transitional Basel III rules ¹	Not applicable
5	Post-transitional Basel III rules ²	Common Equity Tier 1
6	Eligible at solo / group / solo and group	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	US\$170 million
9	Par value of instrument	Not applicable
10	Accounting classification	Shareholders' equity
11	Original date of issuance	<ul style="list-style-type: none"> • 1 share issued on May 19, 2014 • 13,000,000 shares issued on July 11, 2014 • 156,999,998 shares issued on January 13, 2015 • 1 share issued on February 9, 2015
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	<i>Coupons / dividends</i>	
17	Fixed or floating dividend / coupon	Floating
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step-up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	No
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	Not applicable

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

NOTES TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2018

20. PILLAR 3 DISCLOSURE (CONTINUED)

e. Table CCA: Main features of regulatory capital instruments (continued)

		Quantitative / qualitative information
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable

Footnote:

1. Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H to the BCR.
2. Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H to the BCR.

Information relating to the disclosure of the full terms and conditions of the Company's capital instruments can be viewed on the website: <http://www.morganstanley.com/about-us/global-offices/hong-kong>.

f. Template CCyB1: Geographical distribution of credit exposures used in countercyclical capital buffer ("CCyB")

Geographical breakdown by Jurisdiction (J)		As at 30 June 2018			
		Applicable JCCyB ratio in effect	RWA used in computation of CCyB ratio	AI-specific CCyB ratio	CCyB amount
		%	USD'000	%	USD'000
1	Hong Kong SAR	1.875%	214,678		
2	United Kingdom	0.500%	1,807		
3	Sum		216,485		
4	Total (Note)		500,660	0.806%	8,234

Note:

The geographical allocation of private sector credit exposures to the various jurisdictions is based on "ultimate risk basis". "Ultimate risk basis" means the allocation of exposures to the jurisdictions where the risk ultimately lies, as defined as the location where the "ultimate obligor" resides.

Total RWA on Row 4 represents total sum of the RWA for private sector credit exposures across all jurisdictions to which the Company is exposed, including jurisdictions with no applicable JCCyB ratio or with applicable JCCyB ratio set at zero.

The CCyB amount as at 30 June 2018 represents the Company's specific CCyB ratio multiplied by the Company's total RWA, instead of the Company's RWA relating to private sector credit exposures (which was the calculation and disclosure basis prior to 30 June 2018). The change in calculation is based on the standard disclosure templates revised by the HKMA following the implementation of the Banking (Disclosure) (Amendment) Rules 2018.

g. Template LR1: Summary comparison of accounting assets against leverage ratio exposure measure

As at 30 June 2018		Value under the LR framework
Item		USD'000
1	Total consolidated assets as per published financial disclosure statements	4,081,285
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	-
4	Adjustments for derivative contracts	10,281
5	Adjustment for securities financing transactions ("SFTs") (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet ("OBS") items (i.e. conversion to credit equivalent amounts of OBS exposures)	-
6a	Adjustment for specific and collective provisions that are allowed to be excluded from exposure measure	-
7	Other adjustments	(20,491)
8	Leverage ratio exposure measure	4,071,075

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

NOTES TO THE UNAUDITED FINANCIAL INFORMATION
For the six months ended 30 June 2018

20. PILLAR 3 DISCLOSURE (CONTINUED)

h. Template LR2: Leverage Ratio

		As at 30 June 2018	As at 31 March 2018
		USD'000	USD'000
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	4,060,629	4,435,147
2	Less: Asset amounts deducted in determining Tier 1 capital	(20,491)	(21,158)
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	4,040,138	4,413,989
Exposures arising from derivative contracts			
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	19,237	50
5	Add-on amounts for PFE associated with all derivative contracts	11,700	9,089
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	-	-
8	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit derivative contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	-	-
11	Total exposures arising from derivative contracts	30,937	9,139
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-	-
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	Total exposures arising from SFTs	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	-	-
18	Less: Adjustments for conversion to credit equivalent amounts	-	-
19	Off-balance sheet items	-	-

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For the six months ended 30 June 2018

20. PILLAR 3 DISCLOSURE (CONTINUED)

h. Template LR2: Leverage Ratio (continued)

		As at 30 June 2018	As at 31 March 2018
		USD'000	USD'000
Capital and total exposures			
20	Tier 1 capital	259,078	232,685
20a	Total exposures before adjustments for specific and collective provisions	4,071,075	4,423,128
20b	Adjustments for specific and collective provisions	-	-
21	Total exposures after adjustments for specific and collective provisions	4,071,075	4,423,128
Leverage ratio			
22	Leverage ratio	6.36%	5.26%

The increase in leverage ratio during the period is mainly due to (a) an increase in Tier 1 capital attributed to the profit retained for the period ended 30 June 2018 and (b) decrease in total on-balance sheet exposures which is driven by decrease in deposits from other Morgan Stanley Group undertakings during the quarter ended 30 June 2018.

i. Template CR1: Credit quality of exposures

		Gross carrying amounts of		Allowances / impairments	Net values
		Defaulted exposures	Non-defaulted exposures		
As at 30 June 2018		USD'000	USD'000	USD'000	USD'000
1	Loans	-	1,497,108	-	1,497,108
2	Debt securities	-	2,145,859	-	2,145,859
3	Off-balance sheet exposures	-	-	-	-
4	Total	-	3,642,967	-	3,642,967

Loans included loans and advances to customers and related accrued interest receivables.

There is no defaulted loans and debt securities as at 30 June 2018 and there is no movement between defaulted and non- defaulted exposures from 1 January 2018 to 30 June 2018.

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20. PILLAR 3 DISCLOSURE (CONTINUED)

j. Template CR3: Overview of recognised credit risk mitigation

		Exposures unsecured: carrying amount⁽¹⁾	Exposures to be secured	Exposures secured by recognised collateral	Exposures secured by recognised guarantees	Exposures secured by recognised credit derivative contracts
As at 30 June 2018		USD'000	USD'000	USD'000	USD'000	USD'000
1	Loans	499,356	997,752	997,752	-	-
2	Debt securities	2,145,859	-	-	-	-
3	Total	2,645,215	997,752	997,752	-	-
4	Of which defaulted	-	-	-	-	-

Loans included loans and advances to customers and related accrued interest receivables.

(1) All exposures arising from loans are fully secured by collateral as at 30 June 2018. Unsecured exposures disclosed in the above table are either because the relevant collateral is not considered as recognised collateral, or the carrying amount of such recognised collateral is subject to standard supervisory haircut in accordance with the Banking (Capital) Rules.

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NOTES TO THE UNAUDITED FINANCIAL INFORMATION
For the six months ended 30 June 2018

20. PILLAR 3 DISCLOSURE (CONTINUED)

k. Template CR4: Credit risk exposures and effects of recognised credit risk mitigation – for STC approach

As at 30 June 2018		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Exposure classes		USD'000	USD'000	USD'000	USD'000	USD'000	%
1	Sovereign exposures	2,153,848	-	2,153,848	-	-	-
2	PSE exposures	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-
4	Bank exposures	403,263	-	403,263	-	80,792	20%
5	Securities firm exposures	3,060	-	2,266	-	1,133	50%
6	Corporate exposures	1,210,221	-	418,050	-	418,050	100%
7	CIS exposures	-	-	-	-	-	-
8	Cash items	-	-	-	-	-	-
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-
10	Regulatory retail exposures	-	-	-	-	-	-
11	Residential mortgage loans	-	-	-	-	-	-
12	Other exposures which are not past due exposures	287,059	-	81,477	-	81,477	100%
13	Past due exposures	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-
15	Total	4,057,451	-	3,058,904	-	581,452	19%

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**NOTES TO THE UNAUDITED FINANCIAL INFORMATION
For the six months ended 30 June 2018**

20. PILLAR 3 DISCLOSURE (CONTINUED)

1. Template CR5: Credit risk exposures by asset classes and by risk weights – for STC approach

		As at 30 June 2018										
Exposure class	Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
		USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
1	Sovereign exposures	2,153,848	-	-	-	-	-	-	-	-	-	2,153,848
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	402,798	-	465	-	-	-	-	-	403,263
5	Securities firm exposures	-	-	-	-	2,266	-	-	-	-	-	2,266
6	Corporate exposures	-	-	-	-	-	-	418,050	-	-	-	418,050
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Cash items	-	-	-	-	-	-	-	-	-	-	-
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-	-	-	-	-	-
10	Regulatory retail exposures	-	-	-	-	-	-	-	-	-	-	-
11	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
12	Other exposures which are not past due exposures	-	-	-	-	-	-	81,477	-	-	-	81,477
13	Past due exposures	-	-	-	-	-	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	Total	2,153,848	-	402,798	-	2,731	-	499,527	-	-	-	3,058,904

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NOTE TO THE UNAUDITED FINANCIAL INFORMATION
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20. PILLAR 3 DISCLOSURE (CONTINUED)

m. Template CCR1: Analysis of counterparty default risk exposures (other than those to CCPs) by approaches

		Replacement cost ("RC")	PFE	Effective EPE	Alpha (α) used for computing default risk exposure	Default risk exposure after CRM	RWA
As at 30 June 2018		USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
1	CEM	19,237	11,700		1	8,802	4,401
2	IMM (CCR) approach			-	-	-	-
3	Simple Approach (for SFTs)					-	-
4	Comprehensive Approach (for SFTs)					-	-
5	Value-at-risk ("VaR") (for SFTs)					-	-
6	Total						4,401

n. Template CCR2: Credit Valuation Adjustment ("CVA") capital charge

		Exposure at default ("EAD") post CRM	RWA
As at 30 June 2018		USD'000	USD'000
	Netting sets for which CVA capital charge is calculated by the advanced CVA method	-	-
1	(i) VaR (after application of multiplication factor if applicable)		-
2	(ii) Stressed VaR (after application of multiplication factor if applicable)		-
3	Netting sets for which CVA capital charge is calculated by the standardised CVA method	8,802	2,001
4	Total	8,802	2,001

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20. PILLAR 3 DISCLOSURE (CONTINUED)

o. Template CCR3: Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach

Exposure class		As at 30 June 2018										
		0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total default risk exposure after CRM
		USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	-	-	8,802	-	-	-	-	-	8,802
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	-	-	-	-	-	-	-	-	-
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Regulatory retail exposures	-	-	-	-	-	-	-	-	-	-	-
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
10	Other exposures which are not past due exposures	-	-	-	-	-	-	-	-	-	-	-
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
12	Total	-	-	-	-	8,802	-	-	-	-	-	8,802

p. Template CCR5: Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs)

	Derivative contracts				SFTs	
	Fair value of recognised collateral received		Fair value of posted collateral		Fair value of recognised collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
As at 30 June 2018	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash - domestic currency	-	22,346	-	-	-	-
Total	-	22,346	-	-	-	-

Domestic currency refers to the reporting currency of the Company.