Morgan Stanley International Limited Group

Pillar 3 Regulatory Disclosure Report

As at 31 December 2023

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1. Overview and Key Metrics

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 MSI Group’s principal activities during 2023 and no significant change is expected.

As at 31 December 2023, Morgan Stanley & Co. International plc (“MSIP”) and Morgan Stanley Europe SE (“MSESE”) are considered large subsidiaries within the MSI Group. MSIP is authorised by the Prudential Regulation Authority (“PRA”) and regulated by the PRA and Financial Conduct Authority (“FCA”). MSESE and the Morgan Stanley Europe Holding SE Group (“MSEHSE Group”), of which MSESE is a subsidiary, are under the direct supervision of the European Central Bank (“ECB”) under the Single Supervisory Mechanism.

The Pillar 3 disclosures as at 31 December 2023 are prepared on the basis of the consolidated situation of the MSI Group. In addition, certain disclosures are required for MSIP and MSESE as large non-listed subsidiaries of MSI Group. MSESE is able to meet its capital requirements by incorporating its subsidiary Morgan Stanley Bank AG (“MSESE Consol”). As a result, MSESE Consol is considered the large subsidiary for disclosure purposes. The detailed large subsidiary disclosure requirements are included in the MSEHSE Group disclosure that is published separately and can be found at https://www.morganstanley.com/about-us-ir/pillar-eu.

Remuneration disclosure requirements are included in this Pillar 3 report, instead of being a separately published Remuneration disclosure.

Directors Responsibility Statement

I confirm that I have taken all reasonable measures to ensure that the information included in this disclosure complies to the best of my knowledge with section 4 of the PRA rulebook on Disclosure (CRR) and has been prepared in accordance with established formal policies and internal processes, systems and control.

Anthony Mullineaux

Chief Financial Officer

Morgan Stanley International Limited

Key Metrics

Table 1a: Key metrics (UK KM1) – MSI Group and MSIP

	$MM MSI Group[1]	a Q4'23	b Q3'23	c Q2'23	d Q1'23	e Q4'22
	Available own funds					
1	Common Equity Tier 1 ("CET1") capital	24,898	24,459	24,550	22,926	23,038
2	Tier 1 ("T1") capital	29,198	28,759	28,850	27,226	27,338
3	Total capital	35,892	35,276	35,591	34,177	35,123
	Risk-weighted exposure amounts					
4	Total risk-weighted exposure amount	155,523	159,040	164,871	163,350	160,504
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	16.01%	15.38%	14.89%	14.04%	14.35%
6	Tier 1 ratio (%)	18.77%	18.08%	17.50%	16.67%	17.03%
7	Total capital ratio (%)	23.08%	22.18%	21.59%	20.92%	21.88%
	Additional own funds requirements based on Supervisory Review and Evaluation Process ("SREP") (as a percentage of risk-weighted exposure amount)					
UK 7a	Additional CET1 SREP requirements (%)	1.68%	1.68%	1.68%	1.68%	1.68%
UK 7b	Additional AT1 SREP requirements (%)	0.56%	0.56%	0.56%	0.56%	0.56%
UK 7c	Additional Tier 2 ("T2") SREP requirements (%)	0.75%	0.75%	0.75%	0.75%	0.75%
UK 7d	Total SREP own funds requirements (%)	10.99%	10.99%	10.99%	10.99%	10.99%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%	2.50%
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-	-	-	-
9	Institution specific countercyclical capital buffer (%)	0.62%	0.55%	0.39%	0.34%	0.32%
UK 9a	Systemic risk buffer (%)	-	-	-	-	-
10	Global Systemically Important Institution buffer (%)	-	-	-	-	-
UK 10a	Other Systemically Important Institution buffer	-	-	-	-	-
11	Combined buffer requirement (%)	3.12%	3.05%	2.89%	2.84%	2.82%
UK 11a	Overall capital requirements (%)	14.11%	14.04%	13.88%	13.83%	13.81%
12	CET1 available after meeting the total SREP own funds requirements (%)	9.83%	9.20%	8.71%	7.85%	8.17%
	Leverage ratio					
13	Total exposure measure excluding claims on central banks	477,649	470,568	463,515	480,781	454,835
14	Leverage ratio excluding claims on central banks (%)	6.11%	6.11%	6.22%	5.66%	6.01%
	Additional leverage ratio disclosure requirements					
14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	6.11%	6.11%	6.22%	5.66%	
14b	Leverage ratio including claims on central banks (%)	5.94%	5.91%	6.00%	5.44%	
	Average total exposure measure including claims on central banks	486,950	490,057	498,524	497,535	
	Average total exposure measure excluding claims on central banks	471,457	472,273	480,132	479,088	
14c	Average leverage ratio excluding claims on central banks (%)	6.15%	6.10%	5.99%	5.70%	
14d	Average leverage ratio including claims on central banks (%)	5.96%	5.88%	5.77%	5.48%	
14e	Countercyclical leverage ratio buffer (%)	0.22%	0.19%	0.14%	0.12%	
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets ("HQLA") (Weighted value - average)	54,419	55,270	55,988	54,640	51,890
UK 16a	Cash outflows - Total weighted value	84,795	84,626	85,210	84,181	83,946
UK 16b	Cash inflows - Total weighted value	55,462	54,604	54,399	54,985	56,905
16	Total net cash outflows (adjusted value)	29,333	30,022	30,811	29,316	27,161
17	Liquidity coverage ratio (%)	186.11%	184.60%	182.12%	188.73%	193.54%
	Net Stable Funding Ratio					
18	Total available stable funding	117,468	114,310	112,644	110,383	110,085
19	Total required stable funding	102,047	98,531	97,293	96,608	95,602
20	NSFR ratio (%)	115.12%	116.05%	115.78%	114.27%	115.16%

1. The MSI Group is required to maintain a minimum ratio of own funds to Risk Weighted Exposure Amounts ("RWAs"). As at 31 December 2023, the MSI Group is in compliance with the PRA capital requirements.

Over the fourth quarter of 2023, MSI Group's capital ratio has increased primarily due to a decrease in RWAs driven by reduction in market risk and an increase in total capital primarily driven by recognition of H1'23 profits. The leverage ratio excluding claims on central banks remained unchanged due to an increase in T1 capital partially offset by an increase in leverage exposure. The average leverage ratio excluding claims on central banks increased by 0.05%, primarily due to a higher T1 capital during the quarter.

$MM MSIP[1]		a Q4'23	b Q3'23	c Q2'23	d Q1'23	e Q4'22
	Available own funds					
1	Common Equity Tier 1 ("CET1") capital	17,498		17,443		17,902
2	Tier 1 ("T1") capital	21,798		21,743		22,202
3	Total capital	26,894		27,626		29,076
	Risk-weighted exposure amounts					
4	Total risk-weighted exposure amount	117,820		126,117		124,739
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	14.85%		13.83%		14.35%
6	Tier 1 ratio (%)	18.50%		17.24%		17.80%
7	Total capital ratio (%)	22.83%		21.91%		23.31%
	Additional own funds requirements based on Supervisory Review and Evaluation Process ("SREP") (as a percentage of risk-weighted exposure amount)					
UK 7a	Additional CET1 SREP requirements (%)	1.65%		1.65%		1.65%
UK 7b	Additional AT1 SREP requirements (%)	0.55%		0.55%		0.55%
UK 7c	Additional Tier 2 ("T2") SREP requirements (%)	0.73%		0.73%		0.73%
UK 7d	Total SREP own funds requirements (%)	10.93%		10.93%		10.93%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	2.50%		2.50%		2.50%
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-		-		-
9	Institution specific countercyclical capital buffer (%)	0.62%		0.36%		0.33%
UK 9a	Systemic risk buffer (%)	-		-		-
10	Global Systemically Important Institution buffer (%)	-		-		-
UK 10a	Other Systemically Important Institution buffer	-		-		-
11	Combined buffer requirement (%)	3.12%		2.86%		2.83%
UK 11a	Overall capital requirements (%)	14.05%		13.79%		13.76%
12	CET1 available after meeting the total SREP own funds requirements (%)	8.70%		7.68%		8.20%
	Leverage ratio					
13	Total exposure measure excluding claims on central banks	422,844	429,609	424,455	440,032	416,138
14	Leverage ratio excluding claims on central banks (%)	5.16%	5.07%	5.12%	5.03%	5.34%
	Additional leverage ratio disclosure requirements					
14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	5.16%	5.07%	5.12%	5.03%	
14b	Leverage ratio including claims on central banks (%)	5.12%	5.04%	5.08%	4.97%	
	Average total exposure measure including claims on central banks	423,685	435,546	444,496	443,251	
	Average total exposure measure excluding claims on central banks	420,626	432,033	440,419	438,892	
14c	Average leverage ratio excluding claims on central banks (%)	5.18%	5.04%	5.00%	5.05%	
14d	Average leverage ratio including claims on central banks (%)	5.14%	5.00%	4.96%	5.00%	
14e	Countercyclical leverage ratio buffer (%)	0.22%	0.19%	0.13%	0.12%	
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets ("HQLA") (Weighted value - average)	41,207		42,999		41,800
UK 16a	Cash outflows - Total weighted value	74,988		76,156		77,931
UK 16b	Cash inflows - Total weighted value	53,665		52,649		55,296
16	Total net cash outflows (adjusted value)	21,491		23,588		22,818
17	Liquidity coverage ratio (%)	192.82%		183.37%		184.05%
	Net Stable Funding Ratio					
18	Total available stable funding	100,521		96,166		
19	Total required stable funding	91,809		87,184		
20	NSFR ratio (%)	109.49%		110.29%		

1. MSIP is required to maintain a minimum ratio of own funds to RWAs. As at 31 December 2023, MSIP is in compliance with the PRA capital requirements.

Over the second half of 2023 MSIP's capital ratio increased primarily due to a decrease in RWAs due to a reduction in market risk partially offset by decrease in total capital primarily due to T2 refinancing and dividends paid. The leverage ratio excluding claims on central banks increased by 0.09% primarily due to a decrease in leverage exposure. The average leverage ratio excluding claims on central banks increased by 0.14% due to a lower leverage exposure during the quarter.

Table 1b: Key metrics (EU KM1) - MSESE Consol		
$MM[1]		a
MSESE Consol		Q4'23
	Available own funds (amounts)	
1	Common Equity Tier 1 (CET1) capital	6,636
2	Tier 1 capital	7,743
3	Total capital	8,849
	Risk-weighted exposure amounts	
4	Total risk exposure amount	29,946
	Capital ratios (as a percentage of risk-weighted exposure amount)	
5	Common Equity Tier 1 ratio (%)	22.16%
6	Tier 1 ratio (%)	25.86%
7	Total capital ratio (%)	29.55%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)	
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	2.75%
EU 7b	of which: to be made up of CET1 capital (percentage points)	1.55%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	2.06%
EU 7d	Total SREP own funds requirements (%)	10.75%
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)	
8	Capital conservation buffer (%)	2.50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-
9	Institution specific countercyclical capital buffer (%)	0.71%
EU 9a	Systemic risk buffer (%)	-
10	Global Systemically Important Institution buffer (%)	-
EU 10a	Other Systemically Important Institution buffer (%)	-
11	Combined buffer requirement (%)	3.21%
EU 11a	Overall capital requirements (%)	13.96%
12	CET1 available after meeting the total SREP own funds requirements (%)	15.30%
	Leverage ratio	
13	Total exposure measure	97,871
14	Leverage ratio (%)	7.91%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)	
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	-
EU 14b	of which: to be made up of CET1 capital (percentage points)	-
EU 14c	Total SREP leverage ratio requirements (%)	3.00%
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)	
EU 14d	Leverage ratio buffer requirement (%)	-
EU 14e	Overall leverage ratio requirement (%)	3.00%
	Liquidity Coverage Ratio	
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	15,780
EU 16a	Cash outflows - Total weighted value	25,686
EU 16b	Cash inflows - Total weighted value	14,327
16	Total net cash outflows (adjusted value)	11,359
17	Liquidity coverage ratio (%)	140.00%
	Net Stable Funding Ratio	
18	Total available stable funding	12,461
19	Total required stable funding	5,867
20	NSFR ratio (%)	212.38%

1. All values are based on local regulatory rules and converted from Euro ("EUR") into U.S. Dollars ("USD") using the month end Foreign Exchange ("FX") spot rate of 1.10640.

Morgan Stanley Group

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 and oversight of the Board of Governors of the Federal Reserve System.

The MSI Group is a wholly owned sub-group 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, liquidity, 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. Details of the latest Morgan Stanley Group Liquidity Coverage Ratio ("LCR") disclosure can be accessed at https://www.morganstanley.com/about-us-ir/lcr-disclosures-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 10-K Report and Quarterly 10-Q Report. These can be accessed at https://www.morganstanley.com/about-us-ir/sec-filings.

Additional Regulatory Supervision

As a provider of services to global clients, MSIP and MSESE, are conditionally registered with the SEC as a Securities-Based Swap Dealer ("SBSD"). Both MSIP and MSESE are complying with home country capital requirements in lieu of SEC capital requirements pursuant to applicable substituted compliance rules.

MSIP, MSESE and Morgan Stanley Bank International Limited ("MSBIL"), a non-material subsidiary of the MSI Group, are also registered with the Commodity Futures Trading Commission ("CFTC") as a Swap Dealer. The CFTC are developing specific requirements to allow registered non-bank swap dealers to meet CFTC capital requirements by reference to local prudential standards. A draft proposal for Germany and the United Kingdom ("UK") has been published. Until those rules are finalised, pursuant to interim no-action relief, the entities are currently complying with home-country capital requirements in lieu of CFTC capital requirements.

These swap dealer registrations provide a comprehensive regulatory framework applicable to the MSI Group's US-related swap and security-based swap dealer activities.

War and increased tensions in the Middle East

The MSI Group is monitoring the war and increased tensions in the Middle East and its impact on the regional economy, as well as on other world economies and the financial markets.

2. Regulatory Frameworks

2.1 Regulatory Overview

The Basel Committee on Banking Supervision ("BCBS") sets the Standard for international banking prudential regulation in a series of accords ("Basel Accords"). It is a forum for regular cooperation on the supervision of the banking system and is made up of national banks and supervisory authorities from 28 countries. The Basel Accords are not directly applicable legislation, and they apply only to internationally active banks. The Basel Accords have been updated a number of times, most recently through a series of reforms known collectively as Basel III. The Basel Accords are implemented in the UK via the PRA Rulebook including retained European Union ("EU") Law under the European Union (Withdrawal) Act 2018.

The Basel Accords are implemented in the EU through the Capital Requirements Regulation ("CRR") and the Capital Requirements Directive ("CRD") as well as standards issued by the European Banking Authority ("EBA") and the ECB. These regulations and technical standards continue to be relevant for EU subsidiaries of the MSI Group.

The framework consists of three "Pillars":

- Pillar 1 – Minimum capital and liquidity requirements: defines rules for the calculation of credit, market, operational and liquidity risk.
- Pillar 2 – Supervisory review process: including a requirement for firms to undertake an Internal Capital Adequacy Assessment Process ("ICAAP") and Internal Liquidity Adequacy Assessment Process ("ILAAP").
- Pillar 3 – Market discipline: requires expanded disclosures to allow investors and other market participants to understand capital and liquidity adequacy, particular risk exposures and risk management processes of individual firms.

This document represents the annual public Pillar 3 qualitative and quantitative disclosures in relation to the MSI Group, as at 31 December 2023.

Pillar 3 Disclosures

MSI Group Pillar 3 disclosures are prepared in accordance with the requirements of section 4 of the PRA Rulebook on Disclosure (CRR) applicable to CRR firms.

Investment Firm Regulation/Directive

In the UK, the FCA introduced the Investment Firms Prudential Regime ("IFPR") with effect from 1 January 2022, with requirements set out in the Prudential Sourcebook for MiFID Investment Firms ("MIFIDPRU"). The IFPR introduced a tailored capital adequacy and liquidity framework for UK investment firms, based on their size and type of business activity, and made changes to governance and remuneration requirements.

Morgan Stanley Investment Management Limited ("MSIM"), a non-material subsidiary of the MSI Group, is classified as a Markets in Financial Instruments Directive ("MiFID") Investment firm and is subject to MIFIDPRU. MSIM is required to also produce a stand-alone Pillar 3 disclosure. The disclosure is published separately and can be found at https://www.morganstanley.com/about-us-ir/subsidiaries.

In the EU, the Investment Firm Regulation ("IFR") and Investment Firm Directive ("IFD") were implemented with effect from 26 June 2021. Large systemic investment firms remain subject to existing requirements based on the CRR and CRD, whilst the new regime applies to other investment firms. This regime is largely consistent with that of the UK's IFPR.

Morgan Stanley France S.A, Paris, France ("MSF") and its parent entities Morgan Stanley France Holdings I S.A.S ("MSFH I") and Morgan Stanley France Holdings II S.A.S ("MSFH II"), which are subsidiaries of MSEHSE, are subject to supervision by the Autorité de Contrôle Prudentiel et de Résolution ("ACPR"). As a Class 2 non-systemic investment firm, MSF falls under the scope of the IFR. MSFH I on a consolidated basis, and MSF on a solo basis, prepare their own Pillar 3 disclosure report in accordance with the IFR rules. The latest report can be accessed at https://www.morganstanley.com/about-us/global-offices/europe-middle-east-africa/france.

2.2 Regulatory Development of Prudential Requirements

Finalising Basel III reforms

There are a number of remaining standards of the Basel III reform package (referred to as “Finalisation of Basel III”) that are yet to be implemented. These revisions cover RWA requirements for credit, market, Credit Valuation Adjustments ("CVA") and operational risk.

The PRA issued their draft rules to implement these final standards, which are referred to as Basel 3.1, for consultation on 30 November 2022. Near final rules were published on 12 December 2023 with a further publication expected later in the first half of 2024.

These rules are expected to be effective from 1 July 2025. The proposed rules are largely consistent with the Basel III reform package with some adjustments to address UK specificities. Pending the publication of the final rules, there remains some uncertainty as to the final requirements and overall impact.

The same uncertainty on final requirements and timing exists in the EU, where the European Commission published draft rules in October 2021 that are expected to be effective from 1 January 2025.

3. Risk Management

3.1 Overview

The quantitative disclosures in this document are calculated with reference to regulatory methodologies set out in the PRA Rulebook including the onshored EU CRR (“PRA Rulebook”) and are not necessarily the primary exposure measures used for risk management.

The business strategy defines the MSI Group’s business model, which in turn drives the risk strategy and the consequent risk profile of the MSI Group. The business strategy and risk strategy are considered and aligned as part of the annual strategic review, or more frequently if necessary.

3.2 Risk Management Framework

Risk taking is an inherent part of the MSI Group’s business activities and effective risk management is vital to the success of the MSI Group. The MSI Group has established a Risk Management Framework which encompasses the risk management culture, risk governance, approach and practices that support risk identification, measurement, monitoring, escalation, and decision-making processes. This chapter covers the core components of the Framework.

Three Lines of Defence Framework

The MSI Group operates a “Three Lines of Defence” framework to create a clear delineation of responsibilities between risk owners and independent risk control functions with a view to addressing potential conflicts of interest. The functions responsible for carrying out the activities across the Three Lines of Defence are summarised below.

- **First Line of Defence:** Business Units are responsible for managing their strategy and business activities in accordance with the MSI Group's Risk Appetite and Risk Management Framework. Support functions are independent of the Business Units and support strategy execution of MSI Group’s revenue-generating activities.
- **Second Line of Defence:** Independent Risk Management and Control Functions identify, measure, monitor and control risks. Independent Risk Management and Control Functions include, for example, functions performed by the Europe, Middle East and Africa ("EMEA") Risk Division, EMEA Compliance Department (including Financial Crimes), EMEA Operational Risk Department, and Product and Valuation Control (part of Finance Division).
    - EMEA Risk Division: The EMEA Chief Risk Officer (“Head of Risk Management”/"EMEA CRO") leads, manages and oversees the EMEA Risk Division and is a member of the MSI Board. The EMEA Risk Division is responsible for the independent identification, analysis, monitoring, reporting, challenge and escalation of all market, credit and liquidity risk exposures arising from MSI Group and EMEA business activities. The EMEA CRO has overall responsibility for the Enterprise Risk Management Framework applicable to the MSI Group which includes development of risk appetite, oversight of relevant risks reflected in the Risk Appetite Statement ("RAS") and monitoring and reporting of risks in line with agreed appetite to relevant Boards. The EMEA CRO is assisted by governance across first and second line functions to discharge this responsibility.
    - EMEA Second-Line Non-Financial Risk Organisation: The Compliance Department, the Global Financial Crimes Department and the Operational Risk Department are combined into a single Non-Financial Risk Organisation to provide comprehensive and consistent coverage of non-financial risk. EMEA Second-Line Non-Financial Risk provides independent oversight and challenge of Non-Financial Risk Management and is responsible for identifying, measuring and monitoring non-financial risks.
    - Other Independent Control Functions: Finance Control and Assurance Functions determine whether the conceptual framework, governance, measurement and monitoring systems and controls are appropriate for the MSI Group's size, complexity and business activities. The primary EMEA Finance Control and Assurance Functions include EMEA Product Control, EMEA Valuation Control and EMEA Regulatory Reporting Quality Assurance Group.

- **Third Line of Defence:** The EMEA Internal Audit Department ("IAD") reports to the MSI Audit Committee and is independent of the Business Units, Support functions and Risk Management. IAD provides independent assurance on the design quality and operating effectiveness of the MSI Group's internal control environment, risk management and governance systems, and control processes using a risk-based audit coverage model and audit execution methodology developed in line with professional auditing standards.

During 2023, the departments of Global Financial Crimes, Compliance and Operational Risk were organised within a single second line Non-Financial Risk Framework. There were no changes to the EMEA Heads of Risk Management, Compliance and the Internal Audit Department during 2023; however with effect from 18th January 2024, the EMEA Head of Compliance changed.

Risk Policies and Processes

Morgan Stanley has several well-established policies and procedures which set out the standards that govern the identification, measurement, monitoring, management and escalation of the various types of risk involved in its business activities.

The MSI Group has implemented specific risk management policies to address local business and regulatory requirements where appropriate. These policies are approved by the MSI Board and reviewed at least annually.

Risk Culture

MSI Group's risk management culture is rooted in the following key principles: integrity, comprehensiveness, independence, accountability, and transparency.

The MSI Group has a risk culture that encourages open dialogue, effective challenge, escalation and appropriate reporting of risk to senior management, the MSI Risk Committee, the MSI Board and the MSI Group's regulators, as well as external disclosures of risk matters. Developing the MSI Group's risk culture is a continuous process and builds upon Morgan Stanley's commitment to its values, including "Do the Right Thing", which make managing risk each employee's responsibility. Senior management promotes the MSI Group's risk culture, which enables individuals across the organisation to make appropriate risk decisions. The MSI Group's RAS is embedded in the MSI Group's risk culture and is linked to its short-term and long-term strategic, capital and financial plans, as well as compensation programmes.

The EMEA Compliance Department maintains an enterprise-wide, independent Compliance Risk Management Programme as detailed in the Global Compliance Policy. The EMEA Compliance Department is responsible for:

- Promoting a strong culture of compliance;
- Defining an operating model and setting standards for Compliance Risk Management;
- Identifying, assessing, addressing and reporting on Compliance Risks;
- Maintaining a risk-based programme for monitoring, testing and challenge of Compliance Risk management by the first line of defence across the MSI Group;
- Providing advice, guidance (including Compliance policies and, where appropriate, procedures) and training concerning the laws, regulations and policies;
- Managing Morgan Stanley's Compliance Risk reporting framework;
- Reviewing new products and business initiatives to assess Compliance Risks as part of the New Product Approval process; and
- Supporting and facilitating the framework for managing significant communications with regulators and regulatory relationships maintained by the EMEA Regulatory Relations Group.

This is reinforced by the Code of Conduct which sets out the high standards of conduct and ethical behaviour expected from all employees.

The EMEA Compliance Department is also responsible for the design and development of an EMEA Conduct Risk Framework and for the execution of compliance related responsibilities as set out in the EMEA and MSI Group Conduct Risk Management Supplement, which is a supplement to the Global Conduct Risk Management Policy.

Risk Identification, Risk Appetite and Risk Limits/Tolerances

Risk Identification

The process of Risk Identification is performed on a continuous basis as a part of the day-to-day activities of the EMEA Business Units and the EMEA Independent Risk Management and Control Functions including the EMEA Risk Division, and the EMEA Non-Financial Risk Organisation. A number of risk management processes, such as regular risk reviews and stress testing, are conducted to identify business model vulnerabilities, review market events and regulations and support the continuous assessment process for risk identification.

As a part of these processes, the MSI Group identifies all potential material risks related to the MSI Group's business activities. The collection of risks identified through this process are assessed for capital and liquidity adequacy as part of the MSI Group's ICAAP and ILAAP, and form an integral part of the development of the MSI Group RAS.

The following risk types involved in MSI Group's business activities are currently considered material as determined through the Risk Identification Framework:

- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk
- Leverage Risk
- Valuation Risk
- Earnings at Risk/Strategic Risk
- Model Risk
- Compliance Risk
- Conduct Risk
- Reputational Risk

Climate change is a driver of existing risks and is managed within the MSI Group's existing Risk Appetite. For further detail, refer to Chapter 15 Climate and Environmental Risk.

The MSI Board has established frameworks to identify, analyse, monitor, mitigate and report these risks. The frameworks for Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Leverage Risk and Valuation Risk are described in further detail in the respective chapters of this document.

A summary of other material risks is outlined below:

- **Earnings at Risk/Strategic Risk** are defined as risks to baseline earnings stability that are generally manifested over a longer time horizon rather than an instantaneous market shock. Risk can arise from a decline in key revenue generators, significant loss of customer base, reduced standing amongst competitors, macroeconomic stress conditions, idiosyncratic or industry-wide factors, significant changes to expected expenses, transfer pricing impacts and shifting of business/product mix. This includes risks to Net Revenue, Net Interest Income ("NII"), Non-Interest Income, Non-Interest Expense and Balance Sheet that are impacted by more than just Market Risks and Credit Risks.
- **Model Risk** is the potential for adverse consequences from decisions based on incorrect or misused model outputs. Model Risk can lead to financial loss, poor business and strategic decision-making, or damage to Morgan Stanley's reputation.
- **Compliance Risk** is defined as the risk of legal or regulatory sanctions, material financial loss or damage to reputation resulting from the failure to comply with laws, rules, regulations, related self-regulatory organisation standards and codes of conduct applicable to MSI Group activities.
- **Conduct Risk** is defined as the risk arising from misconduct by individual employees or contingent workers (collectively, "Covered Persons") or groups of Covered Persons, or the risk arising from conduct by the Morgan Stanley Group where the outcome has an adverse impact on clients or markets.

- **Reputational Risk** (also referred to as Franchise Risk), describes the potential risks associated with the way in which the MSI Group conducts its business and the perception of the MSI Group by external parties including shareholders, clients, regulators and the public. Reputational risks may be triggered by either the nature of the transaction (e.g., unusual complexity or novel issues) or business practice (e.g., a transaction without appropriate economic substance or business purpose) or by the identity or reputation of the client or counterparty (e.g., a client linked to alleged corruption or other improper activities).

Risk Appetite

The MSI Group’s RAS articulates the aggregate level and types of risk that the MSI Group is willing to accept in order to execute its business strategy and protect its capital and liquidity resources. The MSI Group’s Risk Appetite is set by the MSI Board in conjunction with its business strategy and in consideration of its capital & liquidity resource adequacy framework.

The RAS includes risks that have both qualitative and quantitative elements such as Market, Credit, Operational and Liquidity Risk, and risks that are qualitative across risk types including Reputational, Conduct and Model Risk. The combination of qualitative Risk Appetite and Tolerance Statements and quantitative limits aims to ensure that MSI Group’s businesses are carried out in line with the Risk Appetite approved by the MSI Board, and to protect Morgan Stanley Group’s reputation in both normal and stressed environments.

Where appropriate, RAS' are created for the legal entities within the MSI Group. These undergo review alongside the MSI Group’s RAS and are reviewed, recommended and approved by the MSI Risk Committee, as appropriate, to the individual entity’s boards for approval, at least annually. The entity’s RAS' are aligned to the MSI Group’s RAS taking into account the entity’s business model and individual regulatory requirements.

Key ratios and figures are provided in UK KM1 and UK OV1, as well as the risk type specific chapters.

Risk Limits/Tolerances

The Risk Appetite of the MSI Group is translated into a comprehensive set of risk limits and tolerances. The MSI Group limits and tolerance framework mostly covers limits and tolerances across Credit Risk, Market Risk, Operational Risk, and Liquidity Risk, each at different granularity levels to manage risk taking in line with Risk Appetite. These limits and tolerance frameworks are approved and monitored by the Boards, the MSI Risk Committee, the EMEA Risk Committee ("ERC"), and the Independent Risk Management and Control Functions.

The MSI Group employs integrated risk stress tests that set the boundary for risk-taking activities relative to the MSI Group’s Risk Capital Resource Capacity by defining a set of limits. The MSI Board owns and approves the Macroeconomic Stress Loss Limit and the Climate Stress Loss Limit (“CSLL”). Macroeconomic and climate-related scenarios are used to monitor stress losses against the Stress Loss Limits. The potential impact of climate-related risks on Credit and Market Risk is assessed through a specific transition risk/carbon repricing scenario and managed via the CSLL.

Once established, risk limits are reviewed and updated on an annual basis at a minimum, with more frequent updates as necessary.

Figure 1 outlines the MSI Group's Risk Limit Framework for specific risk areas.

Figure 1: MSI Group Limit Framework

	MARKET RISK	CREDIT RISK	OPERATIONAL RISK	LIQUIDITY RISK
RISK METRICS AND LIMITS	• MSI Board-level portfolio Climate Stress Loss Limit • MSI Board-level Macroeconomic Scenario Loss limits • Legal entity and Division Value at Risk ("VaR") and exposure • Granular risk exposure limits are allocated by desk/ products	• MSI Group single name, country and industry credit limits • Climate Risk Industry Limits • Granular product limits for certain business areas • Stress-based counterparty risk limits	• Quantitative tolerances for each Top Operational Risk ("TOR") and against an aggregate risk tolerance level	• MSI Board Liquidity and Funding Limits • Portfolio level Liquidity and Funding Limits • Granular business area/ product specific limits on liquidity and funding

Stress Testing

Stress testing is one of the MSI Group's principal risk management tools, used to identify and assess the impact of severe stresses on its portfolios. It provides a flexible approach to understanding the aggregate risk for the MSI Group and assessing the MSI Group's resilience to different scenarios over a range of severities; additionally, it informs a number of processes and associated decisions. Stress testing also complements other MSI Group risk metrics by providing a clear and flexible approach to assessing the MSI Group's resilience in the face of various scenarios over a range of severities, relevant to current market conditions and forward-looking macroeconomic views. Most notably, stress testing is used for:

- Risk Management: Identification, measurement and management of tail risks or vulnerabilities against risk appetite;
- Risk Position Identification: Identify key risk position concentrations in adverse scenarios;
- Risk Aggregation: Estimate aggregate size of losses in adverse shocks;
- Capital and Liquidity Management: As a key component of Capital and Liquidity Management and Planning;
- Recovery and Resolution Planning: As a key component of the Recovery and Resolution Planning exercises; and
- Regulatory Requirements: Meeting the relevant regulatory requirements for Stress Testing.

The stress test methodologies used by MSI Group include:

- Cross-risk stress tests - to help ensure that concentration risks are captured and measured across the material risks. These encompass a suite of severe but plausible macroeconomic stress test scenarios which are designed to comprehensively capture material portfolio vulnerabilities of the MSI Group across Market and Credit Risk.
    - Reverse Stress Tests ("RST") capture existential threats to the MSI Group's business model. The scenarios used in RST are extreme and borderline plausible and are designed for the MSI Group to become unviable and considered as failing or likely to fail. RST are used to inform capital and liquidity planning and are a key input for recovery planning.
    - Topical Stress Tests assess specific market events or portfolio vulnerabilities, to evaluate the possible impact of "downside" scenarios on MSI Group's risk and resource profile.
- Risk-specific stress tests - to identify and measure vulnerabilities and concentrations that may arise in a particular risk area, country, or industry. The MSI Group conducts risk specific stress tests for Operational Risk, Market Risk, Credit Risk and Liquidity Risk.

The suite of Macroeconomic Scenarios is run on the complete MSI Group portfolio.

The key principles for Stress Testing Framework are for it to be sufficiently Frequent, Accurate, Complete and Timely ("FACT") across the range of diverse stress tests which reflect the global economic conditions that could potentially impact the future financial market and MSI Group's business. The MSI Group Stress Testing Framework utilises a range of stress testing methodologies to identify and assess the MSI Group's resilience to different scenarios. These include business area and product single and multi factor stress tests, holistic forward-looking stress tests supported by a macroeconomic narrative and extreme stress tests designed to test business model failure. Stress tests are performed in line with internal policy and external regulatory requirements with results reported to senior management on a frequent basis.

Risk Reporting

The MSI Group has put in place a Risk Reporting Framework to monitor and report MSI Group's risk profile against set risk limits and tolerances, and to provide timely risk information and/or escalation to responsible limit owners and relevant MSI Group risk governance forums (for further detail, refer to section "Risk Governance"), as appropriate.

The Risk Reporting Framework covers all material risks, identification of matters for escalation and decision-making and highlights emerging risks, mitigating actions and other risk matters that are deemed significant to the relevant governance forums and/or the MSI Board and senior management. The key purpose of risk reporting is to provide decision makers and risk managers with an accurate and timely representation of risk exposures, including risk concentrations, at the MSI Group level, across business lines and between legal entities. To provide this information, MSI Group generates various risk reports across individual risk functions including market, credit, operational, liquidity and model risk, at different frequencies (e.g., daily, weekly).

In addition, MSI Group has established a set of principles for risk reports which are applied to risk reporting, such as the appropriate level of aggregation, balance between qualitative and quantitative information or implementation of controls to ensure reported information is complete and accurate.

MSI Group's Data Quality ("DQ") monitoring and reporting processes are integrated into the Morgan Stanley Group's global DQ management processes. The data quality for risk-related data is reviewed through defined Key Performance Indicators ("KPIs") which are summarised in respective DQ Dashboards for certain risk areas such as Credit Risk, Market Risk and Liquidity Risk.

Risk Governance

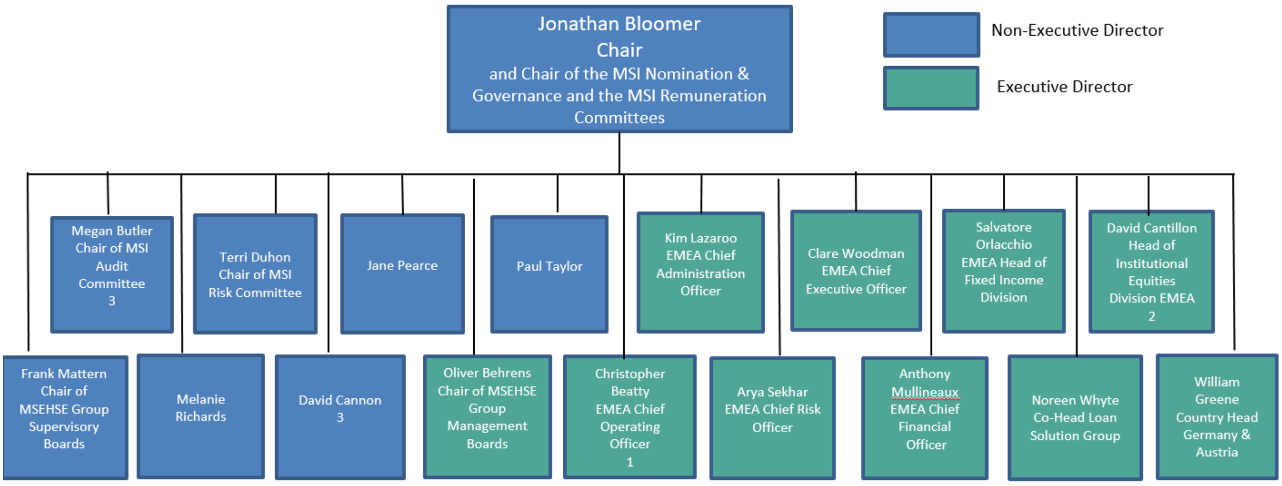
The MSI Group has a comprehensive risk management governance framework which includes MSI Board approved policies and a defined senior management risk oversight and escalation process at various levels of the governance structure, including for key MSI Group legal entities as appropriate.

The MSI Board has overall responsibility for the business and affairs of the MSI Group and is ultimately responsible for MSI Group risk management. The MSI Risk Committee provides guidance to the MSI Board on the oversight of MSI Group risk management activities.

The MSI Board (and its committees) oversee the strategy for the MSI Group and provide oversight of the key risk and control issues that the execution of the strategy presents or is likely to present. The MSI Board has appointed four committees: Audit, Risk, Remuneration and Nomination and Governance committees. Each of the committees is comprised solely of non-executive directors. The MSI Board, through the MSI Risk Committee and executive management, is regularly informed of the MSI Group's risk profile and relevant trends impacting its risk profile.

As at 31 December 2023, the MSI Board was comprised of 18 directors (10 executive directors and 8 non-executive directors). Figure 2 provides an overview of the MSI Board of Directors.

Figure 2: MSI Board of Directors as at 31 December 2023

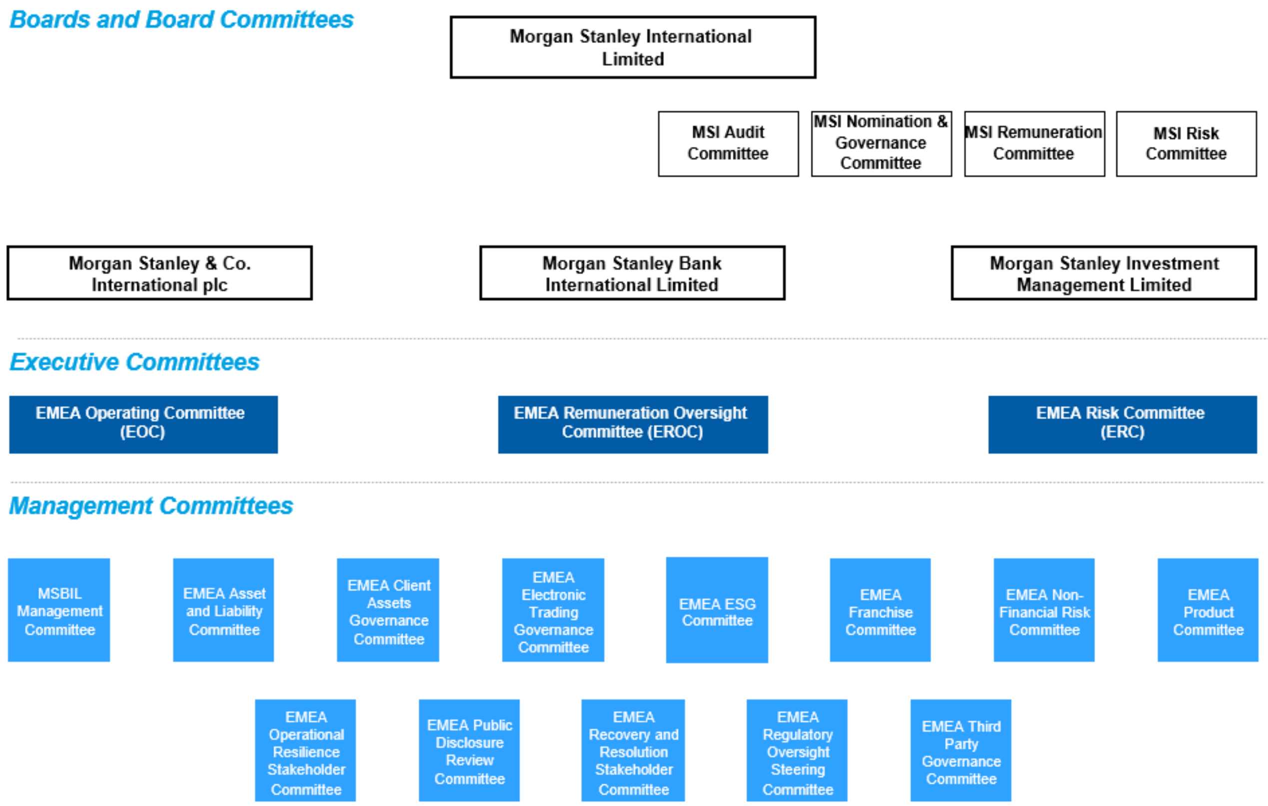


1 Arun Kohli resigned as an Executive Director on 21 August 2023 and Christopher Beatty was appointed as an Executive Director on 18 August 2023.
2.David Russell retired as an Executive Director on 17 January 2023 and was replaced by David Cantillon on the same date.
3 David Cannon stood down as Chair of the MSI Audit Committee on 17 May 2023 and was replaced by Megan Butler on the same date.
4. William Greene was appointed as an Executive Director on 1 May 2023.
5. Lucrezia Reichlin resigned as a Non-Executive Director on 31 May 2023.

For further details on the MSI Board members including detailed biographies and other directorships refer to Appendix I.

Day-to-day management of the MSI Group's business is delegated to executive management. The Executive Committees are the most senior MSI Group executive management committees and have responsibility for overseeing business performance, operations and risks identified in relation to the MSI Group. The management level committees support the Executive Committees in their oversight of specific areas of the MSI Group's activities.

Figure 3: MSI Board Committee Structure and EMEA Executive Management Structure as at 31 December 2023



MSI Board Committees

The MSI Risk Committee is appointed by the MSI Board to assist the MSI Board on the management of financial and non-financial risks, including: (i) risk strategy and appetite; (ii) risk identification and management; (iii) risk framework and policies; (iv) measurement of risk against tolerance and limits (v) risk culture (save for conduct risk, which is overseen by the MSI Audit Committee); (vi) financial resource management and capital; and (vii) recovery and resolution. The MSI Risk Committee met 10 times in 2023. The MSI Risk Committee reviews detailed risk reports on portfolio risk, market risk, credit risk, operational risk, e-trading risk, liquidity risk, climate risk, franchise risk and product governance.

The Committee's focus during 2023 included:

- Geopolitical risk;
- The MSI Group's Risk Appetite Statement, risk limit framework and TORs; and
- Areas of regulatory focus and corresponding risk projects.

The MSI Audit Committee is appointed by the MSI Board to assist and provide guidance to the MSI Board in monitoring: (i) internal controls; (ii) legal and regulatory compliance; (iii) financial reporting; (iv) internal audit; (v) external auditors; and (vi) recovery and resolution planning.

The MSI Remuneration Committee is appointed by the MSI Board to (i) assist the Board in overseeing the implementation of remuneration policies and practices applicable to the MSI Group; and (ii) oversee compliance by the MSI Group with applicable EU and UK remuneration rules, statements and guidance.

The MSI Nomination and Governance Committee is appointed by the MSI Board to assist and provide guidance in relation to (i) the recruitment of board members; (ii) the assessment of the performance of the MSI Board and committees; and (iii) the corporate governance framework of the MSI Group.

EMEA Executive Committees

The EMEA Operating Committee (“EOC”) is the principal forum for key decisions regarding matters affecting the operations and performance of the MSI Group in accordance with the strategy approved by the MSI Board. EOC provides oversight of: (i) strategy; (ii) financial and business performance; (iii) risk and control; (iv) operational, legal and regulatory matters; and (v) human resources.

The ERC assists in the oversight of Morgan Stanley Group’s management of risk (including financial and non-financial risks) within the MSI Group. ERC provides oversight of: (i) risk strategy and appetite; (ii) risk framework and policies; (iii) risk identification and management; (iv) risk culture; and (v) financial resource management and capital.

The EMEA Remuneration Oversight Committee ("EROC") provides executive oversight of EMEA remuneration matters and helps to ensure remuneration practices in EMEA are compliant with relevant UK and EU legislation and do not incentivise excessive risk taking.

Management Level Committees (associated with Risk Governance)

The EMEA Franchise Committee assists in the oversight of potentially significant reputational or franchise risks in connection with relevant transactions, activities, and clients in EMEA.

The EMEA Electronic Trading Governance Committee is established by the ERC to review and challenge controls applicable to the electronic trading business undertaken by the MSI Group.

The EMEA Asset and Liability Committee (“EMEA ALCO”) assists the ERC to oversee the capital adequacy, funding and liquidity risk management of the MSI Group.

The EMEA Client Assets Governance Committee provides support for MSI Group’s compliance with Client Assets Sourcebook (“CASS”) requirements, and acts as the principal body for providing governance of CASS related issues and coordination of the approach to managing client money and client assets.

The EMEA Product Committee assists the ERC in discharging its responsibilities for the oversight of approvals of New Products and the oversight of product governance.

The EMEA Non-Financial Risk Committee (“EMEA NFRC”) assists and provides guidance to the ERC in relation to the oversight of the management of non-financial risk of the MSI Group and the wider EMEA managed business.

The EMEA Public Disclosure Review Committee provides governance and oversight over publicly disclosed information relating to Morgan Stanley’s EMEA business.

The EMEA Third Party Governance Committee is responsible for the governance and oversight of the outsourcing risk management framework as it relates to UK-regulated Morgan Stanley entities.

The EMEA Environmental, Social and Governance ("ESG") Committee supports the MSI Group and EMEA business in the development of a comprehensive approach to the incorporation of ESG risks into business strategy, business processes and risk management in EMEA.

The EMEA Operational Resilience Steering Committee assists the EOC to manage and oversee the implementation of and ongoing adherence to Operational Resilience standards in the UK and Ireland, including monitoring of embeddedness in business as usual.

3.3 Adequacy of Risk Management Arrangements

The MSI Board has approved, for the purposes of Article 435(1) CRR, the below concise risk statement and declaration on the adequacy of risk management arrangements:

The MSI Group Risk Management Framework, as described above, is embedded in the day-to-day operations of the MSI Group. The effectiveness of the framework is reviewed at least annually and, where appropriate, elements are updated to reflect best practice, evolving market conditions, lessons learned following market-wide or idiosyncratic risk events, and in response to changing regulatory expectations and requirements and any significant audit issues. The MSI Board has reviewed the adequacy of these risk management arrangements and systems, including Management’s planned enhancements to strengthen these elements, and considers these appropriate given the strategy and risk profile of the MSI Group.

4. Basis of Preparation and Linkage to Financial Accounts

Basis of Consolidation

The MSI Group completes its prudential consolidation in compliance with the PRA rulebook, with all entities fully consolidated. The basis of consolidation for prudential purposes is materially the same as consolidation for accounting purposes.

This disclosure is prepared for the MSI Group, rather than on an individual basis for each regulated entity, as permissible under the PRA rulebook. As noted above, the most significant subsidiaries of the MSI Group are MSIP and MSESE Consol, the results of which are material to the MSI Group. This disclosure comprehensively conveys the risk profile of the MSI Group.

Financial Statements

This document does not constitute a set of financial statements and does not represent any form of forward-looking statement. Audited (statutory) financial statements are prepared for all subsidiaries where there is a legal requirement to do so. This includes financial statements prepared in accordance with applicable UK company law and UK accounting requirements under Financial Reporting Standard 101 ("FRS 101"). For the MSIP Group, financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU; and for the MSEHSE Group IFRS as adopted by the EU with additional disclosure requirements from the German Commercial Code ("HGB").

The MSI Group applies the UK Companies Act 2006 exemption from producing statutory group accounts. The exemption applies to a UK parent company where certain conditions are met. Specifically, this includes where the UK parent and all of its subsidiaries are included in group accounts of a larger non-European Economic Area ("EEA") group, prepared in accordance with accounting standards which are equivalent to EU-adopted IFRS. The MSI Group is consolidated into the accounts of the Morgan Stanley Group, therefore does not need to publish statutory group accounts.

The MSI Group has prepared audited consolidated non-statutory financial information in accordance with the recognition and measurement principles of IFRS issued by the International Accounting Standards Board as adopted by the EU and the UK, which was approved by the MSI Board.

For further detail, refer to Appendix VI. All tables within the Pillar 3 disclosures for MSI Group which state their source to be financial statements are instead based on the audited, consolidated non-statutory financial information. MSIP financial statements can be found at https://www.morganstanley.com/about-us-ir/subsidiaries. MSEHSE Group financial statements can be found at https://www.unternehmensregister.de/ureg/.

Trading Book/Non-Trading Book

In determining its overall capital requirement, the MSI Group classifies its exposures as either "Trading Book" or "Non-Trading Book" (otherwise referred to as Banking Book). Non-Trading Book positions, which may be accounted for at amortised cost, fair value or under the equity method, are subject to credit risk capital requirements as discussed in the Credit Risk section. Trading Book positions represent positions that the MSI Group holds as part of its market-making and underwriting businesses. These Trading Book positions, which reflect assets or liabilities that are accounted for at fair value, along with certain Non-Trading Book positions which are subject to both credit risk and market risk, are subject to market risk capital requirements, as discussed in the Market Risk section. Some Trading Book positions, such as derivatives, are also subject to Counterparty Credit Risk ("CCR") capital requirements.

Credit and market risks related to securitisation exposures are discussed in the Securitisation section. Trading Book and Non-Trading Book definitions used in this document refers to the regulatory view and may differ from the accounting definitions.

Policies and Procedures

The MSI Group has policies and procedures in place to assess the appropriateness of its Pillar 3 disclosure. One or more members of the management body are required to confirm that the disclosure has been prepared in accordance with internal control processes agreed upon at the management body level. The MSI Group's Pillar 3 disclosures are not required to be, and have not been, audited by the MSI Group's auditor. The MSI Group's Pillar 3 disclosure as at 31 December 2023 is based on its current understanding of Section 4 of the PRA rulebook on Disclosure (CRR) and related legislation.

Balance Sheet under the Regulatory Scope of Consolidation

Table 2 shows MSI Group's balance sheet as at 31 December 2023 on both an accounting consolidation and regulatory consolidation basis. The carrying values under the scope of regulatory consolidation are broken down into the stated risk frameworks and where they are not subject to capital requirements or subject to deduction from capital.

Table 2: Differences between the accounting scope and the scope of prudential consolidation and mapping of financial statement categories with regulatory risk categories (UK LI1) – MSI Group

		a	b	c	d	e	f	g
$MM				Carrying value of items				
MSI Group[1,2]		Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework[3]	Subject to the market risk framework	Not subject to own funds requirements or subject to deduction from own funds
Breakdown by asset class according to the balance sheet in the published financial statements								
1	Cash and short-term deposits	30,175	30,175	21,497	-	-	-	8,678
2	Trading financial assets	376,564	376,564	1,061	267,135	394	375,038	-
3	Secured financing	127,470	127,470	-	127,470	-	78,840	-
4	Loans and advances	175	175	175	-	-	175	-
5	Investment securities	127	127	127	-	-	-	-
6	Trade and other receivables	88,806	88,806	12,444	73,824	-	905	1,633
7	Current tax assets	438	438	438	-	-	-	-
8	Deferred tax assets	343	343	343	-	-	-	-
9	Other assets	170	170	152	-	-	-	18
10	Property plant and equipment	978	978	978	-	-	-	-
11	Intangible assets	832	832	-	-	-	-	832
	Total assets	**626,078**	**626,078**	**37,215**	**468,429**	**394**	**454,958**	**11,161**
Breakdown by liability class according to the balance sheet in the published financial statements								
1	Bank loans and overdrafts	(4,284)	(4,284)	-	-	-	-	(4,284)
2	Trading financial liabilities	(316,257)	(316,257)	-	(267,025)	-	(315,087)	-
3	Secured borrowing	(103,559)	(103,559)	-	(103,559)	-	(63,779)	-
4	Trade and other payables	(101,207)	(101,207)	-	(92,338)	-	(444)	(8,425)
5	Debt and other borrowings	(67,474)	(67,474)	-	-	-	(67,474)	-
6	Provisions	(217)	(217)	(5)	-	-	-	(212)
7	Current tax liabilities	(138)	(138)	-	-	-	-	(138)
8	Deferred tax liabilities	(1)	(1)	-	-	-	-	(1)
9	Post-employment benefit obligations	(31)	(31)	-	-	-	-	(31)
	Total liabilities	**(593,168)**	**(593,168)**	**(5)**	**(462,922)**	**-**	**(446,784)**	**(13,091)**

1. MSI Group does not publish financial statements. See Appendix VI for MSI Group non-statutory financial information.
2. The total carrying values under the regulatory scope of consolidation do not equal the sum of the amounts shown in the remaining columns of this table as some of the assets included in these items are subject to regulatory capital charges in more than just one risk framework.
3. The column "Subject to securitisation framework" includes Non-Trading Book securitisation positions. Trading Book securitisation positions are included in "Subject to the market risk framework".

Table 3 shows the MSI Group consolidated regulatory balance sheet (as per Table 2: UK LI1) reconciled to the Exposures at Default ("EAD") for items subject to the Credit Risk, CCR and Securitisation frameworks.

Table 3: Main sources of differences between regulatory exposure amounts and carrying values in financial statements (UK LI2) – MSI Group

		a	b	c	d	e
	$MM		**Items subject to**			
	MSI Group[1]	**Total**	**Credit risk framework**	**Securitisation framework**	**CCR framework**	**Market risk framework[8]**
1	**Assets carrying value amount under the scope of prudential consolidation (as per template LI1)**	**614,917**	**37,215**	**394**	**468,429**	**454,958**
2	**Liabilities carrying value amount under the scope of prudential consolidation (as per template LI1)**	**(580,077)**	**(5)**	**-**	**(462,922)**	**(446,784)**
3	**Total net amount under the scope of prudential consolidation**	**34,840**	**37,210**	**394**	**5,507**	**8,174**
4	**Off-balance-sheet amounts[2]**	**87,861**	**87,861**	**-**	**-**	
5	Differences in valuations	-	-	-	-	
6	Differences due to different netting rules, other than those already included in row 2[3]	(54,801)	-	(110)	(54,691)	
7	Differences due to consideration of provisions[4]	138	138	-	-	
8	Differences due to the use of credit risk mitigation techniques (CRM)[5]	(85,011)	(66,545)	-	(18,466)	
9	Differences due to credit conversion factors[6]	(2,014)	(2,014)	-	-	
10	Differences due to Securitisation with risk transfer	-	-	-	-	
11	Other differences[7]	185,553	(20,692)	110	206,135	
12	**Exposure amounts considered for regulatory purposes[8]**	**166,566**	**35,958**	**394**	**138,485**	

1. The total carrying values under the regulatory scope of consolidation do not equal the sum of the amounts shown in the remaining columns of this table as some of the assets included in these items are subject to regulatory capital charges in more than just one risk framework.
2. Under the credit risk framework, off-balance sheet amounts principally consist of undrawn credit facilities and the aggregate value of forward starting repos and reverse repos, before the use of a Credit Conversion Factor ("CCF") .
3. Differences due to different netting rules: This reflects the differences in regulatory netting compared to netting permitted under the relevant accounting standards.
4. Differences due to consideration of provisions: This reflects the removal of accounting provisions recorded for on and off-balance sheet credit risk exposures.
5. Differences due to use of credit risk mitigation techniques: Impact of credit risk mitigation such as guarantees and collateral to the regulatory exposure values. SFT haircuts are considered.
6. Differences due to credit conversion factors: Impact of CCF on off-balance sheet exposures.
7. Other differences: This reflects the difference between assets carrying values as defined per IFRS and the values defined for regulatory reporting purposes. This includes add-ons and differences in modelled and non-modelled approaches.
8. Row 12, "Exposure amounts considered for regulatory purposes", are disclosed only for Credit Risk, CCR and Securitisation frameworks, where applicable (columns b – d). No exposures are reported against the Market Risk framework (column e).

5. Capital Management

The MSI Group views capital as an important source of financial strength. It manages and monitors its capital in line with established policies and procedures and in compliance with local regulatory requirements. In line with Morgan Stanley Group capital management policies, the MSI Group manages its capital position based upon, among other things, business opportunities, risks, capital availability and rate of return together with, internal capital policies, regulatory requirements and rating agency guidelines.

Therefore, in the future it may adjust its capital base in reaction to the changing needs of its businesses. The appropriate level of capital is determined at a legal entity level to safeguard that entity's ability to continue as a going concern and ensure that it meets all regulatory capital requirements. The key components of the capital management framework used by the MSI Group are set out in the MSI Group Capital Planning and Management Policy and include a point in time risk and leverage based capital assessment, forward-looking capital projections and stress testing. The MSI Group conducts an ICAAP at least annually to meet its obligations under the PRA rulebook.

The ICAAP is a key tool used to inform the MSI Board and the executive management on risk profile and capital adequacy. The MSI Group’s ICAAP:

- Is designed to ensure that the risks to which the MSI Group is exposed are appropriately capitalised and risk managed, including those risks that are either not captured, or not fully captured under Pillar 1;
- Uses stress testing to size a capital buffer aimed at ensuring the MSI Group will continue to operate above regulatory requirements under a range of severe but plausible stress scenarios; and
- Assesses capital adequacy under normal and stressed operating environments over the three-year capital planning horizon to ensure that MSI Group maintains a capital position in line with internal pre and post stress minimum levels.

The key elements of the ICAAP are embedded in the MSI Group’s day-to-day management processes and decision-making culture.

The PRA reviews the MSI Group ICAAP through its Supervisory Review and Evaluation Process (“SREP”) and sets a Total Capital Requirement (“TCR”), comprising Pillar 1 and Pillar 2A, which establishes the minimum level of regulatory capital for the MSI Group and MSIP. As at 31 December 2023, the MSI Group TCR was $17.1Bn, equivalent to 10.99% of RWAs. Further detail on the make-up of the TCR and applicable Combined Buffer Requirement can be found in Key Metrics, Table 1. If required, the PRA also sets a buffer in addition to the Basel Combined Buffers, which is available to support the MSI Group in a stressed market environment.

The principles of the MSI Group’s ICAAP are applied, in a manner consistent with local regulatory requirements, at the subsidiary legal entities.

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 by the MSI Board to ensure the MSI Group and its subsidiaries have sufficient capital to meet their regulatory requirements at all times.

The capital managed by the MSI Group broadly includes share capital, Additional Tier 1 (“AT1”) capital instruments, subordinated debt and reserves. In order to maintain or adjust its capital structure, the MSI Group may pay dividends, return capital to its shareholders, issue new shares, or issue or repay AT1 capital instruments or subordinated debt.

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

6. Capital Resources

The capital resources of the MSI Group and MSIP are set out in Table 4. All capital resources included in T1 and T2 capital are of standard form.

Table 4: Own funds – MSI Group and MSIP

$MM	MSI Group	MSIP
Capital instruments eligible as CET1 capital	3,417	12,977
Prior Year Retained earnings	16,922	4,241
Independently reviewed interim profits net of any foreseeable charge or dividend	642	521
Accumulated other comprehensive income	(1,235)	(399)
Other reserves	7,461	1,403
Adjustments to CET1 due to prudential filters	(1,270)	(1,085)
Other intangible assets	(777)	(2)
Internal Ratings Based shortfall of credit risk adjustments to expected losses	(235)	(158)
Defined-benefit pension fund assets	(8)	-
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	(9)	-
CET1 capital elements or deductions - other	**(10)**	**-**
CET1 capital	**24,898**	**17,498**
AT1 capital	4,300	4,300
T1 capital	**29,198**	**21,798**
Capital instruments and subordinated loans eligible as Tier 2 capital	6,694	5,096
Instruments issued by subsidiaries that are given recognition in Tier 2 capital	-	-
T2 capital	**6,694**	**5,096**
Total own funds	**35,892**	**26,894**

Over the second half of 2023, MSI Group's own funds increased primarily due to the recognition of H1’23 profits post interim verification.

Over the second half of 2023, MSIP’s own funds decreased primarily due to T2 refinancing and dividends paid. This is partially offset by recognition of H1’23 profits post interim verification.

The MSI Group relies on its policies, procedures and systems to determine the adequacy of valuation for financial assets and compliance with accounting standards. To comply with the requirements of the PRA rulebook, Additional Valuation Adjustments (“AVAs”) are applied to capital over and above those that are taken in order to comply with the accounting requirements. The regulatory adjustments are referred to in the above table as prudential filters.

The capital resources of the MSI Group are based on audited consolidated non-statutory financial information, and the capital resources of MSIP are based on audited financial statements.

Table 5 provides a reconciliation of audited shareholders' equity to regulatory capital.

Table 5: Reconciliation of balance sheet total equity to regulatory capital – MSI Group and MSIP

$MM	MSI Group				MSIP			
	Total capital	CET1 capital	AT1 capital	T2 capital	Total capital	CET1 capital	AT1 capital	T2 capital
Equity instruments	7,678	3,378	4,300	-	16,765	12,465	4,300	-
Share premium	39	39	-	-	512	512	-	-
Other reserves	7,461	7,461	-	-	1,403	1,403	-	-
Other comprehensive income	(982)	(982)	-	-	(399)	(399)	-	-
Retained earnings	17,651	17,651	-	-	4,789	4,789	-	-
Independently reviewed interim profits net of any foreseeable charge or dividend	642	642	-	-	521	521		
Non-controlling interest	442	442	-	-	-	-		
Balance sheet total equity	**32,931**	**28,631**	**4,300**	**-**	**23,591**	**19,291**	**4,300**	**-**
Add:								
Tier 2 instruments classified as debt and other borrowings	6,694	-	-	6,694	5,096	-	-	5,096
Less:								
Qualifying own funds subordinated debt instruments not included in consolidated T2 capital	-	-	-	-	-	-	-	-
Amortised portion of subordinated debt instruments not included in T2 capital	-	-	-	-	-	-	-	-
Part of interim or year-end profit not eligible	(729)	(729)	-	-	(548)	(548)	-	-
Minority interests (amount not allowed in consolidated CET1)	(442)	(442)	-	-	-	-	-	-
Additional value adjustments	(1,319)	(1,319)	-	-	(1,211)	(1,211)	-	-
Negative amounts resulting from the calculation of expected loss amounts	(235)	(235)	-	-	(158)	(158)	-	-
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	49	49	-	-	126	126	-	-
Deferred tax assets that rely on future profitability and do not arise from temporary differences	(9)	(9)			-	-		
Intangible assets (net of related tax liability)	(777)	(777)	-	-	(2)	(2)	-	-
Defined-benefit pension fund assets (net of related tax liability)	(8)	(8)	-	-	-	-	-	-
Other comprehensive income adjustment	(253)	(253)	-	-	-	-	-	-
CET1 capital elements or deductions - other	(10)	(10)	0	0	0	0	0	0
Total own funds (transitional rules and fully loaded position)	**35,892**	**24,898**	**4,300**	**6,694**	**26,894**	**17,498**	**4,300**	**5,096**

The above table provides a bridge of balance sheet equity to regulatory own funds i.e. items considered or excluded to arrive at regulatory own funds.

7. Total Loss-Absorbing Capacity

The MSI Group was, until 31 December 2023, subject to internal Total Loss Absorbing Capacity (“TLAC”) requirements under the CRR.

These requirements are designed to enhance the resilience of the financial system by ensuring institutions have sufficient capital and eligible liabilities to absorb losses and recapitalise in resolution.

The minimum requirements were set at 18% of RWAs and 6.75% of leverage exposure, scaled at 90% for MSI Group as a material subsidiary, on a consolidated basis, of a non-UK Global Systemically Important Institution (“G-SII”).

MSI Group remains subject to Minimum Requirement for own funds and Eligible Liabilities ("MREL") requirements as set by the Bank of England ("BoE").

Morgan Stanley's preferred resolution strategy is a Single Point of Entry ("SPOE") strategy. Further information on the resolution strategy can be found in Morgan Stanley Annual Reports on Form 10-K and Quarterly 10-Q Report as well as the Public Section of Morgan Stanley’s Title I resolution plan that can be accessed at https://www.fdic.gov/resources/resolutions/resolution-authority/resplans/index.

The MSI Group TLAC key metrics are provided in Table 6.

Table 6: TLAC Key Metrics – MSI Group

$MM

MSI Group[1]	**Q4'23**	**Q3’23**	**Q2'23**	**Q1’23**	**Q4’22**
TLAC available	**45,292**	**44,462**	**44,566**	**42,933**	**44,090**
Total RWAs at the level of the resolution group	**155,523**	**159,040**	**164,871**	**163,350**	**160,504**
TLAC as a percentage of RWAs (row 1/row2) (%)	29.12%	27.96%	27.03%	26.28%	27.47%
Leverage ratio exposure measure at the level of the resolution group	477,649	470,568	463,515	480,781	454,835
TLAC at a percentage of leverage ratio exposures measure (row1/row4) (%)	9.48%	9.45%	9.61%	8.93%	9.69%

1. As at 31 December 2023, the MSI Group is in compliance with the TLAC requirements.

Over the fourth quarter of 2023, the increase in MSI Group’s TLAC available is due to capital management actions.

Table 7 provides details of the composition of the MSI Group's TLAC.

Table 7: TLAC composition – MSI Group

$MM

MSI Group	Q4'23
CET1 capital	24,898
AT1 capital before TLAC adjustments	4,300
AT1 ineligible as TLAC as issued out of subsidiaries to third parties	-
Other adjustments	0
AT1 instruments eligible under the TLAC framework	4,300
T2 capital before TLAC adjustments	6,694
Amortised portion of T2 instruments where remaining maturity >1 year	0
T2 Capital ineligible as TLAC as issued out of subsidiaries to third parties	-
Other adjustments	-
T2 instruments eligible under the TLAC framework	6,694
TLAC arising from regulatory capital	**35,892**
TLAC instruments subordinated to excluded liabilities	9,400
TLAC arising from non-regulatory capital instruments before adjustments	**9,400**
TLAC before deductions	**45,292**
Deduction of investments in own other TLAC liabilities	-
Other adjustments to TLAC	-
TLAC after deductions	**45,292**
Total RWAs adjusted as permitted under the TLAC regime	155,523
Leverage exposure measure	477,649
TLAC (as a percentage of risk-weighted assets adjusted as permitted under the TLAC regime)	29.12%
TLAC (as a percentage of leverage exposure)	9.48%
CET1 capital (as a percentage of RWAs) available after meeting the resolution group's Minimum Capital Requirement ("MCR") and TLAC requirement	9.83%
Institution-specific buffer requirement	**3.12%**
Of which: capital conservation buffer requirement	2.50%
Of which: bank specific countercyclical buffer requirement	0.62%
Memorandum items	
Total amount of excluded liabilities referred to in Article 72a(2) CRR II	482,322

Over the second half of 2023, MSI Group's TLAC as a percentage of RWAs increased primarily due to a decrease in RWAs and an increase in TLAC available due to capital management actions.

Table 8 provides a breakdown of eligible instruments in the creditor hierarchy of the MSI Group.

Table 8: TLAC creditor ranking – MSI Group

	Creditor ranking				
$MM	**1**	**2**	**3**	**4**	
MSI Group	**(most junior)**			**(most senior)**	
Description of creditor ranking	**Ordinary Shares[1]**	**AT1 Instruments**	**Subordinated loans**	**Senior Subordinated loans**	**Total**
Total capital and liabilities	**3,378**	**4,300**	**6,694**	**9,400**	**23,772**
Excluded liabilities[2]	-	-	-	-	-
Total capital and liabilities less excluded liabilities	3,378	4,300	6,694	9,400	23,772
Eligible as TLAC	3,378	4,300	6,694	9,400	23,772
with 1 year ≤ residual maturity < 2 years				9,400	9,400
with 2 years ≤ residual maturity < 5 years	-	-	-	-	-
with 5 years ≤ residual maturity < 10 years	-	-	6,694	-	6,694
with residual maturity ≥ 10 years	-	-	-	-	-
perpetual securities	3,378	4,300	-	-	7,678

1. Ordinary Shares exclude the value of share premium and reserves.
2. As at 31 December 2023 MSI Group has no excluded liabilities as defined in CRR II Article 72a (2) that rank pari passu or junior to Minimum Requirements for own funds and Eligible Liabilities-eligible instruments.

Over the second half of 2023, MSI Group's eligible TLAC liabilities increased due to capital management actions.

8. Leverage

The Basel III framework introduced a simple, transparent, non risk-based leverage ratio to act as a supplementary measure to the risk-based capital requirements. The Basel Committee is of the view that a simple leverage ratio framework is critical and complementary to the risk-based capital framework and that a credible leverage ratio ensures broad and adequate capture of both the on- and off-balance sheet sources of banks' leverage.

The MSI Group and MSIP are Leverage Ratio Requirements (“LREQ”) entities. Their leverage ratios as at 31 December 2023 exceed the PRA's T1[1] and CET1[2] minimum requirements that were applicable from 1 January 2023.

Risk of excessive leverage

Risk of excessive leverage refers to the risk resulting from an institution's vulnerability due to leverage or contingent leverage that may require unintended corrective measures to its business plan, including distressed selling of assets which might result in losses or in valuation adjustments to its remaining assets.

The EMEA ALCO is the primary governance committee responsible for monitoring the MSI Group’s leverage ratio and for ensuring that it remains within the risk appetite approved by the MSI Group Board.

The MSEHSE Group’s and MSESE Consol's ALCO are the primary governance committees responsible for monitoring leverage ratio and for ensuring that they remain within the risk appetite approved by the MSEHSE Group Management Boards.

The risk of excessive leverage is managed through the application and allocation of leverage ratio exposure limits of business unit and internal leverage ratio Early Warning Indicator (“EWI”) levels. If internal limits are exceeded, cross-functional teams identify the key drivers of the elevated exposures and consider appropriate remediation actions. EWI levels are monitored daily to ensure that any increases above the internal thresholds are escalated to governance forums to allow for any appropriate management actions to be taken, i.e. T1 capital increases and/or leverage exposure reductions, in a timely manner.

The leverage ratio exposures of MSI Group, as well as MSIP and MSESE Consol, (including business unit limit utilisation) are regularly calculated and reported to either the EMEA ALCO or the MSEHSE Group’s and MSESE Consol's ALCO, as appropriate, alongside other additional factors that are considered, such as maturity and funding profiles considering both assets and liabilities and asset encumbrance metrics. Additionally, weekly capital resource meetings occur between senior cross-functional stakeholders to monitor, analyse, and optimise resources including but not limited to leverage ratio exposure.

Moreover, robust capital planning ensures future leverage ratio requirements are considered. The capital planning focuses on, but is not limited to, forecasted business activity, planned mitigation, future regulatory changes, net income forecasts and required capital.

In addition to capital planning, the Large Transaction Approval process requires the leverage ratio exposure impact to be assessed prior to execution. Trades are approved based on, amongst others, capacity and return metrics. Large Transactions are defined as transactions that are anticipated to utilise capital resources in excess of defined thresholds. Thresholds relate to RWAs, leverage ratio exposure, liquidity, and funding. If a transaction exceeds the defined thresholds, management provides approval before the execution takes place. Approval is based on various criteria, such as capital resources, return on investment and refinancing costs carried out.

A quarterly risk identification assessment is in place to monitor both qualitative and quantitative leverage ratio exposure drivers and risks to ensure compliance with internal and regulatory minimums in the event contingent leverage ratio exposure was to crystallise.

1.A minimum leverage ratio of 3.25% is required.
2.At least 75% of the firm’s T1 capital must consist of CET1 capital. Additionally, the firm must maintain an additional countercyclical leverage ratio buffer of CET1 equal to 35% of its current Countercyclical Capital Buffer (“CCyB”) rate.

Table 9 provides a reconciliation between total assets in the management accounts and the leverage exposure measure for the MSI Group and MSIP as at 31 December 2023.

Table 9: Summary reconciliation of accounting assets and leverage ratio exposures (UK LR1) – MSI Group and MSIP

		a	a
		Applicable amount	
$MM		MSI Group	MSIP
1	**Total assets as per published financial statements[1]**	**626,099**	**549,620**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	-	-
3	(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	-	-
4	(Adjustment for exemption of exposures to central banks)	(13,641)	(3,060)
5	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the total exposure measure in accordance with point (i) of Article 429a(1) of the CRR)	-	-
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting[2]	-	-
7	Adjustment for eligible cash pooling transactions	-	-
8	Adjustments for derivative financial instruments	(113,549)	(109,899)
9	Adjustments for Securities Financing Transactions (“SFTs”)	16,611	15,648
10	Adjustment for off-balance sheet items (i.e., conversion to credit equivalent amounts of off-balance sheet exposures)[3]	5,034	925
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced tier 1 capital (leverage))	(2,348)	(1,371)
UK-11a	(Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) of the CRR)	-	(432)
UK-11b	(Adjustment for exposures excluded from the total exposure measure in accordance with point (j) of Article 429a(1) of the CRR)	-	-
12	Other adjustments	(40,557)	(28,587)
13	**Total exposure measure**	**477,649**	**422,844**

1. MSI Group does not publish financial statements. See Appendix VI for MSI Group non-statutory financial information.
2. As MSI Group follows settlement date accounting, no exposure is reported under regular-way purchases and sales subject to trade date accounting.
3. Regular-way purchases and sales subject to settlement date accounting are treated as off-Balance sheet items.

Over the second half of 2023, MSI Group's total assets declined due to lower derivatives, whereas MSIP’s total assets declined due to lower SFTs and derivatives.

Table 10 provides a detailed breakdown of the components of the leverage ratio exposure for the MSI Group and MSIP as at 31 December 2023.

Table 10: Leverage ratio common disclosure (UK LR2) – MSI Group and MSIP

		a	b
MSI Group		**Leverage ratio exposures**	
$MM		**Q4'23**	**Q2'23**
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	236,717	239,336
2	Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework	2,243	2,872
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(38,873)	(50,268)
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-
5	(General credit risk adjustments to on-balance sheet items)	-	-
6	(Asset amounts deducted in determining tier 1 capital (leverage))	(2,348)	(2,372)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**197,739**	**189,568**
	Derivative exposures		
8	Replacement cost associated with SA-CCR derivatives transactions (i.e., net of eligible cash variation margin)	38,393	42,556
UK-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach	-	-
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	104,643	101,810
UK-9a	Derogation for derivatives: potential future exposure contribution under the simplified standardised approach	-	-
UK-9b	Exposure determined under the original exposure method	-	-
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	(2,352)	(2,840)
UK-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	-	-
UK-10b	(Exempted CCP leg of client-cleared trade exposures) (original exposure method)	-	-
11	Adjusted effective notional amount of written credit derivatives	409,099	354,449
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(396,197)	(342,529)
13	**Total derivative exposures**	**153,586**	**153,446**
	Securities financing transaction (SFT) exposures		
14	Gross SFT assets (with no recognition of netting), after adjustments for sales accounting transactions	219,159	184,276
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(94,386)	(63,106)
16	Counterparty credit risk exposure for SFT assets	10,158	9,482
UK-16a	Derogation for SFTs: counterparty credit risk exposure in accordance with Articles 429e(5) and 222 of the CRR	-	-
17	Agent transaction exposures	-	-
UK-17a	(Exempted CCP leg of client cleared SFT exposures)	-	-
18	**Total securities financing transaction exposures**	**134,931**	**130,652**
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	15,453	19,078
20	(Adjustments for conversion to credit equivalent amounts)	(10,419)	(11,567)
21	(General provisions deducted in determining tier 1 capital (leverage) and specific provisions associated with off-balance sheet exposures)	-	-
22	**Off-balance sheet exposures**	**5,034**	**7,511**
	Excluded exposures		
UK-22a	(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) of the CRR)	-	-
UK-22b	(Exposures exempted in accordance with point (j) of Article 429a(1) of the CRR (on- and off- balance sheet))	-	-
UK-22g	(Excluded excess collateral deposited at triparty agents)	-	-
UK-22k	**(Total exempted exposures)**	**-**	**-**
	Capital and total exposure measure		
23	Tier 1 capital (leverage)	29,198	28,850
24	Total exposure measure including claims on central banks	491,290	481,177
UK-24a	(-) Claims on central banks excluded	(13,641)	(17,662)
UK-24b	**Total exposure measure excluding claims on central banks**	**477,649**	**463,515**

	Leverage ratio		
25	Leverage ratio excluding claims on central banks (%)	6.11%	6.22%
UK-25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	6.11%	6.22%
UK-25b	Leverage ratio excluding central bank reserves as if the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income had not been applied (%)	6.11%	6.22%
UK-25c	Leverage ratio including claims on central banks (%)	5.94%	6.00%
26	Regulatory minimum leverage ratio requirement (%)	3.25%	3.25%
	Additional leverage ratio disclosure requirements - leverage ratio buffers		
27	Leverage ratio buffer (%)	0.22%	0.14%
UK-27a	Of which: G-SII or O-SII additional leverage ratio buffer (%)	-	-
UK-27b	Of which: countercyclical leverage ratio buffer (%)	0.22%	0.14%
	Additional leverage ratio disclosure requirements - disclosure of mean values		
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	127,948	138,012
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	124,773	121,170
UK-31	Average total exposure measure including claims on central banks	486,950	498,524
UK-32	Average total exposure measure excluding claims on central banks	471,457	480,132
UK-33	Average leverage ratio including claims on central banks	5.96%	5.77%
UK-34	Average leverage ratio excluding claims on central banks	6.15%	5.99%

MSIP		**a**	**b**
		Leverage ratio exposures	
$MM		**Q4'23**	**Q2'23**
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	199,301	199,813
2	Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework	1,683	4,999
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(28,437)	(38,973)
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-
5	(General credit risk adjustments to on-balance sheet items)	-	-
6	(Asset amounts deducted in determining tier 1 capital (leverage))	(1,371)	(1,372)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**171,176**	**164,467**
	Derivative exposures		
8	Replacement cost associated with SA-CCR derivatives transactions (i.e., net of eligible cash variation margin)	28,731	30,965
UK-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach	-	-
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	88,602	85,750
UK-9a	Derogation for derivatives: potential future exposure contribution under the simplified standardised approach	-	-
UK-9b	Exposure determined under the original exposure method	-	-
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	(1,155)	(1,771)
UK-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	-	-
UK-10b	(Exempted CCP leg of client-cleared trade exposures) (original exposure method)	-	-
11	Adjusted effective notional amount of written credit derivatives	390,746	333,168
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(379,082)	(322,395)
13	**Total derivative exposures**	**127,842**	**125,717**
	Securities financing transaction (SFT) exposures		
14	Gross SFT assets (with no recognition of netting), after adjustments for sales accounting transactions	217,040	191,047
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(99,839)	(66,659)
16	Counterparty credit risk exposure for SFT assets	9,195	9,418
UK-16a	Derogation for SFTs: counterparty credit risk exposure in accordance with Articles 429e(5) and 222 of the CRR	-	-
17	Agent transaction exposures	-	-
UK-17a	(Exempted CCP leg of client cleared SFT exposures)	-	-
18	**Total securities financing transaction exposures**	**126,396**	**133,806**

	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	4,375	11,967
20	(Adjustments for conversion to credit equivalent amounts)	(3,453)	(7,606)
21	(General provisions deducted in determining tier 1 capital (leverage) and specific provisions associated with off-balance sheet exposures)	-	-
22	**Off-balance sheet exposures**	**922**	**4,361**
	Excluded exposures		
UK-22a	(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) of the CRR)	(432)	(473)
UK-22b	(Exposures exempted in accordance with point (j) of Article 429a(1) of the CRR (on- and off- balance sheet))	-	-
UK-22g	(Excluded excess collateral deposited at triparty agents)	-	-
UK-22k	**(Total exempted exposures)**	**(432)**	**(473)**
	Capital and total exposure measure		
23	Tier 1 capital (leverage)	21,798	21,743
24	Total exposure measure including claims on central banks	425,884	427,877
UK-24a	(-) Claims on central banks excluded	(3,060)	(3,423)
UK-24b	**Total exposure measure excluding claims on central banks**	**422,844**	**424,455**
	Leverage ratio		
25	Leverage ratio excluding claims on central banks (%)	5.16%	5.12%
UK-25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	5.16%	5.12%
UK-25b	Leverage ratio excluding central bank reserves as if the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income had not been applied (%)	5.16%	5.12%
UK-25c	Leverage ratio including claims on central banks (%)	5.12%	5.08%
26	Regulatory minimum leverage ratio requirement (%)	3.25%	3.25%
	Additional leverage ratio disclosure requirements - leverage ratio buffers		
27	Leverage ratio buffer (%)	0.22%	0.13%
UK-27a	Of which: G-SII or O-SII additional leverage ratio buffer (%)	-	-
UK-27b	Of which: countercyclical leverage ratio buffer (%)	0.22%	0.13%
	Additional leverage ratio disclosure requirements - disclosure of mean values		
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	127,192	140,937
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	117,200	124,389
UK-31	Average total exposure measure including claims on central banks	423,685	444,496
UK-32	Average total exposure measure excluding claims on central banks	420,626	440,419
UK-33	Average leverage ratio including claims on central banks	5.14%	4.96%
UK-34	Average leverage ratio excluding claims on central banks	5.18%	5.00%

Over the second half of 2023, MSI Group’s leverage ratio excluding claims on central banks decreased by 0.11% to 6.11%, primarily due to an increase in leverage exposure driven by cash products and SFT's, partially offset by an increase in T1 Capital due to the recognition of profits for the first half of 2023.

Over the second half of 2023, MSIP's leverage ratio excluding claims on central banks increased by 0.04% to 5.16%, primarily due to a decrease in leverage exposure excluding claims on central bank driven by SFT’s together with an increase in T1 Capital due to the recognition of profits for the first half of 2023, partially offset by dividends paid.

Table 11 provides a breakdown of the on-balance sheet exposures into Trading and Non-Trading (Banking Book) exposures for MSI Group and MSIP as at 31 December 2023.

Table 11: Split of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures) (UK LR3) – MSI Group and MSIP

		a	a
		Leverage ratio exposures	
$MM		MSI Group	MSIP
UK-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**240,760**	**201,249**
UK-2	Trading Book exposures	203,734	179,613
UK-3	Banking book exposures, of which:	37,026	21,636
UK-4	Covered bonds	-	-
UK-5	Exposures treated as sovereigns	15,142	4,006
UK-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	41	39
UK-7	Institutions	16,710	15,418
UK-8	Secured by mortgages of immovable properties	-	-
UK-9	Retail exposures	-	-
UK-10	Corporates	2,272	1,248
UK-11	Exposures in default	257	130
UK-12	Other exposures (e.g., equity, securitisations, and other non-credit obligation assets)	2,604	795

Over the second half of 2023, the MSI Group’s and MSIP’s on-balance sheet exposures decreased primarily due to Banking Book exposures, of which exposures treated as sovereigns.

9. Capital Requirements and RWAs

RWAs reflect both on- and off-balance sheet risk, as well as capital charges attributable to the risk of loss arising from the following.

Credit and CCR refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the MSI Group. Credit and counterparty credit capital requirements are derived from RWAs, determined using the regulatory approved internal modelling approach - the Internal Model Method ("IMM") for CCR exposure. Standardised methods are applied for exposures not covered by internal models. Regulatory approved Foundation Internal Ratings Based ("FIRB") approach for credit risk or Standardised Approach ("SA") Risk Weights are applied as applicable.

CVA capital requirements cover the risk of mark-to-market losses on the counterparty risk of derivatives. They are calculated using a combination of an Advanced Method based on internal modelling approaches and Standardised Method.

Settlement risk capital requirements cover the risk due to the possibility that a counterparty will fail to deliver on the terms of a contract at the agreed-upon time.

Securitisation exposures are a transaction or scheme whereby the credit risk associated with an exposure or pool of exposures is tranched. Payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures. The subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme.

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 comprise of capital associated with the regulatory approved Internal Model Approach ("IMA") approved by the PRA and those associated with the Standardised Approach.

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

Operational risk refers to the risk of loss, or of damage to reputation, resulting from inadequate or failed processes, people and systems or from external events (e.g., fraud, theft, legal and compliance risks, cyber-attacks or damage to physical assets). Capital requirements for operational risk are currently calculated under the Basic Indicator Approach ("BIA").

Amounts below the thresholds for deduction correspond to items not deducted from own funds, as they are below the applicable thresholds for deduction, in accordance with the PRA rulebook.

The MSI Group enhances its risk management strategy and incorporates improvements in modelling techniques while maintaining compliance with the regulatory requirements. For further discussion, refer to the chapters on credit risk, CCR, market risk and operational risk.

RWAs Overview

Table 12 summarises RWAs and Total Own Funds Requirements ("TOFR") for the MSI Group and MSIP by risk type. MSI Group and MSIP calculate Pillar 1 capital requirements as 8% of RWAs.

Table 12: Overview of risk weighted exposure amounts (UK OV1) – MSI Group and MSIP

		a	b	c	a	b	c
		MSI Group			MSIP		
		RWAs	RWAs	TOFR	RWAs	RWAs	TOFR
$MM		Q4'23	Q3'23	Q4'23	Q4'23	Q3'23	Q4'23
1	**Credit risk (excluding CCR)**	**11,670**	**13,143**	**934**	**6,740**	**7,887**	**539**
2	Of which standardised approach	3,746	3,683	300	1,788	1,789	143
3	Of which the Foundation IRB ("FIRB") approach	6,237	6,044	499	2,949	2,638	236
4	Of which slotting approach	-	-	-	-	-	-
UK 4a	Of which equities under the simple risk weighted approach[1]	1,687	3,416	135	2,003	3,460	160
5	Of which the Advanced IRB ("AIRB") approach	-	-	-	-	-	-
6	**Counterparty credit risk – CCR**	**70,960**	**61,696**	**5,676**	**62,470**	**53,315**	**4,998**
7	Of which standardised approach	13,631	11,358	1,090	13,108	10,878	1,049
8	Of which internal model method (IMM)	26,468	25,035	2,117	22,029	20,533	1,762
UK 8a	Of which exposures to a CCP	1,262	1,336	101	588	652	47
UK 8b	Of which credit valuation adjustment - CVA	23,104	18,791	1,848	20,277	16,039	1,622
9	Of which other CCR	6,495	5,176	520	6,468	5,213	518
15	**Settlement risk**	**55**	**79**	**5**	**50**	**76**	**3**
16	**Securitisation exposures in the non-trading book (after the cap)**	**1,480**	**1,702**	**118**	**1,480**	**1,702**	**119**
17	Of which SEC-IRBA approach	-	-	-	-	-	-
18	Of which SEC-ERBA (including IAA)	736	760	58	736	760	59
19	Of which SEC-SA approach	-	-	-	-	-	-
UK 19a	Of which 1250%/ deduction	744	942	60	744	942	60
20	**Position, foreign exchange and commodities risks (Market risk)**	**52,781**	**61,152**	**4,223**	**35,559**	**44,373**	**2,845**
21	Of which standardised approach	16,634	15,591	1,331	7,551	6,705	604
22	Of which IMA	36,147	45,561	2,892	28,008	37,668	2,241
UK 22a	**Large exposures**	**2,923**	**5,911**	**234**	**775**	**1,459**	**62**
23	**Operational risk**	**15,654**	**15,357**	**1,252**	**10,746**	**10,807**	**860**
UK 23a	Of which basic indicator approach	15,654	15,357	1,252	10,746	10,807	860
UK 23b	Of which standardised approach	-	-	-	-	-	-
UK 23c	Of which advanced measurement approach	-	-	-	-	-	-
24	**Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)[1]**	**836**	**793**	**67**	**896**	**842**	**72**
29	**Total**	**155,523**	**159,040**	**12,442**	**117,820**	**119,619**	**9,426**

1. Equity exposures subject to risk weight 1250% has been included under "*Of which equities under the simple risk weighted approach*" for MSI Group and MSIP.

Overall RWAs decreased primarily due to lower market risk VaR driven by reduced market volatility as well as portfolio changes.

10. Credit Risk

10.1 Credit Risk Management

CCR refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the MSI Group. The MSI Group is exposed to credit risk from the extension of credit to clients through lending commitments, derivatives, securities financing and prime brokerage activities. The MSI Group primarily incurs credit risk exposure to Corporates, Institutions, Central Governments and Central Banks through its Institutional Securities business segment.

The MSI Group Credit Risk Management Department ("CRMD") is an independent risk oversight group headed by the Head of Credit who reports directly to the EMEA Chief Risk Officer. The MSI Group CRMD is responsible for managing and overseeing the credit risk profile of the MSI Group, including the design and oversight of the credit risk and limits framework covering the independent identification, analysis, monitoring, reporting and escalation of credit risks.

In order to help protect the MSI Group from losses resulting from its business activities, CRMD establishes practices to evaluate, monitor and control credit risk exposure at the transaction, obligor and portfolio levels. CRMD analyses material lending and derivative transactions and helps to ensure that the creditworthiness of the MSI Group's counterparties and borrowers is periodically reviewed and that credit exposure is actively monitored and managed.

Credit Risk Policies and Procedures

CRMD policies and procedures applicable to the MSI Group aim to ensure the identification of credit risks, compliance with established limits, requisite approvals for extensions of credit, and escalation of risk concentrations to appropriate senior management.

Credit Risk Limits

The MSI Group Credit Limits Framework ("CLF") is one of the primary tools used to monitor, manage, and control credit risk exposures. The MSI Board approves limits that reflect the credit risk tolerance of the MSI Group and serve as a basis from which more detailed limits are established.

The CLF includes single name limits (e.g., counterparty, lending, settlement and treasury) and portfolio concentration limits by country, industry and product type. The MSI Group's credit limits restrict potential credit exposure to any one borrower or counterparty and to groups of connected borrowers or counterparties. The limits are assigned based on multiple factors including the size of counterparty, the counterparty's Probability of Default ("PD"), the perceived correlation between the credit exposure and the counterparty's credit quality, and the Loss-Given Default ("LGD") and tenor profile of the specific credit exposure taking into account the effect of enforceable netting and eligible collateral.

To ensure that credit limits are consistent with the MSI Group's credit risk appetite, a comprehensive process has been established whereby CRMD evaluates relevant quantitative and qualitative factors to make an informed decision when recommending or setting credit limits. CRMD develops and calibrates MSI Board and EMEA Risk Committee credit risk Single Name and Portfolio limits by assuming full utilisation of the corresponding credit limit (i.e., "limit-long" assumption) in order to derive a limit-long stress loss. Limit-long stress losses are then compared to concentration thresholds which vary by the type of credit limit (i.e., Single Name or Portfolio). For example, any single industry limit-long stress loss may account for no more than a specified percentage (i.e., the concentration threshold) of the MSI Group's risk appetite.

Credit Evaluation

Credit Professionals in the CRMD evaluate obligors and determine Credit Risk appetite before an initial transaction is approved. The evaluation may involve due diligence meetings and ongoing direct interaction with clients. Through close coordination with the first line of defence and regular credit meetings with Sales & Trading representatives, Credit Professionals are informed about business initiatives and new requests but are also able to communicate credit decisions effectively and highlight credit concerns early. This allows the Credit Professionals to influence the structure of a proposed transaction prior to it being submitted for approval.

10.2 Credit Risk Capital Requirements

The regulatory framework distinguishes between credit risk and CCR capital requirements.

The credit risk capital component reflects the capital requirements attributable to the risk of loss arising from a borrower failing to meet its obligations and relates to investments made in the Non-Trading Book such as loans and other securities that the MSI Group holds until maturity with no intention to trade.

CCR exposure arises from the risk that counterparties are unable to meet their payment obligations under contracts for traded products including derivatives and SFTs. The distinction between credit risk and CCR exposures is due to the bilateral nature of the risk for CCR exposures, see Section 10.4 Counterparty Credit Exposures.

RWAs are determined using the regulatory approved FIRB approach which reflects the MSI Group’s internal estimate of a borrower or counterparty’s creditworthiness.

For exposures not covered by the FIRB approach, the SA is applied, typically for certain business units which are non-significant and certain exposure classes or types of exposures, which are immaterial in terms of size and perceived risk profile. This is consistent with the scope of MSI Group’s regulatory approved FIRB approach.

The SA assigns fixed risk weights to the following exposure classes in accordance with the CRR: Central Governments and Central Banks, Corporates, Institutions, Multilateral Development Banks, International Organisations, Public Sector Entities, Regional Governments and Local Authorities.

Credit Risk RWAs flow statements

Table 13 summarises the movements of RWAs for the MSI Group and MSIP’s credit risk exposures under the Internal Ratings Based ("IRB") approach.

Table 13: RWAs flow statements of credit risk exposures under the IRB approach (UK CR8) – MSI Group and MSIP

$MM		a MSI Group RWAs	a MSIP RWAs
1	**RWAs as at the end of the previous reporting period**[1]	**6,044**	**2,638**
2	Asset size	191	405
3	Asset quality	2	(94)
4	Model updates	-	-
5	Methodology and policy	-	-
6	Acquisitions and disposals	-	-
7	Foreign exchange movements	-	-
8	Other	-	-
9	**RWAs as at the end of the reporting period**	**6,237**	**2,949**

1. Previous reporting period was Q3’23.

Over the fourth quarter of 2023, MSI Group and MSIP's RWAs increased mainly due to cash exposure.

External Credit Risk Assessments

External credit risk assessments are used within the MSI Group as part of the determination of risk weightings for exposure classes.

MSI Group has nominated three External Credit Assessment Institutions (“ECAI”) for this purpose – Moody’s Investor Service (“Moody’s”), Standard and Poor’s rating agency (“S&P”) and Fitch Ratings (“Fitch”).

When calculating the risk-weighted value of an exposure using ECAI risk assessments for either Trading Book or Banking Book exposures, the ratings are pulled from a central database using client identifiers. The systems then map ECAI ratings to Credit Quality Step (“CQS”) to derive the relevant risk weight. All other exposure classes are assigned risk weightings as prescribed in the CRR.

If more than one rating is available for a specific counterparty, the selection criteria as set out in Article 138 CRR are applied in order to determine the relevant risk weight for the capital calculation.

Table 14 summarises the CQS and associated ratings for the three nominated ECAI used within MSI Group for the determination of Standardised risk weights.

Table 14: External Credit Assessments Institutions – MSI Group

CQS	Moody's	Standard & Poor's / Fitch
1	Aaa to Aa3	AAA to AA-
2	A1 to A3	A+ to A-
3	Baa1 to Baa3	BBB+ to BBB-
4	Ba1 to Ba3	BB+ to BB-
5	B1 to B3	B+ to B-
6	Caa1 and below	CCC+ and below

Internal Ratings Based Approach

The MSI Group has permission to use the FIRB approach for the calculation of credit and CCR capital requirements. The permission covers material portfolios and is applicable to exposures to Central Governments, Central Banks, Institutions and Corporates.

The MSI Group leverages the FIRB process for internal risk management processes. Internal ratings are used in the sizing of credit limits and influence the terms under which credit exposures are undertaken, including collateral and documentation.

Rating Process

Credit Risk Management expresses the creditworthiness of each obligor by assigning it a rating. The rating scale includes 17 grades on a scale from AAA to CCC, plus a single category for defaulted obligors.

Each rating is linked to a single name credit limit appetite and mapped to a specific PD. To monitor the credit risk of the portfolio, the MSI Group uses internally approved rating models to estimate various risk parameters related to each obligor.

Ratings are assigned using methodologies based on quantitative and qualitative obligor risk drivers. These include but are not limited to obligor's financial statements, market position, strategy, management, legal and environmental, industry dynamics and relevant other financial data. Outputs from the models are supplemented by expert judgment to include exogenous factors not captured by the methodology in the final rating.

MSI Group's FIRB wholesale exposures fall into the following exposure classes: Central Governments or Central Banks, Institutions and Corporates. The Central Governments or Central Banks exposure class mainly includes traded products, lending and treasury exposures to Sovereign Governments, Central Banks, Government Guaranteed Entities, Government Guaranteed Banks and Supranational.

The Sovereign ratings process, used for Central Governments or Central Banks, applies a statistical shadow rating methodology based on quantitative and qualitative factors which incorporates consideration of the financial systems, legal and regulatory risks (e.g., macro-prudential supervision). There are 3 key models in this portfolio. The differences observed between PD and actual default rates can be attributed to the high-quality portfolio and conservative PD, resulting in fewer observed defaults.

The Institutions exposure class mainly includes traded products, lending and treasury exposures to banks and broker-dealers. There are 4 key models in this portfolio. The ratings process for Institutions applies a statistical shadow rating methodology that is based on a range of risk factors including capital adequacy, asset quality, earnings, funding and management. The regulatory environment and implicit government support is incorporated where applicable and permitted. The differences observed between PD and actual default rates can be attributed to the high-quality portfolio and conservative PD, resulting in fewer observed defaults.

The Corporates exposure class mainly includes traded products and lending to wholesale counterparties. There are 12 key models in this portfolio. The ratings process for Corporates applies different statistical shadow rating methodologies depending on the industry to which the obligor belongs. The general characteristics employed include quantitative factors such as leverage, interest coverage, cash flow and company size, as well as qualitative factors such as industry and business risk, market position, liquidity/funding, event risk, management and corporate governance. Implicit government support may be incorporated where applicable and permitted. The differences observed between PD and actual default rates can be attributed to the high-quality portfolio and conservative PD, resulting in fewer observed defaults.

Rating Philosophy and PD Estimation

The MSI Group internal rating process and philosophy are similar to S&P’s, and the qualitative definitions of rating grades are aligned. MSI Group uses several rating models to rate its client portfolio. Ratings are applied consistently for both credit risk capital and risk management purposes. Rating outputs from the models map to a uniform PD Master Scale, employed for all wholesale exposures.

For the calibration of the PD Master Scale, Credit Risk Management maps internal ratings to S&P ratings and then applies S&P’s extensive default history to determine the PD. Minor adjustments are made for specific items, such as preserving the monotonic relationship among rating grade PDs. The regulatory floor of 0.03% is applied for counterparties which are not defined as Sovereign. The appropriateness and conservatism of the S&P default rates are modelled and validated statistically.

The MSI Group takes different approaches to estimate PDs for its low default portfolio (“LDP”) and its non-LDP.

The MSI Group calculates PD for the non-LDP based on the long-run average of S&P’s annual corporate default rates from 1981 to 2014. The incorporation of this data period ensures that the PD is representative of a long-run average default rate and therefore appropriate. The methodology employs an update rule, to determine the appropriateness of an update in the PDs based on annual data becoming available.

Portfolios where MS has experienced less than 20 defaults historically, and where no external default data is available for the reliable estimation of PDs are classified as low default. The methodology for deriving PDs for the LDP, is based on a Bayesian approach, and derives a single scaling factor that is used to scale the non-LDP PD into an appropriate and conservative PD for the LDP. This scaling factor is floored such that LDP must be equal to or higher than non-LDP PDs.

The MSI Group confirms through an internal validation process that the PD values it uses are prudent when compared to actual Morgan Stanley Group default experience. The MSI Group uses supervisory-prescribed factors to calculate LGDs and conversion factors.

Control Mechanisms for the Rating System

The rating system and its components are validated on a periodic basis. The model validation process is independent of the internal models’ development, implementation and operation and is run by the Model Risk Management ("MRM") group as the second line of defence. The validation process includes independent review of the model’s performance and conceptual soundness in line with the validation activity required every time. There are three main validation activities: initial review, annual recertification and revalidation. Additional to these activities, MRM reviews any material model changes. The validation process includes the following activities: assessment of the model’s conceptual soundness, evaluation of the model specialist document, assessment of data quality and developmental tests, attestation of the model’s sensitivity to key inputs and assumptions, the model performance, benchmarking to alternative models and diagnostic testing. Model governance committees are in place to provide appropriate technical and business review and oversight. Internal Audit Department serves as the third line of defence with regard to the internal rating model development process and practices, through independent review it performs periodically.

On a regular basis a Model Risk Update is provided to relevant governance forums including the MSI Board which contains a model health assessment of the IRB models across rating templates and PD Calibration.

The performance of the rating system is assessed on a quarterly basis. This includes a review of key performance measures including a comparison of internal ratings versus agency ratings, the ratings of defaulted parties, the transitions across grades, and an analysis of expert overrides.

Non-Trading Book Equity Exposure and Specialised Lending

The MSI Group applies the IRB simple risk weight approach for equity exposures falling outside of the Trading Book. The majority of these equity positions are held as hedges for employee long-term compensation schemes. A Specialised Lending Slotting methodology is used in capital calculation for loans secured by Income Producing Real Estate, where applicable.

Table 15 shows the MSI Group and MSIP's equity exposures using the simple risk-weighted approach and, where appropriate, specialised lending.

Table 15: IRB (Specialised Lending and Equities) (UK CR10.5) – MSI Group and MSIP

	a	b	c	d	e	f
	Equity exposures under the simple risk-weighted approach					
	On-balance sheet exposures	Off-balance sheet exposures	Risk weight	Exposure value	RWAs	Expected loss amount
MSI Group[1]	$MM	$MM	%	$MM	$MM	$MM
Private equity exposures	-	-	190%	-	-	-
Exchange-traded equity exposures	195	-	290%	194	565	2
Other equity exposures[2]	2	12	370%	14	51	0
	86	-	1250%	86	1,071	-
Total	**283**	**12**		**294**	**1,687**	**2**
MSIP[1]						
Private equity exposures	-	-	190%	-	-	-
Exchange-traded equity exposures	194	-	290%	194	563	2
Other equity exposures[2]	1	12	370%	13	48	0
	-	-	1250%	214	1,392	-
Total	**195**	**12**		**421**	**2,003**	**2**

1. MSI Group and MSIP have no specialised lending.
2. Equity exposures subject to 1250% risk weight has been included under "Other equity exposures".

Over the second half of 2023, equity exposures decreased due to change in capitalisation of share-based compensation.

Credit Risk Adjustments

The calculation of credit risk adjustments is based on the Expected Credit Losses ("ECL").

The MSI Group recognises ECL for the following financial instruments that are not measured at Fair Value through Profit or Loss:

- financial assets measured at amortised cost;
- loan commitments, except those that can be net settled in cash or with another financial instrument; and
- financial guarantees.

ECL is calculated using three main components:

PD: for accounting purposes, the 12 month and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and over the remaining lifetime of the financial instrument respectively, based on conditions existing at the balance sheet date and future economic conditions.

LGD: the LGD represents expected loss conditional on default, taking into account the mitigating effect of collateral, including the expected value of the collateral when realised and the time value of money.

EAD: this represents the expected EAD, taking into account the expected repayment of principal and interest from the balance sheet date to the date of default event together with any expected drawdowns of the facility over that period.

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

A financial asset is considered "past due" where any amount of principal, interest or fee has not been paid at the date it was due. This definition is consistent for accounting and regulatory purposes. A financial instrument asset is considered 'impaired' when an ECL is recognised and presented as a ECL allowance (loss allowance).

- If, at the reporting date, there has not been a Significant Increase in Credit Risk ("SICR") of the financial asset since initial recognition then the loss allowance is calculated as the 12 month ECL, which represents the lifetime cash shortfalls that will result if a default occurs in the 12 months after the reporting date, weighted by the probability of that default occurring. Such financial instruments are referred to as being in Stage 1 of the impairment framework.

- If there has been a SICR since initial recognition, the loss allowance is calculated as the lifetime ECL, that is, the ECL that result from all possible default events over the remaining life of the financial instrument. Such financial instruments are referred to as being in Stage 2 of the impairment framework.
- If the credit risk has increased further, to the extent that the financial instrument is considered credit-impaired, these assets are referred to as being in Stage 3 of the framework.

In assessing the impairment of financial instruments under the ECL model, the MSI Group defines default in accordance with Credit Risk Management Department's policies and procedures. This considers whether the borrower is unlikely to pay its credit obligations to the MSI Group in full and takes into account qualitative indicators, such as breaches of covenants. For regulatory purposes, the definition of default includes a presumption that an obligor which is more than 90 days past due on a material credit obligation[3] to MSI Group has defaulted; conversely, for accounting purposes, financial assets which are 90 days past due on any obligation are presumed to have defaulted.

10.3 Credit Risk Mitigation

The MSI Group may seek to mitigate credit risk from its lending and trading activities in multiple ways, including netting, collateral, guarantees and hedges.

At the transaction level, the MSI Group seeks to mitigate risk through management of key risk elements such as size, tenor, financial covenants, seniority and collateral. At the obligor level, the MSI Group may reduce credit risk to a direct obligor by means of third party guarantees. Moreover, the MSI Group actively hedges its credit exposure through various financial instruments that may include single-name and structured credit derivatives.

In connection with its derivatives trading activities, the MSI Group generally enters into master netting and collateral arrangements with counterparties.

In connection with its lending activities, the MSI Group may use participations to transfer some rights and obligations of the lender without transferring record ownership. Additionally, the MSI Group may sell, assign or syndicate funded loans and lending commitments to other financial institutions in the primary and secondary loan market.

Netting

The MSI Group has policies and procedures in place for assessing the validity, enforceability and treatment of netting agreements with clients in connection with its derivative trading activities.

In order to net a group of similar exposures with a counterparty, a qualifying master netting agreement must be in place between Morgan Stanley Group and the counterparty. The agreement must be valid and legally enforceable. Upon an event of default, including in the event of bankruptcy or insolvency of the counterparty, all transactions within the netting set are terminated in a timely manner and a single net close-out amount is determined under a qualifying master netting agreement. Repo-style transactions must also be executed under an agreement that provides for the close-out on a net basis.

On-balance sheet exposures are generally based on the value per the financial statements. The MSI Group does not make use of on-balance sheet netting of loans and deposits in regulatory capital calculations. Off-balance sheet netting is not applied.

Collateral

The amount and type of collateral required by the MSI Group depends on an assessment of the creditworthiness of the counterparty, and any relevant regulation. Collateral held is managed in accordance with the MSI Group's guidelines and the relevant underlying agreements.

The MSI Group actively manages its credit exposure through the application of collateral arrangements. The use of collateral in managing OTC derivative risk is standard in the marketplace, and is governed by appropriate documentation, for example, the Credit Support Annex to the International Swaps and Derivatives Association documentation. In line with these standards, the MSI Group generally accepts only cash and G7 government bonds, corporate debt and main index equities as eligible collateral. Other securities may be accepted in securities lending, repo and prime brokerage, subject to haircuts based on assessments of collateral volatility and liquidity.

CRMD utilises an established infrastructure to manage, maintain and value collateral daily. Haircuts are taken on eligible collateral to act as a buffer against adverse price movements prior to liquidation of the collateral during the close-out process following a counterparty's default. Standard haircuts are reviewed periodically and during volatile markets.

3. Material credit obligations in line with the PRA Policy Statement 17/19 and EBA Guidelines on Definition of Default EBA/GL/2016/07.

For issuer concentration, in the case of Private Wealth Management ("PWM") Asia exposure where there is potentially no meaningful recourse in the event of a counterparty default, the reliance on any single issuer would be reflected directly against the credit limits of the issuer. Monitoring of issuer concentration across PB collateral, SFT collateral and OTC collateral is reviewed each month at the EMEA & MSI Credit Risk Committee.

For commercial real estate mortgage lending, third party appraisals are updated periodically or as may be required in the context of asset specific conditions or market developments. These updated appraisals are reviewed and evaluated by Credit Risk Management.

Guarantees

A guarantee may reduce the MSI Group's credit risk to a direct obligor through a documented arrangement in which a third party agrees to be responsible for some portion, or all, of the debt or obligation of a counterparty.

A guarantee is a financial guarantee, letter of credit, insurance or other similar financial instrument (other than a credit derivative) that allows one party (beneficiary) to transfer the credit risk of one or more specific exposures (guaranteed or reference exposure) to another party (guarantor or protection provider).

MSI Group maintains policies and procedures which set out the process for determining the eligibility of the guarantee. Only eligible guarantees can be used for risk mitigation purposes. The acceptable types of guarantors are sovereigns, certain supranational and multilateral development banks, banks and other financial institutions, and corporates that are rated at least investment grade.

Participations

The MSI Group also uses participation as one of the credit risk mitigation techniques. A participation is a documented agreement through which a lender transfers to a third party (which may include an affiliate), certain rights and obligations of the lender under the applicable credit agreement(s), or a portion thereof, without transferring record ownership (i.e., the participant does not become lender of record on the agent's books and records).

The total risk exposure amounts covered by eligible credit mitigations are displayed in Tables CR3 and CR4. For further detail, refer to Chapter 23 Appendix V: Additional Credit and Counterparty Credit Risk Tables.

10.4 Counterparty Credit Exposures

Counterparty credit exposures arise from client and business activities in derivatives and SFTs. The MSI Group leverages models under regulatory approved IMM and Standardised Methods for calculation of CCR exposures. The majority of Over The Counter ("OTC") derivatives and SFTs within the MSI Group are in scope of the IMM permission.

The central process in calculating CCR exposure under IMM is a Monte Carlo simulation, which generates independent realizations of market risk factors at future time horizons across a number of simulation paths. Each trade is revalued under the simulated market condition, with future collateral requirements along each simulation path determined by the simulated trade valuations. Finally, simulated trade values and collateral balances are aggregated based on netting agreements and legally confirmed enforceability to yield a distribution of CCR exposure across the simulation paths at each future time horizon. Selected measures of this distribution are then calculated to report CCR exposure and the full distribution is used for the capital requirements calculation. The most material risk factors are calibrated daily to market implied data, while other risk factors are calibrated based on three years or more of historical data.

Standardised Methods are applied for exposures not covered by IMM, including Standardised Approach for Counterparty Credit Risk ("SA-CCR") for derivatives and Financial Collateral Comprehensive Method or Master Netting Agreement for SFT.

Under SA-CCR, the EAD is comprised of the sum of two components, the Replacement cost ("RC") and the Potential Future Exposure ("PFE"), multiplied by a supervisory multiplier, alpha (1.4).

Table 16 shows a comprehensive view of the methods used to calculate CCR regulatory requirements and the main parameters used within each method for the MSI Group as at 31 December 2023.

Table 16: Analysis of CCR exposure by approach (UK CCR1) – MSI Group

$MM		a	b	c	d	e	f	g	h
	MSI Group	Replacement cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWAs
UK1	Original Exposure Method (for derivatives)	-	-	-	-	-	-	-	-
UK2	Simplified SA-CCR (for derivatives)	-	-	-	-	-	-	-	-
1	SA-CCR (for derivatives)	9,188	14,214		1.4	44,733	31,501	31,449	13,631
2	IMM (for derivatives and SFTs)	-	-	48,254	1.4	161,618	68,484	68,213	26,468
2a	*Of which securities financing transactions netting sets*	-	-	9,773	-	14,895	14,895	14,895	2,430
2b	*Of which derivatives & long settlement transactions netting sets*	-	-	38,481	-	146,723	53,589	53,318	24,038
2c	*Of which from contractual cross product netting sets*	-	-	-	-	-	-	-	-
3	Financial collateral simple method (for SFTs)	-	-	-	-	-	-	-	-
4	Financial collateral comprehensive method (for SFTs)[1]					22,078	22,078	22,078	5,807
5	VaR for SFTs					-	-	-	-
6	**Total**					**228,429**	**122,063**	**121,740**	**45,906**

1.SFTs Exposure reported Net.

Over the second half of 2023, Derivatives and SFT RWAs increased due to market movements and business volumes.

Table 17 summarises movements of RWAs for the MSI Group and MSIP's CCR exposures under IMM.

Table 17: RWAs flow statements of CCR exposures under IMM (UK CCR7) – MSI Group and MSIP

		a	a
$MM		MSI Group RWAs	MSIP RWAs
1	**RWAs at the end of the previous reporting period[1]**	**25,035**	**20,533**
2	Asset size	1,739	1,772
3	Credit quality of counterparties	(381)	(338)
4	Model updates (IMM only)	75	62
5	Methodology and policy (IMM only)	-	-
6	Acquisitions and disposals	-	-
7	Foreign exchange movements	-	-
8	Other	-	-
9	**RWAs at the end of the current reporting period**	**26,468**	**22,029**

1. Previous reporting period was Q3'23.

The increase in RWAs is mainly due to portfolio and market movements within OTC derivatives.

Exposures to Central Counterparties ("CCPs")

Table 18 shows the breakdown of the exposures by Qualifying Central Counterparties ("QCCPs") and non-QCCPs as at 31 December 2023 for the MSI Group.

Table 18: Exposures to CCPs (UK CCR8) - MSI Group

$MM		a	b
MSI Group		Exposure value	RWAs
1	**Exposures to QCCPs (total)**		**629**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	15,059	301
3	(i) OTC derivatives	5,050	101
4	(ii) Exchange-traded derivatives	6,807	136
5	(iii) SFTs	3,202	64
6	(iv) Netting sets where cross-product netting has been approved	-	-
7	Segregated initial margin	913	
8	Non-segregated initial margin	14,288	-
9	Prefunded default fund contributions	1,191	328
10	Unfunded default fund contributions	2,878	-
11	**Exposures to non-QCCPs (total)**		**633**
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	633	633
13	(i) OTC derivatives	-	-
14	(ii) Exchange-traded derivatives	633	633
15	(iii) SFTs	-	-
16	(iv) Netting sets where cross-product netting has been approved	-	-
17	Segregated initial margin	-	
18	Non-segregated initial margin	204	-
19	Pre-funded default fund contributions	14	-
20	Unfunded default fund contributions	18	-

Over the second half of 2023, there has been a decrease in OTC and listed derivative exposure with CCPs.

Wrong Way Risk

Specific wrong way risk arises when a transaction is structured in such a way that the exposure to the counterparty is positively correlated with the PD of the counterparty. For example, a counterparty writing put options on its own stock or a counterparty collateralised by its own or related party stocks. The MSI Group considers these correlations when approving transactions. Ongoing monitoring of transactions with specific wrong way risk is facilitated by systematic identification from inception of the trade throughout the entire lifecycle of the trade. Further, credit and capital exposures are adjusted to reflect the identified specific wrong way risk.

General wrong way risk arises when the counterparty PD is correlated with market or macroeconomic factors that affect the value of the counterparty's trades. General wrong way risk includes exposures correlated to sovereign default risk, which is subject to heightened monitoring and limits where appropriate, and exposure correlated to other market risk factors which is identified via single-factor stress tests. Where positions raise concerns, a risk mitigation strategy is agreed between CRMD and the business units.

Credit Valuation Adjustment

CVA capital requirements cover the risk of mark-to-market losses on the counterparty risk of derivatives. They are calculated using a combination of the Advanced Method based on internal modelling approaches and the Standardised Method.

Table 19 shows CVA by approach for the MSI Group as at 31 December 2023.

Table 19: Transactions subject to own funds requirements for CVA risk (UK CCR2) - MSI Group

$MM		a	b
MSI Group		Exposure value	RWAs
1	Total transactions subject to the Advanced method	32,466	11,945
2	(i) VaR component (including the 3× multiplier)		2,466
3	(ii) Stressed VaR component (including the 3× multiplier)		9,479
4	Transactions subject to the standardised method	28,751	11,159
UK4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)		
5	**Total transactions subject to own funds requirements for CVA risk**	**61,217**	**23,104**

Over the second half of 2023, an increase in CVA RWAs is due to an increase in exposures under the standardised method.

Derivatives and SFTs composition of collateral

Table 20 shows the breakdown of all types of collateral posted or received to support or reduce CCR exposures related to derivative transactions or to SFTs, including transactions cleared through a CCP as at 31 December 2023 for the MSI Group.

Table 20: Composition of collateral for CCR exposures (UK CCR5) - MSI Group

		a	b	c	d	e	f
$MM		Collateral used in derivative transactions				Collateral used in securities financing transactions (SFTs)	
		Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of collateral posted
MSI Group		Segregated	Unsegregated	Segregated	Unsegregated		
1	Cash	6,725	97,351	913	69,332	492,728	528,752
2	Debt	15,317	19,003	9,145	10,753	282,284	201,917
3	Equity	3,449	4,797	3,429	51	209,811	89,038
4	Other	818	640	808	2,633	38,595	7,950
5	**Total**	**26,309**	**121,791**	**14,295**	**82,769**	**1,023,418**	**827,657**

Over the second half of 2023, there is an increase in unsegregated cash collateral held for Derivatives and SFTs.

Credit Derivative Transactions

Table 21 shows the extent of an institution's exposures to credit derivative transactions broken down between derivatives bought or sold for the MSI Group.

Table 21: Credit derivatives exposures (UK CCR6) - MSI Group

$MM		a	b
MSI Group[1]		Protection bought	Protection sold
	Notionals		
1	Single-name credit default swaps	130,291	128,133
2	Index credit default swaps	231,277	235,637
3	Total return swaps	17,957	13,667
4	Credit options	78,025	83,961
5	Other credit derivatives	14,718	15,963
6	**Total notionals**	**472,268**	**477,361**
	Fair values		
7	Positive fair value (asset)	2,473	7,937
8	Negative fair value (liability)	(8,524)	(2,186)

1. Credit Derivatives are not used as a Credit Risk Mitigation techniques ("CRM") technique for RWAs benefits.

Over the second half of 2023, the MSI Group's gross notionals increased primarily due to index and credit options.

Collateral Impact of a Downgrade

In connection with certain OTC trading agreements and certain other agreements where the MSI Group is a liquidity provider to certain financing vehicles, the MSI Group may be required to provide additional collateral or immediately settle any outstanding liability balances with certain counterparties or pledge additional collateral to certain exchanges and clearing organisations in the event of a future credit rating downgrade irrespective of whether the MSI Group is in a net asset or net liability position.

The additional collateral or termination payments that may be called in the event of a future credit rating downgrade vary by contract and can be based on ratings by either or both of Moody's and S&P.

As at 31 December 2023, the future potential collateral amounts and termination payments that could be called or required by counterparties or exchanges and clearing organisations, in the event of one-notch or two-notch downgrade scenarios, from the lowest of Moody's or S&P ratings, based on the relevant contractual downgrade triggers, were $35MM and an incremental $89MM, respectively.

11. Securitisation

The MSI Group acts, or has historically acted, as an originator, sponsor, liquidity provider, servicer and derivative counterparty to its own originated and sponsored securitisations, as well as those of third-party securitisations. The MSI Group also acts as market maker for, and refinancer of securitised products in EMEA. The majority of the securitisation exposures in the MSI Group result from where MSI Group acts as market maker for, and refinancer of securitised products in EMEA.

The PRA Rulebook defines securitisation positions as a transaction or investment in which the credit risk associated with a receivable or pool of receivables is split into tranches and also has the following characteristics:

- Payments are dependent on the performance of the exposure or pool of exposures; and
- Subordination of the tranches defines the distribution of losses during the lifecycle.

Within the scope of the securitisation, the roles of originator, sponsor and investor are defined in accordance with the regulatory rules. In addition, a distinction is made between traditional and synthetic securitisation.

The MSI Group's strategy has been to use securitisations for customer facilitation. The MSI Group has engaged in securitisation activities related to commercial and residential mortgage loans, corporate bonds and loans, and other types of financial instruments.

The MSI Group participated as a book runner or lead manager in a number of new securitisations during 2023. The MSI Group did not originate or sponsor any new securitisations in 2023.

The MSI Group employs the Securitisation Standardised Approach ("SEC-SA"), Securitisation External Ratings Based Approach ("SEC-ERBA") and Default 1250% Approach to calculate the capital on its securitisation positions. MSI Group does not apply the Securitisation Internal Ratings Based Approach ("SEC-IRBA"). The MSI Group uses ratings from three ECAI: Moody's, S&P and Fitch across all types of exposures.

Table 22 shows the securitisation exposures and MCR within the MSI Group as at 31 December 2023.

Table 22: Securitisation exposures summary - MSI Group

$MM MSI Group	Trading book	Non-trading book
Exposures	939	343
MCR	358	118

Over the second half of 2023, MSI Group's securitisation exposures and capital requirements decreased. The decrease in capital requirements was primarily driven by reduced exposure in Non-Trading Book activity.

Table 23 shows securitisation exposures in the Non-Trading Book for MSI Group as at 31 December 2023.

Table 23: Securitisation exposures in the Non-Trading book (UK-SEC1) - MSI Group

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
$MM		Institution acts as originator							Institution acts as sponsor				Institution acts as investor			
		Traditional				Synthetic			Traditional		Synthetic		Traditional		Synthetic	
		STS		Non-STS					STS	Non-STS			STS	Non-STS		
MSI Group[1]			of which SRT[2]		of which SRT[2]		of which SRT[2]	Sub-total				Sub-total				Sub-total
1	**Total exposures**	-	-	**12**	-	-	-	**12**	-	-	-	-	-	**331**	-	**331**
2	Retail (total)	-	-	10	-	-	-	10	-	-	-	-	-	331	-	331
3	Residential mortgage	-	-	10	-	-	-	10	-	-	-	-	-	75	-	75
4	Credit card	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Other retail exposures	-	-	-	-	-	-	-	-	-	-	-	-	256	-	256
6	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Wholesale (total)	-	-	2	-	-	-	2	-	-	-	-	-	0	-	0
8	Loans to corporates	-	-	2	-	-	-	2	-	-	-	-	-	-	-	-
9	Commercial mortgage	-	-	-	-	-	-	-	-	-	-	-	-	0	-	0
10	Lease and receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Other wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

1. No Simple, Transparent and Standardised ("STS") as at 31 December 2023.
2. No Significant Risk Transfer ("SRT") as at 31 December 2023.

The above table represents the securitisation exposures broken down on the basis of retail and wholesale Non-Trading Book exposure where institution is acting as an originator, sponsor or investor. Currently MSI Group only has exposures acting as an originator and investor. Over the second half of 2023, MSI Group's securitisation exposures decreased primarily due to retail exposure under institution acting as an investor.

Table 24 shows securitisation exposures in the Trading Book for MSI Group as at 31 December 2023.

Table 24: Securitisation exposures in the trading book (UK-SEC2) - MSI Group

		a	b	c	d	e	f	g	h	i	j	k	l
$MM		Institution acts as originator				Institution acts as sponsor				Institution acts as investor			
		Traditional		Synthetic		Traditional		Synthetic		Traditional		Synthetic	
MSI Group		STS	Non-STS		Sub-total	STS	Non-STS		Sub-total	STS	Non-STS		Sub-total
1	**Total exposures**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**905**	**34**	**939**
2	Retail (total)	-	-	-	-	-	-	-	-	-	415	34	449
3	Residential mortgage	-	-	-	-	-	-	-	-	-	381	34	415
4	Credit card	-	-	-	-	-	-	-	-	-	-	-	-
5	Other retail exposures	-	-	-	-	-	-	-	-	-	22	-	22
6	Re-securitisation	-	-	-	-	-	-	-	-	-	12	-	12
7	Wholesale (total)	-	-	-	-	-	-	-	-	-	490	-	490
8	Loans to corporates	-	-	-	-	-	-	-	-	-	353	-	353
9	Commercial mortgage	-	-	-	-	-	-	-	-	-	137	-	137
10	Lease and receivables	-	-	-	-	-	-	-	-	-	-	-	-
11	Other wholesale	-	-	-	-	-	-	-	-	-	-	-	-
12	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-

The above table represents the securitisation exposures broken down on the basis of retail and wholesale Trading Book exposure where institution is acting as an originator, sponsor or investor. Currently MSI Group only has exposures acting as an Investor. Over the second half of 2023, MSI Group’s securitisation exposures decreased due to reduction in retail residential mortgage exposures.

Table 25 shows the securitisation positions broken down by SEC-SA capital approach and risk weight band within the MSI Group as at 31 December 2023.

Table 25: Securitisation exposures and capital requirements by standardised approach (SEC-SA) - MSI Group

$MM MSI Group[1]	Trading book exposure	Non-trading book exposure	Trading book MCR	Non-trading book MCR
Investor securitisations by risk weight				
>10% <=20%	200	-	2	-
>20%<=50%	-	-	-	-
Total	**200**	**-**	**2**	**-**

1. No STS as at 31 December 2023.

Over the second half of 2023, Trading Book exposures and capital requirements decreased due to SEC-SA positions in the 10% to 20% risk weight banding.

Table 26 shows the securitisation positions broken down by SEC-ERBA capital approach and risk weights band within the MSI Group as at 31 December 2023.

Table 26: Securitisation exposures and capital requirements by external ratings approach (SEC-ERBA) - MSI Group

$MM MSI Group[1]	Trading book exposure	Non-trading book exposure	Trading book MCR	Non-trading book MCR
Investor securitisations by risk weight				
<=10%	-	-	-	-
>10% <=20%	43	-	1	-
>20% <=50%	64	71	2	2
>50% <= 100%	73	-	4	-
>100% <=650%	171	95	39	37
>650% <1250%	122	-	83	-
1250%	17	17	17	17
Originator securitisations by risk weight				
<=10%	-	-	-	-
>10% <=20%	-	-	-	-
>20% <=50%	-	-	-	-
>50% <= 100%	-	2	-	0
>100% <=650%	-	10	-	2
>650% <1250%	-	-	-	-
1250%	-	-	-	-
Total	**490**	**195**	**146**	**58**

1. No STS as at 31 December 2023.

Over the second half of 2023, Trading Book exposures decreased primarily in the >10 to <20% risk weight band due to sold and downsized SEC-ERBA positions. Trading Book capital requirements increased due to new and upsized SEC-ERBA positions in the >650% to <1250% risk weight bandings.

Table 27 shows the securitisation positions broken down by Default 1250% (Risk Weight) capital approach within the MSI Group as at 31 December 2023.

Table 27: Securitisation exposures and capital requirements by default approach (1250% Risk Weight) - MSI Group

$MM MSI Group	Trading book exposure	Non-trading book exposure	Trading book MCR	Non-trading book MCR
Investor securitisations	237	148	198	60
Originator securitisations	-	-	-	-
Investor re-securitisations	12	-	12	-
Originator re-securitisations	-	-	-	-
Total	**249**	**148**	**210**	**60**

Over the second half of 2023, across investor securitisations requiring 1250% capital approach, Trading Book exposures decreased due to downsized positions, and capital requirements increased due to no senior tranche capping benefit during Q4'23. Non-Trading Book exposures and capital requirements decreased due to downsized positions.

Table 28 shows securitisation exposures in the Non-Trading Book and associated regulatory capital requirements - institution acting as an originator or sponsor for MSI Group as at 31 December 2023.

Table 28: Securitisation exposures in the Non-Trading book and associated regulatory capital requirements - institution acting as originator or as sponsor (UK-SEC3) - MSI Group

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
	$MM	Exposure values (by RW bands/deductions)					Exposure values (by regulatory approach)				RWAs (by regulatory approach)				Capital charge after cap			
	MSI Group	≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% / deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250% / deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250% / deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250% / deductions
1	**Total exposures**	**-**	**-**	**2**	**10**	**-**	**-**	**12**	**-**	**-**	**-**	**22**	**-**	**-**	**-**	**2**	**-**	**-**
2	Traditional transactions	-	-	2	10	-	-	12	-	-	-	22	-	-	-	2	-	-
3	Securitisation	-	-	2	10	-	-	12	-	-	-	22	-	-	-	2	-	-
4	Retail underlying	-	-	-	10	-	-	10	-	-	-	20	-	-	-	2	-	-
5	Of which STS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Wholesale	-	-	2	-	-	-	2	-	-	-	2	-	-	-	0	-	-
7	Of which STS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Synthetic transactions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The above table represents the securitisation exposures broken down as per traditional and synthetic Non-Trading Book exposure on the basis of regulatory approaches and risk weight banding where institution is acting as originator or as sponsor. Currently only the SEC-ERBA regulatory approach is applied to the exposures. Over the second half of 2023, there were no material movements.

Table 29 shows securitisation exposures in the Non-Trading Book and associated regulatory capital requirements - institution acting as investor for MSI Group as at 31 December 2023.

Table 29: Securitisation exposures in the Non-Trading book and associated regulatory capital requirements - institution acting as investor (UK-SEC4) - MSI Group

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
$MM		**Exposure values (by RW bands/deductions)**					**Exposure values (by regulatory approach)**				**RWAs (by regulatory approach)**				**Capital charge after cap**			
MSI Group		**≤20% RW**	**>20% to 50% RW**	**>50% to 100% RW**	**>100% to <1250% RW**	**1250% RW/ deductions**	**SEC-IRBA**	**SEC-ERBA (including IAA)**	**SEC-SA**	**1250%/ deductions**	**SEC-IRBA**	**SEC-ERBA (including IAA)**	**SEC-SA**	**1250%/ deductions**	**SEC-IRBA**	**SEC-ERBA (including IAA)**	**SEC-SA**	**1250%/ deductions**
1	**Total exposures**	**-**	**71**	**96**	**95**	**69**	**-**	**183**	**-**	**148**	**-**	**714**	**-**	**744**	**-**	**57**	**-**	**60**
2	Traditional securitisation	-	71	96	95	69	-	183	-	148	-	714	-	744	-	57	-	60
3	Securitisation	-	71	96	95	69	-	183	-	148	-	714	-	744	-	57	-	60
4	Retail underlying	-	71	96	95	69	-	183	-	148	-	714	-	744	-	57	-	60
5	Of which STS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Wholesale	-	-	-	-	0	-	-	-	0	-	-	-	0	-	-	-	0
7	Of which STS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Synthetic securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The above table represents the securitisation exposures broken down by traditional and synthetic Non-Trading Book exposure on the basis of regulatory approaches & risk weight bandings, where the institution is acting as an investor. Over the second half of 2023, MSI Group's RWAs decreased due to traditional retail exposures.

Table 30 shows exposures securitised by the institution - exposures in default and specific credit risk adjustments for the MSI Group as at 31 December 2023.

Table 30: Exposures securitised by the institution - Exposures in default and specific credit risk adjustments (UK-SEC5) - MSI Group

		a	b	c
$MM		**Exposures securitised by the institution - Institution acts as originator or as sponsor**		
		Total outstanding nominal amount		**Total amount of specific credit risk adjustments made during the period**
MSI Group			**Of which exposures in default**	
1	**Total exposures**	**12**	**-**	**-**
2	Retail (total)	10	-	-
3	Residential mortgage	10	-	-
4	Credit card	-	-	-
5	Other retail exposures	-	-	-
6	Re-securitisation	-	-	-
7	Wholesale (total)	2	-	-
8	Loans to corporates	2	-	-
9	Commercial mortgage	-	-	-
10	Lease and receivables	-	-	-
11	Other wholesale	-	-	-
12	Re-securitisation	-	-	-

Currently, the MSI Group only has exposures acting as an originator. There were no exposures in default as at 31 December 2023. Over the second half of 2023, there were no material movements.

In the event that the MSI Group acts as the originator of a securitisation, transfers of financial assets in the transaction are generally accounted for as sales when the MSI Group has relinquished control over the transferred assets and met CRR requirements for SRT. The gain or loss on sale of such financial assets depends, in part, on the previous carrying amount of the assets involved in the transfer (generally at fair value), the sum of the proceeds and fair value of the retained interests on the date of sale.

The MSI Group may retain interests in the securitised financial assets of one or more tranches of the securitisation. These retained interests are included at fair value. Any changes in the fair value of such retained interests are recognised through the profit and loss in the audited financial statements of the entity holding such interests.

The credit risk of the MSI Group's securitisations is controlled by actively monitoring and managing the associated credit exposures. The MSI Group evaluates collateral quality, credit subordination levels and structural characteristics of securitisation transactions at inception and on an ongoing basis, and manages exposures against internal limits.

The MSI Group follows a set of rigorous procedures for risk managing market risk on securitised products, evolving them with changes in market conditions:

- The MSI Group conducts an assessment of risk limits at least once a year, and more often if required. Market conditions, collateral quality, liquidity and downside risk are important factors for setting market risk limits.
- The MSI Group measures downside risk using various metrics, such as VaR and scenarios analysis, differentiating products based on collateral, seniority and liquidity.

12. Market Risk

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

The MSI Group manages the market risk associated with its trading activities at a division, business area and individual product level, and includes consideration of market risk at the legal entity level.

Sound market risk management is an integral part of the Morgan Stanley Group culture. The MSI Group is responsible for ensuring that market risk exposures are well-managed and monitored. The MSI Group Market Risk Department (“MRD”) is responsible for ensuring transparency of material market risks, monitoring compliance with establishing limits, and escalating risk concentrations to appropriate senior management. The MRD is an independent risk oversight group headed by the EMEA Head of Market Risk, who reports directly to both the EMEA CRO and the Global Head of Market Risk.

To execute these responsibilities, the MRD monitors the market risk against limits on aggregate risk exposures and performs a variety of risk analysis. Aggregate market risk limits are approved for MSI Group in line with the risk appetite set by the MSI Board. Additional market risk limits are assigned, as appropriate, to trading desks, products and/or regions and are commensurate with the aggregate limits. The MRD monitors market risk measures against limits in accordance with policies set by the MSI Board. Risk analysis includes monitoring VaR, stress testing and scenario analyses, regular reporting of risk exposures, and maintenance of the VaR and scenario analysis methodologies. The material risks identified by these processes are summarised and reported to senior management.

An Internal Model Approach ("IMA") permission has been granted by the PRA for MSIP and MSESE Consol, for use within the MSI Group on an aggregation plus basis. IMA Models are applied consistently across all sub-portfolios with the population in scope defined according to permission criteria. Models are independently reviewed on an annual basis by MRM, and changes to methodologies are approved by the Model Oversight Committee. The model validation process is independent of the Internal Models’ development, implementation, and operation. The validation process includes tests of the model’s sensitivity to key inputs and assumptions and evaluation of conceptual soundness.

The market risk management policies and procedures for the MSI Group are consistent with those of the Morgan Stanley Group and include escalation to the MSI Board and appropriate management personnel.

Risk Mitigation Policies

The MSI Group manages its trading positions by employing a variety of risk mitigation strategies. These strategies include diversification of risk exposures and hedging. Hedging activities consist of the purchase or sale of positions in related securities and financial instruments, including a variety of derivative products (e.g., futures, forwards, swaps, and options). Hedging activities may not always provide effective mitigation against trading losses due to differences in the terms, specific payoff characteristics or other basis risks that may exist between the hedge instrument and the risk exposure that is being hedged. Risk models are designed to ensure these differences are captured and appropriately capitalised.

The MSI Group manages and monitors its market risk exposures, including outright and basis risks, in such a way as to maintain a portfolio that the MSI Group believes is well-diversified in the aggregate with respect to market risk factors, and that reflects the MSI Group’s aggregate risk appetite as established by the MSI Board. The effectiveness of hedges and mitigants is monitored using processes such as risk and limit reporting.

12.1 Positions Included in the Trading Book

The MSI Group has a comprehensive framework of policies, controls and reporting to meet the requirements of the CRR for inclusion of positions in the Trading Book. The underlying policies, controls and reporting mechanisms cover a range of different aspects including trading intent, valuation, liquidity, restrictions, hedgeability, active management and transfers between the Trading and Non-Trading Books.

Governance is provided by the firm’s Banking Trading Committee whose role is to oversee the determination of the covered positions and the Banking or Trading designation in accordance with regulatory requirements. The committee acts as the adjudication forum for any positions where the appropriate designation is unclear. The Banking Trading Committee reports to the firm’s Basel Capital Steering Committee.

The Trading Book comprises financial instruments that are:

- held for trading intent or intent to hedge a trading position;
- free from restrictive covenants on tradability or for which the material risk elements can be hedged in a two-way market; and
- frequently/accurately valued and actively managed on a trading desk.

If a position fails to meet the Trading Book criteria, it will be classified as Non-Trading Book.

Trading Book positions are subject to market risk-based rules, with market risk capital requirements calculated using regulatory approved internal models or non-modelled standardised approaches.

The firm methodology for determining Non-Trading Book versus Trading Book classification is documented within the firm’s Trading Book, Banking Book and Covered Positions Boundary Policy. The policy outlines criteria for identifying and classifying trading book positions for the purpose of regulatory capital and market risk measurement and sets out associated roles and responsibilities across the business unit, finance, and other stakeholder groups. This policy is subject to annual review and sign-off.

A firm-wide framework establishes controls around initial Banking/Trading classification as well as ongoing monitoring to ensure the initial classification remains appropriate over time.

12.2 Value at Risk

The MSI Group uses the statistical technique known as VaR as one of the tools used to measure, monitor, and review the market risk exposures of its trading portfolios. The MRD calculates and distributes daily VaR-based risk measures to various levels of management.

VaR Methodology, Assumptions and Limitations

The MSI Group calculates VaR using a model based on historical simulation for general market risk factors and for name-specific equity risk, and on Monte Carlo simulation for name-specific risk in bonds, loans, and related derivatives. Market risk factors' daily moves are modelled either as absolute changes or relative changes, dependent on the most suitable stochastic process (normal or lognormal diffusion process) to describe the daily risk factor changes. The model constructs a distribution of hypothetical daily changes in the value of trading portfolios based on historical observation of daily changes in key market indices or other market risk factors, and information on the sensitivity of the portfolio values to these market risk factor changes.

The methodology for VaR at Morgan Stanley Group is 1-year historical simulation. VaR profit and losses are composed of greek and full-revaluation grid based risk measures in combination with complete full-revaluation based profit and losses. Historical simulations cover both systematic and specific risk components. The total simulated profit and loss of a given position for each simulation date in the historical window is calculated taking into account both systematic and specific risk components of the market factor moves. The final profit and loss distribution is a result of profit and losses of all risk factors and all positions being aggregated. The time series data is updated on a weekly basis, with the exception of idiosyncratic risk factors which are updated quarterly. The same valuation and aggregation approach is used for Stressed Value at Risk (“SVaR”).

Specifically, as part of continued risk model enhancements, the majority of positions booked under the Institutional Equity Division ("IED") have been migrated over to a complete full-revaluation based VaR profit and loss calculation methodology. This framework lets the MSI Group better capture a broader spectrum of risks than greek and grid based approaches would allow by inherently expanding the coverage to higher order and cross effects as well.

A set of internal processes and controls ensure that all relevant trading positions booked by the MSI Group are included in VaR. The MSI Group's 99%/one-day VaR corresponds to the unrealised loss in portfolio value that, based on historically observed market risk factor movements, would have been exceeded with a frequency of 1%, or once every 100 trading days, if the portfolio were held constant for one day. The 99th percentile is computed and is scaled by the square root of 10 to arrive at a 10-day VaR for regulatory purposes. The 95th percentile 1-day VaR is used by the MRD internally to manage risk and to base the legal entity VaR limits on.

The MSI Group uses VaR as one of a range of risk management tools. Among their benefits, VaR models permit estimation of a portfolio's aggregate market risk exposure, incorporating a range of market risks and portfolio assets. One key element of the VaR model is that it reflects portfolio diversification or hedging activities. However VaR has various limitations which include but are not limited to: use of historical changes in market risk factors, which may not be accurate predictors of future market conditions, and may not fully incorporate the risk of extreme market events that are outsized relative to observed historical market behaviour or reflect the historical distribution of results beyond the 99% confidence interval; and reporting of losses in a single day, which does not reflect the risk of positions that cannot be liquidated or hedged in one day. The modelling of the risk characteristics of some positions relies on approximations that, under certain circumstances, could produce significantly different results from those produced using more precise measures. VaR is most appropriate as a risk measure for trading positions in liquid financial markets and will understate the risk associated with severe events such as periods of extreme illiquidity.

The MSI Group is aware of these and other limitations and therefore uses VaR as only one component in its risk management oversight process. This process also incorporates stress testing and scenario analysis and extensive risk monitoring, analysis, quantification of risk not captured in VaR, and control at the trading desk, division and the MSI Group levels.

The MSI Group performs continuous review and enhancement of VaR methodologies and assumptions in order to capture evolving risks associated with changes in market structure and dynamics. As part of regular process improvement, additional systematic and name-specific risk factors may be added to improve the VaR model's ability to estimate risks more accurately for specific asset classes or industry sectors.

Since the reported VaR statistics are estimates based on historical data, VaR should not be viewed as predictive of the MSI Group's future revenues or financial performance. There can be no assurance that the MSI Group's actual losses on a particular day will not exceed the VaR amounts indicated below or that such losses will not occur more than once in 100 trading days. VaR does not predict the magnitude of losses which, should they occur, may be significantly greater than the VaR amount.

VaR statistics are not readily comparable across firms because of differences in the firms' portfolios, modelling assumptions and methodologies. These differences can result in materially different VaR estimates across firms for similar portfolios. The impact of such differences varies depending on the factor history assumptions, the frequency with which the factor history is updated and the confidence level. As a result, VaR statistics are more useful when interpreted as indicators of trends in a firm's risk profile rather than as an absolute measure of risk to be compared across firms.

Backtesting

MSI Group performs regulatory backtesting for MSIP and MSESE Consol on a daily basis at various levels of the business hierarchy to validate the accuracy of the VaR model. Backtesting is performed against the VaR model in accordance with requirements under the regulation, and per the firm's Backtesting Policy and Procedures. As at 31 December 2023, 68% of total MSI Group market risk capital requirements are covered by the internal models. VaR represents a subset of total model-based market risk capital requirements.

Backtesting compares the profit and loss for trade date T against the 99%/one-day Regulatory Trading VaR for T-1. As per the requirements of the CRR rules, backtesting uses "actual" and "hypothetical" definitions of the profit and loss. Backtesting on hypothetical changes in the portfolio's value refers to a comparison between the portfolio's end-of-day value and, assuming unchanged positions, its value at the end of the subsequent day. Backtesting on actual changes in the portfolio's value refers to a comparison between the portfolio's end-of-day value and its actual value at the end of the subsequent day (i.e., inclusive of intra-day trading/new activity). Both measures of the backtesting profit and loss exclude non risk-based fees (i.e., service fees), commissions, and net interest income. For the purposes of the regulatory backtest, actual profit and loss incorporates bid/offer and model-driven fair value adjustments whilst hypothetical profit and loss retains only the latter.

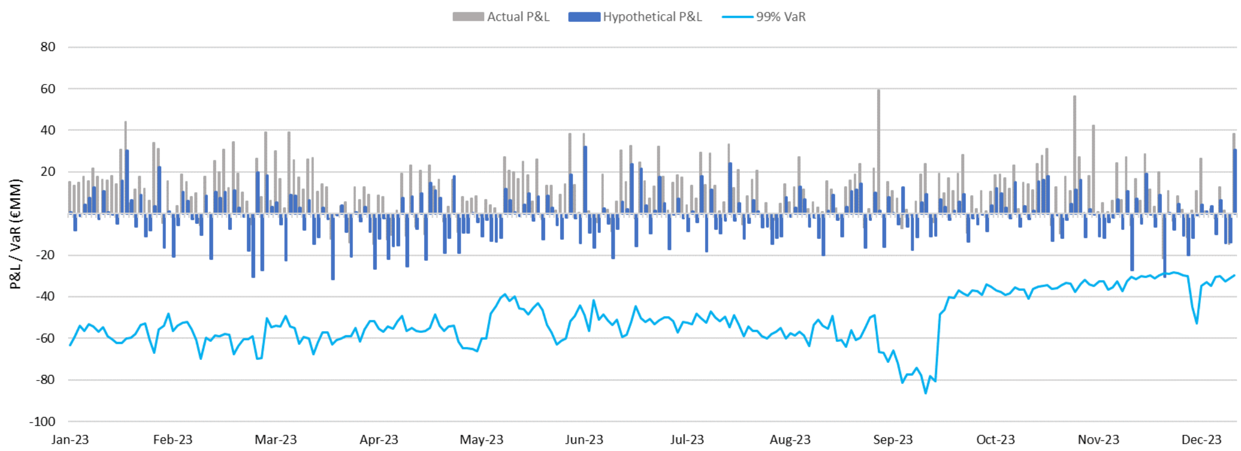
Performance is measured across a rolling 250 business day period and is expressed by the number of exceptions observed (instances where MSIP or MSESE Consol, actual or hypothetical, losses exceed 99% VaR). These exceptions are reported to the regulator. Firms observing five or more exceptions within the measurement period are required to set aside additional market risk capital based on a sliding scale.

Backtesting results are reported, analysed, and discussed by the MSI Group Market Risk Backtesting Review Forum. Findings or recommendations from this forum are escalated to Model Oversight and Risk Committees, who are responsible for authorising any further model analysis or model remediation efforts. The results of backtesting and model performance monitoring are also reported to the regulator on a periodic basis.

The plots of actual and hypothetical profit and loss, covering 250 business days of MSIP backtesting monitoring to 31 December 2023 are displayed below:

Figure 4: Comparison of VaR Estimates with Gains/Losses - MSIP (UK MR4)

The graphs below show the 1-day Regulatory Trading VaR against actual and hypothetical profit and loss for MSIP, values in millions of dollars:

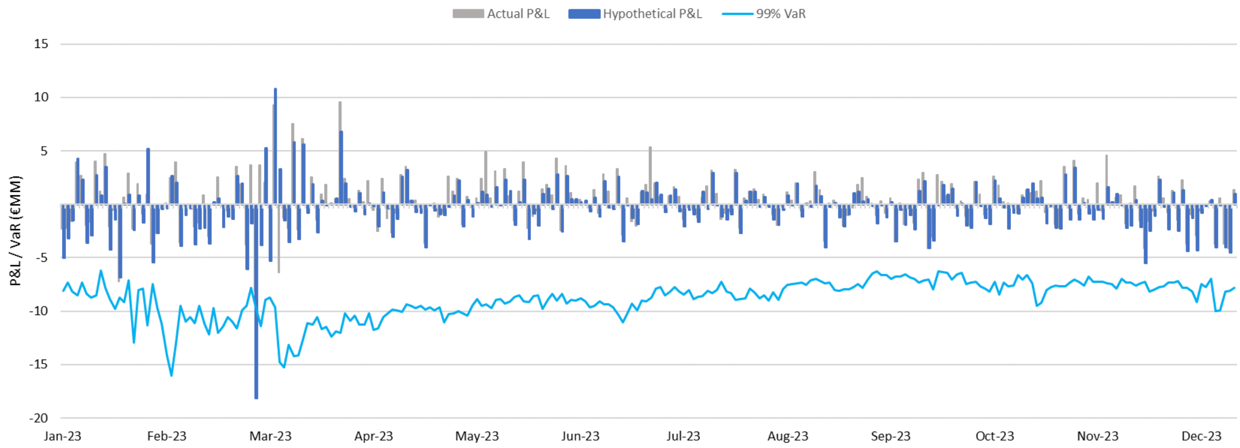


For the measurement period ended 31 December 2023, one hypothetical and zero actual profit and loss exception was observed for MSIP which equates to the Green zone for capital multiplier addend purposes (less than five exceptions). The analysis of the December 2023 hypothetical only exception concluded that this was primarily driven by elevated market moves in risk factors that were captured in the VaR model with sufficient granularity.

The plots of actual and hypothetical profit and loss, covering 250 business days of MSESE Consol backtesting monitoring to 31 December 2023, are displayed below:

Figure 5: Comparison of VaR Estimates with Gains/Losses – MSESE Consol (EU MR4)

The graphs below show the 1-day Regulatory Trading VaR against actual and hypothetical profit and loss for MSESE Consol, values in millions of dollars:



For the measurement period ended 31 December 2023, one hypothetical and zero actual profit and loss exceptions were observed for the MSESE Consol which equates to the Green zone for capital multiplier addend purposes (less than five exceptions). Morgan Stanley's analysis of the March 2023 hypothetical only exception concluded that this was primarily driven by elevated market moves in risk factors that were captured in the VaR model with sufficient granularity and did not indicate any model deficiencies.

12.3 Stressed VaR

SVaR uses the same underlying models as VaR to produce a 1-day 99% VaR constructed over a 1-year period of stress. SVaR uses historical simulations for the general market risk factors and for name-specific risk in corporate shares, and Monte Carlo simulation for name specific risk in bonds, loans, and related derivatives. The SVaR model is agreed and approved by the PRA for use in regulatory calculations. Stressed 10-day VaR is constructed by scaling the Stressed 1-day VaR.

The SVaR window for regulatory calculations is periodically set as the 1-year Unadjusted VaR window since the start of 2 January 2006 that generates the largest financial stress to the MSI Group's portfolio as measured by the resulting VaR.

12.4 Incremental Risk Charge

The Incremental Risk Charge ("IRC") covers possible losses arising from correlated credit rating migration events and potentially joint default events for credit products in the MSI Group's Trading Book portfolio. The model is applied to instruments with credit-like characteristics referencing corporate, sovereign, regional, supranational and agency obligors that are approved for specific risk treatment. This excludes securitisations and correlation trading products as these are capitalised separately. The model captures basis risks between credit derivatives and underlying reference instruments, maturity mismatches, regional and industry concentration risks, and simulates stochastic recovery rates.

The underlying model is based on a Merton style default modelling with a correlation structure between regions and industries that is calibrated to market implied default probabilities, and that uses through the cycle, historical transition matrices for rating migrations. The IRC model applies a constant level of risk with varying liquidity horizons of 3, 6 or 12 months reflective of underlying market liquidity and position concentrations in individual issuers.

MSI Group monitors various IRC model sensitivities and assumptions, including concentration sensitivities across industry, region, rating and security type, sensitivity to the "constant level of risk" assumption, and conservatism of stochastic loss given default.

Table 31 outlines the average liquidity horizons for each division, which are assigned based on the constituent issuers' rating and concentration.

Table 31: IRC liquidity horizon (months) for material sub portfolios – MSIP / MSESE Consol

	MSIP	MSESE Consol
Fixed Income Division	4.69	4.13
Institutional Equity Division	4.46	3.18
Institutional Securities Other	4.23	-
Overall Portfolio	**4.54**	**3.70**

12.5 Comprehensive Risk Measure

The Comprehensive Risk Measure ("CRMe") covers possible losses in the Correlation Trading Portfolio ("CTP") arising from moves in credit spreads, base correlations, expected recovery, and basis risks including index versus single name, as well as defaults with stochastic recovery rates. The model is applied to correlation trading positions and their hedges, and assumes a constant level of risk and a fixed liquidity horizon of 6 months given underlying market liquidity and the MSI Group CTP inventory.

CRMe applies Monte Carlo simulations to a Merton style default modelling and separate but correlated multifactor processes for the modelled market risk factors. Profits and losses are calculated using the simulated market movement in the model calculated based on their time to expiry at the calculation date.

Market variables, including correlations, are calibrated to historical data, and parameters of the default process are the same as those used in the IRC model. Base correlation curves are calibrated using hazard rates with an assumption of constant LGD.

MSI Group monitors the accuracy and consistency of the CRMe model via a review of the explanatory power and completeness of the core market risk factors set, and both supervisory and internally defined market stress scenarios.

12.6 Market Risk Capital Requirements

The market risk capital requirements of the MSI Group comprises of capital which is calculated using IMA in accordance with regulatory approved models and of capital which is calculated under the SA.

Standardised Approach

Table 32 shows the market risk RWAs for the MSI Group as at 31 December 2023, calculated in accordance with the SA and categorised by component type.

Table 32: Market risk under the standardised approach (UK MR1) - MSI Group

	$MM	a
	MSI Group	RWAs
	Outright products	
1	Interest rate risk (general and specific)	3,147
2	Equity risk (general and specific)	75
3	Foreign exchange risk	7,863
4	Commodity risk	487
	Options	
5	Simplified approach	-
6	Delta-plus method	590
7	Scenario approach	-
8	Securitisation (specific risk)	4,472
9	**Total**	**16,634**

Over the second half of 2023, MSI Group's capital requirements under the standardised approach decreased, primarily driven by commodity risk due to reduced oil and silver exposures.

Internal Model Approach

The VaR-based capital and the SVaR-based capital are determined by the higher of the 60-day average of the 10-day VaR/10-day SVaR numbers, multiplied by the regulatory internal model multiplication factor as prescribed by the PRA, and the 10-day VaR/10-day SVaR for the relevant day. The IRC and CRMe charges are determined by the higher of the average of the latest 12 weeks IRC/CRMe and the IRC/CRMe charge for the relevant day.

Table 33 shows the VaR and SVaR, as well as the IRC and CRMe measures for the MSI Group, as at 31 December 2023. The VaR and SVaR capital measures presented in Table 30 is based on the 60-day averages, as they were higher than the daily measures as at 31 December 2023.

Table 33: Market risk under Internal Model Approach (UK MR2-A) - MSI Group

$MM		a	b
MSI Group		RWAs	Own funds requirements
1	**VaR (higher of values a and b)**	**5,055**	**404**
(a)	Previous day's VaR (VaR t-1)	1,555	124
(b)	Multiplication factor (mc) x average of previous 60 working days (VaRavg)	5,055	404
2	**SVaR (higher of values a and b)**	**9,064**	**725**
(a)	Latest available SVaR (SVaRt-1)	2,993	239
(b)	Multiplication factor (ms) x average of previous 60 working days (sVaRavg)	9,064	725
3	**IRC (higher of values a and b)**	**7,374**	**590**
(a)	Most recent IRC measure	4,696	376
(b)	12 weeks average IRC measure	7,374	590
4	**CRMe (higher of values a, b and c)**	**-**	**-**
(a)	Most recent risk measure of comprehensive risk measure	-	-
(b)	12 weeks average of comprehensive risk measure	-	-
(c)	Comprehensive risk measure Floor	-	-
5	**Other**	**14,654**	**1,173**
6	**Total**	**36,147**	**2,892**

MSI Group market risk RWAs under the IMA approach decreased over the second half of 2023, due to reductions in VaR, SVaR and Risks Not in VaR ("RNIV") RWAs.

Table 34 summarises the key drivers of RWAs/TOFR for MSI Group and MSIP's market risk exposures under the IMA.

Table 34: RWA flow statements of market risk exposures under the IMA (UK MR2-B) - MSI Group and MSIP

$MM		a	b	c	d	e	f	g
MSI Group		**VaR**	**SVaR**	**IRC**	**Comprehensive risk measure**	**Other[4]**	**Total RWAs**	**TOFR**
1	**RWAs at previous period end[1]**	**7,840**	**9,247**	**9,035**	**-**	**19,439**	**45,561**	**3,645**
1a	Regulatory adjustment[2]	(4,148)	(5,901)	-	-	(9,329)	(19,378)	(1,550)
1b	RWAs at the previous quarter-end (end of the day)	3,692	3,346	9,035	-	10,110	26,183	2,095
2	Movement in risk levels	(600)	(1,616)	(4,332)	-	1,829	(4,719)	(378)
3	Model updates/changes	-	-	-	-	(350)	(350)	(28)
4	Methodology and policy	-	-	-	-	-	-	-
5	Acquisitions and disposals	-	-	-	-	-	-	-
6	Foreign exchange movements	-	-	-	-	-	-	-
7	Other[3]	(1,537)	1,263	(7)	-	(2,743)	(3,024)	(242)
8a	RWAs at the end of the disclosure period (end of the day)	1,555	2,993	4,696	-	8,846	18,090	1,447
8b	Regulatory adjustment[2]	3,500	6,071	2,678	-	5,808	18,057	1,445
8	**RWAs at the end of the disclosure period**	**5,055**	**9,064**	**7,374**	**-**	**14,654**	**36,147**	**2,892**
MSIP								
1	**RWAs at previous period end[1]**	**6,912**	**6,944**	**7,387**	**-**	**16,425**	**37,668**	**3,013**
1a	Regulatory adjustment[2]	(3,501)	(4,323)	-	-	(7,902)	(15,726)	(1,258)
1b	RWAs at the previous quarter-end (end of the day)	3,411	2,621	7,387	-	8,523	21,942	1,755
2	Movement in risk levels	(645)	(2,215)	(3,820)	-	2,029	(4,651)	(371)
3	Model updates/changes	-	-	-	-	(350)	(350)	(28)
4	Methodology and policy	-	-	-	-	-	-	-
5	Acquisitions and disposals	-	-	-	-	-	-	-
6	Foreign exchange movements	-	-	-	-	-	-	-
7	Other[3]	(1,531)	1,270	(3)	-	(2,744)	(3,008)	(241)
8a	RWAs at the end of the disclosure period (end of the day)	1,235	1,676	3,564	-	7,458	13,933	1,115
8b	Regulatory adjustment[2]	2,929	4,514	2,245	-	4,387	14,075	1,126
8	**RWAs at the end of the disclosure period**	**4,164**	**6,190**	**5,809**	**-**	**11,845**	**28,008**	**2,241**

1. Previous reporting period was Q3'23.
2. Regulatory adjustments accounts for the difference between the RWAs calculated based on the end-of-day position, compared with the RWAs calculated based on the 60-day average position in the case of VaR/SVaR and 12-week average position in the case of IRC and CRMe. The regulatory adjustments also account for the multiplication factors (mc) and (ms), per Article 366 of the CRR, for the VaR, SVaR and Other respectively.
3. Other (flow driver) represents low impact data and implementation changes including time series updates and periodic parameter updates to the respective models.
4. Other (risk measure) represents RNIV.

Over the fourth quarter of 2023, Modelled Market Risk RWAs for both MSI Group and MSIP decreased due to reductions in RNIV RWAs (driven by changes in the stressed window), VaR RWAs (due to lower volatility in the updated VaR window) and IRC RWAs (due to the changes in fixed income risk profile).

Table 35 provides a summary of the maximum, minimum, average, and period end values over the six months to 31 December 2023, for the MSI Group, resulting from the different models approved to be used for computing the regulatory capital charge.

Table 35: IMA values for trading portfolios (UK MR3) - MSI Group

	$MM MSI Group[1]	a
	VaR (10 day 99%)	
1	Maximum value	308
2	Average value	174
3	Minimum value	110
4	Period end	124
	SVaR (10 day 99%)	
5	Maximum value	467
6	Average value	246
7	Minimum value	159
8	Period end	239
	IRC (99.9%)	
9	Maximum value	873
10	Average value	584
11	Minimum value	309
12	Period end	376
	Comprehensive risk measure (99.9%)	
13	Maximum value	0
14	Average value	0
15	Minimum value	-
16	Period end	-

1. UK MR3 table excludes RNIVs from the VaR and sVaR calculations. RNIVs (including VaR-based and scenario-based charges) are aggregated into the 'Other' category, shown in table UK MR2-B.

MSI Group's VaR reduced over the second half of 2023 due to lower volatility in the updated VaR window, while sVaR and IRC movements were mainly driven by changes in the risk profile.

12.7 Stress Testing

The MSI Group has a comprehensive and dynamic Stress testing framework incorporating deterministic group-wide Macroeconomic and Climate Risk Stress tests, business area single and multi-factor scenarios, and reverse stress testing scenarios. Stress testing is one of the MSI Group's principal risk management tools used to identify and assess the impact of severe stresses on its portfolios. It complements other risk metrics by providing an assessment of MSI Group's resilience under stress scenarios over a range of severities. Stress testing methodologies are applied consistently across all sub-portfolios according to the MSI Group Stress Testing Procedure.

In addition to helping the MSI Group understand the risks it is exposed and/or vulnerable to under a range of scenarios, Stress testing is also used by the MSI Board to set the boundary for risk taking within the loss capacity of the MSI Group.

13. Interest Rate Risk in the Banking Book

Interest Rate Risk in the Banking Book (“IRRBB”) is defined as the risk of losses arising from adverse changes in the interest rate curves within the defined Banking Book population.

The MSI Group is exposed to interest rate risk primarily through the Trading Book which is captured in VaR. The MSI Group has IRRBB primarily arising from MSI Group’s funding and liquidity management. The interest rate risk is measured on a daily basis through firmwide risk systems, except for the risks on internal funding positions which are measured on a quarterly basis. The IRRBB risk is mitigated by Treasury executing financial products to manage liquidity, funding and capital, including cash, repo and reverse repo and interest rate derivatives as needed.

The Economic Value of Equity (“EVE”) sensitivity measures the present value of cash flows assuming a static current balance sheet over the life of underlying assets and liabilities while factoring in any embedded optionality. The sensitivity is measured using proprietary Position Valuation and Risk Models (“PVRM”) in the Front Office technology systems where the positions are captured and monitored using the sensitivity of the present value to a 1 basis point move of the underlying interest rate (“PV01”) interest rate delta sensitivity.

The Net Interest Income ("NII") sensitivity measures the potential loss on NII due to a predefined market rate stress event on a certain time horizon. Quantitative Risk Management ("QRM"), an external application, is used to measure and monitor the NII sensitivity of the MSI Group's Banking Book.

Table 36 shows the changes in the EVE and NII using the regulatory defined scenarios that impact the level and shape of the yield curve.

Table 36: Quantitative information on IRRBB (UK IRRBB1) - MSI Group

$MM		ΔEVE		ΔNII		Tier 1 capital	
Period							
MSI Group		T[2]	T-1[2]	T	T-1	T	T-1
010	Parallel shock up	39	34	650	702		
020	Parallel shock down	(78)	(68)	(636)	(688)		
030	Steepener shock	46	14				
040	Flattener shock	(94)	(32)				
050	Short rates shock up	(64)	(9)				
060	Short rates shock down	14	(11)				
070	**Maximum[1]**	**(94)**	**(68)**	**(636)**	**(688)**		
080	**Tier 1 capital**					**29,198**	**28,850**

1. The maximum value for EVE is determined as the largest loss observed across the scenarios.
2.“T” date refers to 31 December 2023. “T-1” refers to 30 June 2023.

There are limits on the impact to NII under a 200 basis point down shock and on the total IRRBB PV01 exposure. The down 200 basis point NII sensitivity decreased from $(694)MM on 30 June 2023 to $(640)MM on 31 December 2023, mainly due to hedge activity. For the same period, the total IRRBB PV01 exposure increased from $328K of gains per 1 basis point increase in interest rate levels to $390K of gains.

14. Operational Risk

Risk Management and Control

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

Operational risk relates to the following risk event categories as defined by Basel Capital Standards: internal fraud; external fraud; employment practices and workplace safety; clients, products, and business practices; business disruption and system failure; damage to physical assets; and execution, delivery, and process management.

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

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

In addition, the MSI Group employs a variety of risk processes and mitigants to manage its operational risk exposures. These include a governance framework, a comprehensive risk management programme and insurance.

Identification of Top Operational Risk ("TOR") Pathways and End Risks

The MSI Group has a structured process in place to determine its TORs. Pathways are defined as a means or threat by which a detrimental impact to the firm, markets or clients is generated. End Risks are defined as the final manifestation of risks. The MSI Group's Operational Risk Department ("ORD") reviews Operational Risk data elements and forms an understanding of the risk issues within the business units and infrastructure areas. ORD proposes additions, edits, and deletions of the MSI Group's TORs, supported by information and analytics performed. These proposals are presented to the governance committees to review, challenge and ultimately to recommend for adoption by the MSI Board.

As at 31 December 2023, the MSI Group Board approved TOR Pathways and End Risks are:

- Pathways:
  - Cyber
  - Third Party
  - Conduct
- End Risks:
  - Business Disruption and Resilience
  - Financial Crimes
  - Information Security
  - Market Abuse and Trading Practices
  - Reporting Errors
  - Sales Practice, Product and Investment Advisory Risk
  - Transaction Processing and Execution
  - Unauthorised Trading, Theft and Fraud

Management of Operational Risk

A variety of risk processes and mitigants are used to manage operational risk exposures. These include a strong governance framework, a comprehensive risk management programme and insurance. Operational risks and associated risk exposures are assessed relative to the risk tolerance established by the MSI Board and are prioritised accordingly. The breadth and variety of operational risk are such that the types of mitigating activities are wide-ranging. Examples of such activities include enhancement of defences against cyber-attacks; use of legal agreements and contracts to transfer and/or limit operational risk exposures; due diligence; implementation of enhanced policies and procedures; and segregation of duties.

The ORD provides oversight of operational risk management and independently assesses, measures, and monitors operational risk. The ORD works with the business units and control groups to help ensure a transparent, consistent, and comprehensive framework for managing operational risk within each area and across the MSI Group. The ORD scope includes oversight of the technology and data risk management programmes (e.g., cybersecurity), fraud risk management and prevention programme and a third-party risk management programme.

Morgan Stanley's Firm Resilience organisation is responsible for maintaining global programmes for Business Continuity Management and Disaster Recovery. The programs are designed to identify key risks and threats to the MSI Group's operational resiliency, to ensure that recovery strategies and required resources are in place for the resumption of critical business functions following a disaster or other business interruption. Disaster recovery plans are in place for critical technology assets and resources on an enterprise-wide basis.

The MSI Group's Cybersecurity and information security framework, which includes policies, procedures and technologies, is designed to protect the MSI Group's environment from operational risk failures due to actions of a malicious cyber actor. This includes protecting the MSI Group's own data, client data and the MSI Group's employees' data against unauthorised disclosure, modification or misuse and is also designed to address regulatory requirements. This framework covers a broad range of areas, including identification of internal and external threats, access control, data security, protective controls, detection of malicious or unauthorised activity, incident response and recovery planning.

Exposures to services provided by third parties including external vendors are managed through a variety of means, such as, the performance of due diligence, consideration of operational risk, implementation of service level and other contractual agreements, and ongoing monitoring of third parties' performance. The MSI Group maintains a third-party risk management programme with policies, organisation, governance and supporting technology that aligns with our risk tolerance and is designed to meet regulatory requirements. This includes a dedicated second line of defence team that, besides other governance tasks, performs testing of the accuracy of supervision performed by the divisions that own services.

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

In addition, the MSI Group has established procedures to mitigate the risk that a counterparty's performance obligations will be unenforceable, including consideration of counterparty legal authority and capacity, adequacy of legal documentation, the permissibility of a transaction under applicable law and whether applicable bankruptcy or insolvency laws limit or alter contractual remedies.

Operational Risk Governance

The responsibilities of key individuals and committees for the governance of Operational Risk, up to and including the MSI Board, are clearly understood and followed throughout the MSI Group. The implementation and operation of the Operational Risk Framework is overseen by forums at different levels in the MSI Group's governance structure. Key forums are:

- The EMEA Operational Risk Oversight Committee
- The Non-Financial Risk Management Committee
- The EMEA Risk Committee
- The MSI Risk Committee

Committees and governance forums that provide oversight of particular TOR End Risks, Pathways, Risk Themes and the effectiveness of their respective management frameworks include:

- EMEA Third Party Governance Committee
- EMEA Electronic Trading Governance Committee

Operational Risk Framework

The MSI Group's Operational Risk Policy and Procedures are reviewed and updated at least annually to articulate clearly the current design and implementation of the Operational Risk Management Framework. In particular:

- The MSI Group Operational Risk Management Policy;
- Key elements of the Framework covered by Policy include: Risk Appetite and Tolerance; Risk Assessment and Remediation; Scenario Analysis; Operational Risk Incident Management; Industry Incident Data; Operational Risk Metrics; Risk Measurement and Operational Risk Modelling; and Reporting and Escalation; and
- Underlying Procedures set out in detail the key processes which underpin the framework. In particular: Incident and Issue Reporting and Escalation; the Risk Control Self-Assessment ("RCSAs"); identification of Horizon Risks and Scenario Analysis workshops.

Operational Risk Reporting, Management Information and Escalation

Reporting and management information provide awareness of the state of Operational Risk throughout the governance chain, ensures appropriate budget to address control environment concerns, and enables MSI Group's senior management and the MSI Board to take action if Operational Risk becomes elevated within risk tolerance levels. Key management information reports include:

- Escalated incidents on a weekly basis;
- Lessons learned for selected incidents including the actions planned or taken to mitigate the Operational Risk going forward;
- Overall incident trends, emerging risks, and outsourcing;
- Operational Risk capital updates; and
- Operational Risk levels versus tolerance and key remedial actions and timelines.

Capital Assessment

Pillar 1: Capital requirements for Operational Risk are currently calculated under the BIA. As at 31 December 2023, the MSI Group's Operational RWAs were $15,654MM.

Pillar 2: The MSI Group recognises that the BIA is not a risk-based measure and therefore uses an Operational Risk modelling approach to calculate internal Operational Risk capital requirements. The MSI Group holds sufficient capital to cover the incremental capital requirement over and above the Pillar 1 requirement.

Table 37 shows operational risk own funds requirements and risk-weighted exposure amounts for MSI Group.

Table 37: Operational risk own funds requirements and risk-weighted exposure amounts (UK OR1) - MSI Group

$MM		a	b	c	d	e
MSI Group		Relevant indicator				
	Banking activities	Year-3	Year-2	Last year	Own funds requirements	RWAs
1	Banking activities subject to basic indicator approach ("BIA")	9,068	8,105	7,873	1,252	15,654
2	Banking activities subject to standardised ("TSA") / alternative standardised ("ASA") approaches	-	-	-	-	-
3	Subject to TSA:	-	-	-		
4	Subject to ASA:	-	-	-		
5	Banking activities subject to advanced measurement approaches AMA	-	-	-	-	-

MSI Group calculates RWAs for Operational Risk using the BIA. Capital charge of 15% is applied on adjusted average net profit of 3 prior years. RWAs is 12.5 times the capital charge.

15. Climate and Environmental Risk

15.1 Climate and Environmental Risk Management

Climate and environmental risks include impacts to biodiversity, pollution of land, water or air, climate change, deforestation and forest degradation, and other significant negative impacts on the environment as a result of human activities. Within climate and environmental risk, the risks arising from climate change are a particular area of focus.

Morgan Stanley Group approaches climate and environmental risks through two categories: transition risks and physical risks.

- **Transition Risks:** Transitioning to a low-carbon and more environmentally sustainable economy will entail extensive regulatory, policy, legal, technology and market initiatives as society adapts to climate change, mitigates climate change causes, and promotes a more sustainable environment. Depending on the nature, speed and focus of these changes, transition risks may pose varying types and levels of financial and reputational risk to businesses and other organisations.
- **Physical Risks:** These risks include both acute physical events such as flooding, and chronic physical risks related to longer-term shifts in climate patterns such as more frequent and prolonged drought and progressive shifts like biodiversity loss, land use change, habitat destruction and resource scarcity. Financial implications for organisations can range from direct asset damage to indirect impacts from supply chain disruption, driven by factors such as changes in water availability, food security and agricultural productivity. Extreme temperature changes may affect an organisation’s physical locations, operations, supply chain, transport needs and employee safety.

In addition, MSI Group may be exposed to litigation risk or reputational risk losses arising from statements or representations in relation to ESG matters which are later discovered to be incorrect or misleading.

Risk Identification and Materiality Assessment

As part of its established Risk Identification and Materiality Assessment process, MSI Group conducts granular risk identification and materiality assessments of climate and environmental risks. The risk inventory captures climate and environmental risks as drivers of existing risks. Risk events assessed for their impact on credit, market, liquidity and funding, and operational risks include: 1) transition risk driven by climate policy (carbon repricing and accelerated green technology) and other environmental policy (reduction of pollution); and 2) physical risk driven by climate events (extreme temperature, drought, wildfire, riverine flood, coastal floods, and storms) and other environmental events (biodiversity loss). In addition, the MSI Group assesses the impact of climate and environmental risks for their impact on litigation, reputational and strategic risk

In 2023 for MSI Group, climate transition risk driven by carbon repricing, or an accelerated green energy technology transition was assessed as material for credit risk exposures. Climate physical risks are assessed as non-material for credit risk. Climate transition and physical risks were assessed as non-material for MSI Group collateral positions. Operational risk (business disruption, litigation risk and reputational risk), liquidity and funding risk and strategic risk were assessed as non-material for climate and environmental risks given estimated losses fell below respective materiality thresholds. Climate risk is identified as a driver of existing material market risks. As the assessment is performed bi-annually, materiality is subject to change.

Risk Appetite and Limit Framework

The MSI Group Board-level Climate Stress Loss Limit is set across credit and market risks, which is reviewed on an annual basis. In addition to the Climate Stress Loss Limit, climate risk is incorporated into the Credit Risk Management Framework through industry sector limits to monitor physical and transition risks as well as country and obligor ratings. Limits and ratings are monitored as per standards in credit risk management policies and procedures.

Scenario Analysis and Stress Testing

Scenario Analysis is central to MSI Group’s Climate Risk Management Framework. Short-term transition risk stress testing is run monthly for credit and market risks. Physical risk is assessed and monitored in the materiality assessment that informs physical risks stress scenarios. Operational risk scenario analysis workshops are held to assess the impact of several climate-related scenarios, including physical risk scenarios. MSI Group has conducted an exploratory long-term scenario analysis, running two 30-year quantitative scenarios to model late action (transition risk) and no additional action (physical risk) scenarios to inform MSI Group strategy.

15.2 Metrics and targets

Climate Stress Loss Limit: MSI Group remained within its portfolio Climate Stress Loss Limit throughout 2023.

Credit Exposures: Exposures to industries with high climate transition or physical risk are subject to credit industry sector limits.

For further detail about these exposures, refer to the ESG report, found in 2023 Morgan Stanley & Co. International plc Report and Financial Statements.

16. Valuation Risk

Valuation risk represents the possibility that a valuation estimate of a position would differ from the price in an actual close-out transaction due to uncertainty around the actual price that could be obtained.

16.1 Fair Valuation

Valuation Control ("VC") within Finance is responsible for the MSI Group's fair value valuation policies, processes and procedures. VC implements valuation control processes designed to validate the fair value of the MSI Group's financial instruments measured at fair value including those derived from pricing models. There are three primary control processes that mitigate the risk of valuation errors:

- **Model Certification Process**: All models are certified before use and at least annually thereafter. New models (and enhancements to existing models) are developed by Strategists within the business units, who affirm they are appropriate for intended use. Senior Traders in the business units sign off that they have been involved in the development of the model and understand the model's assumptions and limitations. VC must approve the model by performing an independent review to ensure the valuation methodology and valuation outputs produced by the model are consistent with accounting standards. MRM, as part of the area Firm Risk Management, must approve the application of all models, being responsible for the independent oversight of model risks;
- **Mark Review Process**: VC performs a mark review process which covers the financial instruments inventory held at fair value by the MSI Group. VC ensures that the valuation generated by the business units is in compliance with accounting standards. This is performed by reviewing the appropriateness of the prices or pricing inputs applied to valuation models using approved valuation methodologies and independently sourced external pricing data. Variances are reviewed against VC's tolerance framework; variances above the tolerance thresholds are communicated to controllers for consideration as part of the general ledger close. Legal entity thresholds also exist and are reviewed annually in coordination with financial controllers.
- **Significant Transaction Analytical Review Process ("STAR")**: This process reconfirms that valuation methodologies are adequate and modelling uncertainty is appropriately addressed in all trades with significant gross day 1 profit and loss as defined by the STAR policy. There are three components to the STAR process: pre-execution review; post-execution review; and trade unwind review. Reviews are documented and must be presented to, and approved by, relevant STAR Committees.

16.2 Prudent Valuation

VC applies the prudent valuation regulatory standards as prescribed in CRR Article 105 Requirements for Prudent Valuation. VC has documented policies and procedures, and specific methodologies for each valuation exposure covered by the regulation. Prudent valuation consists of a series of AVAs required to mark the MSI Group's fair valued inventory to a prudent valuation. These AVAs are deducted from CET1 capital.

The AVAs represent adjustments to the point within a range of plausible values at which the MSI Group could exit a valuation exposure with 90% confidence or better. The AVAs reflect the valuation uncertainty associated with market price uncertainty, close-out costs, model risk, concentrated positions, unearned credit spreads, investing and funding costs, future administrative costs, early termination, and operational risk.

VC documents and affirms the Prudent Valuation AVAs as capital models which are independently certified on an annual basis by MRM in accordance with the Morgan Stanley Group's Global MRM Policy.

Table 38 shows prudent valuation adjustments for MSI Group.

Table 38: Prudent Valuation Adjustments (PVA) (UK PV1) – MSI Group

$MM		a	b	c	d	e	UK e1	UK e2	f	g	h
MSI Group		Risk category					Category level AVA - Valuation uncertainty				
Category level AVA		Equity	Interest Rates	Foreign exchange	Credit	Commodities	Unearned credit spreads AVA	Investment and funding costs AVA	Total category level post-diversification	Of which: Total core approach in the trading book	Of which: Total core approach in the banking book
1	Market price uncertainty	488	209	7	146	-	65	71	493	420	73
3	Close-out cost	215	110	11	28	-	22	-	193	184	8
4	Concentrated positions	36	116	2	35	-	-	-	189	173	16
5	Early termination	-	-	-	-	-	-	-	-	-	-
6	Model risk	209	217	2	15	-	98	120	330	230	100
7	Operational risk	36	23	1	9	-	-	-	69	60	8
10	Future administrative costs	7	29	-	10	-	-	-	46	46	-
12	**Total Additional Valuation Adjustments (AVAs)**								**1,319**	**1,114**	**205**

17. Liquidity Risk

17.1 Liquidity Risk Management

Strategies and processes in the management of liquidity risk

Liquidity and funding risk refers to the risk that the MSI Group will be unable to finance its operations due to loss of access to the capital markets or difficulty in liquidating MSI Group's assets. Liquidity risk, inherent to the MSI Group's business activities, is the risk that the MSI Group's financial condition or overall soundness is adversely affected by an inability or perceived inability to meet its financial obligations in a timely manner. Liquidity risk also encompasses the associated funding risks triggered by the market or idiosyncratic stress events that may cause unexpected changes in funding needs or an inability to raise new funding. Generally, MSI Group incurs liquidity and funding risk as a result of its trading, investing and client facilitation activities.

The core components of the Liquidity Risk Management Framework are the Required Liquidity Framework, Liquidity Stress Tests and Liquidity Resources, which support the target liquidity profile.

The Required Liquidity Framework establishes the amount of liquidity the MSI Group must hold in both normal and stressed environments to ensure that its financial condition and overall soundness are not adversely affected by an inability (or perceived inability) to meet financial obligations in a timely manner. The Required Liquidity Framework considers the most constraining liquidity requirement to satisfy all regulatory and internal limits at a consolidated and legal entity level.

The MSI Group maintains sufficient Liquidity Resources to cover daily funding needs and to meet strategic liquidity targets sized by the Required Liquidity Framework and Liquidity Stress Tests. The total amount of Liquidity Resources is actively managed considering the following components: unsecured debt maturity profile, balance sheet size and composition; funding needs in a stressed environment, inclusive of contingent cash outflows; collateral requirements and regulatory requirements.

MSI Group's liquidity and funding risk management policies and procedures are consistent with those of the Morgan Stanley Group. The MSI Board is ultimately responsible for establishing the liquidity risk tolerance and ensuring the MSI Group's liquidity risk is appropriately managed.

In addition to the internal liquidity risk management framework, the MSI Group is subject to requirements prescribed by regulatory authorities, including PRA. MSI Group and MSIP are subject to the UK CRR rules for both:

- LCR: requiring to meet 100% of net cash outflows and Pillar 2 requirements; and
- Net Stable Funding Ratio ("NSFR"): requiring to maintain Available Stable Funding ("ASF") as 100% of Required Stable Funding ("RSF") over the one-year horizon.

MSI Group has daily monitoring and reporting processes, including Key Risk Indicators, in place to ensure compliance with its regulatory requirements.

The primary goal of the Liquidity Risk Management Framework is to ensure that MSI Group has access to sufficient liquid assets across a wide range of market conditions and time horizons. The framework is designed to allow the MSI Group to fulfil financial obligations and support the execution of MSI Group's business strategies. The following principles guide the Liquidity Risk Management Framework:

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

Structure and Organisation of the Liquidity Risk Management Function

As outlined in section 3.2 Risk Management Framework of this disclosure, the functions responsible for carrying out the activities pertaining to liquidity risk across the Three Lines of Defence system are Corporate Treasury as First Line of Defence, the Liquidity Risk Department ("LRD") as Second Line of Defence and Internal Audit as Third Line of Defence.

Senior management establishes and maintains liquidity policies. Through various risk and control committees, senior management reviews business performance relative to these policies, monitors the availability of alternative sources of financing, and oversees the liquidity, interest rate and currency sensitivity of asset and liability positions. Corporate Treasury, LRD, ERC, EMEA ALCO/MSEHSE ALCO and other committees and control groups assist in evaluating, monitoring and controlling the impact that business activities have on the balance sheets, liquidity and capital structure. Liquidity matters are reported regularly to the MSI Board/MSEHSE Management Board and the MSI Risk Committee/MSEHSE Risk Committee.

LRD is a distinct area in Risk Management, which oversees and monitors liquidity risk. LRD ensures transparency of material liquidity risks, compliance with established risk limits and escalation of risk concentrations to appropriate senior management. To execute these responsibilities, LRD:

- Establishes limits in line with the Morgan Stanley Group risk appetite;
- Identifies and analyses emerging liquidity risks to ensure such risks are appropriately mitigated;
- Monitors and reports risk exposures against metrics and limits

The liquidity and funding risks identified by these processes are summarised and reported to senior management.

The Centralised Liquidity Management Function and its Interaction with other Functional Areas

The Morgan Stanley Group’s Liquidity Risk Management Framework is critical to helping ensure that MSI Group maintains sufficient liquidity reserves and durable funding sources to meet its daily obligations and to withstand unanticipated stress events.

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

Liquidity Risk Reporting and Measurement Systems

Morgan Stanley Group has a Global Liquidity Data Warehouse that is used for internal and regulatory liquidity reporting, metrics and stress testing of MSI Group. Reporting and analytical tools enable interrogation, presentation and generation of reports for internal purposes as well as for regulatory reporting returns. A control framework has been established around each step of the liquidity reporting process and is designed to ensure that source data feeds from firm-wide risk systems, adjustment processing and report production are all subject to a coherent set of proof and control processes to ensure accuracy and completeness of data. Reporting results are validated locally by MSI Group Treasury.

Policies for hedging and mitigating the liquidity risk and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants

MSI Group maintains a durable funding profile, commensurate with complexity and size of business, with diversified sources and terms of funding. MSI Group manages its funding in a manner that reduces the risk of disruption to its operations. MSI Group pursues a strategy of diversification of secured and unsecured funding sources (by product, investor and region) and attempts to ensure that the tenor of its liabilities equals or exceeds the expected holding period of the assets being financed.

MSI Group funds itself through diverse sources. These sources may include equity capital, long-term debt, external structured notes issuances, securities sold under agreements to repurchase, securities lending and lines of credit. The MSI Group and MSEHSE Group have active financing programmes for both standard and structured products targeting global investors and currencies.

In managing both Morgan Stanley Group's and the MSI Group's funding risk, the composition and size of the entire balance sheet, not just financial liabilities, are monitored and evaluated. The liquid nature of the marketable securities and short-term receivables arising principally from sales and trading activities in the Institutional Securities business provides the Morgan Stanley Group, the MSI Group and the MSEHSE Group with flexibility in managing balance sheet composition and size.

Contingency Funding Plan

The MSI Group's Contingency Funding Plan is integrated in the Recovery Plan and defines the roles and responsibilities of the primary functions that manage the MSI Group's operating and strategic response to liquidity stress events. The MSI Group's financial condition and overall soundness can be adversely affected by an inability, or perceived inability, to meet its financial obligations in a timely manner during a period of liquidity stress, therefore it is vital that the MSI Group maintains a sound plan of action for managing a liquidity stress. The MSI Group Recovery Plan is the MSI Group's detailed action plan and outlines the process by which the MSI Group:

- Determines whether there is a potential or actual liquidity stress event;
- Enacts a heightened decision-making and governance structure;
- Identifies available contingent funding sources;
- Takes action in a deliberate and coordinated way to respond to liquidity shortfalls;
- Strategically communicates with internal and external stakeholders; and
- Decides to return to standard operating liquidity management status.

Liquidity Stress Testing

The MSI Group uses Liquidity Stress Tests to model external and intercompany liquidity flows across multiple scenarios over a range of time horizons. These scenarios contain various combinations of idiosyncratic and systemic stress events of different severity and duration. The methodology, implementation, production and analysis of the Liquidity Stress Tests are important components of the Liquidity Risk Management Framework.

Adequacy of Liquidity Risk Management Arrangements

As a result of the annual ILAAP, the Board are satisfied that there are appropriate processes and systems in place to monitor liquidity and funding adequacy and take action to increase liquidity or adjust funding resources if adverse developments reduce available liquidity or funding.

Liquidity Risk Profile and Business Strategy

The MSI Group Risk Appetite is the articulation of the aggregate level and type of risk that the MSI Group is willing to accept to execute its Business Strategy and protect its capital and liquidity resources. The MSI Group's Risk Appetite comprises both qualitative and quantitative components and is set taking into account MSI Group's risk profile. The MSI Group's Risk Appetite Statement is well integrated with MSI Group's Business Strategy, ICAAP and ILAAP - all are based on a consistent financial forecast. The Risk Appetite Statement also establishes clear links into capital and liquidity planning under both the Regulatory and Internal Models Perspectives. The Liquidity Risk Limit Framework ensures that MSI Group business activities are carried out consistent with the Risk Appetite Statement.

The MSI Group Management Board has concluded that the MSI Group has adequate liquidity for the size, nature and complexity of its business model and to pursue its strategy, as set out in the MSI Group Business Strategy 2024-26. Throughout 2023, MSI Group and the respective subsidiaries and sub groups exceeded all internal and regulatory liquidity requirements, which include the Internal Liquidity Stress Test ("ILST"), the LCR and the NSFR.

At year end 2023, $46.9Bn HQLA is primarily held in central bank reserves (25%) and Level 1 high quality securities (74%).

17.2 Liquidity Coverage Ratio

LCR Qualitative Disclosures

The MSI Group’s LCR Disclosure is based on the UK CRR rules.

As at 31 December 2023, the MSI Group held excess HQLA over LCR required minimum of 100% (Pillar 1) as specified by the total net cash outflows amount included in Table 39.

The MSI Group and MSIP is subject to Pillar 2 requirements, assessed by the PRA, for risks not covered in the LCR (Pillar 1). These risks are identified and documented in the ILAAP that is then reviewed and assessed by the PRA as part of the Liquidity Supervisory Review Process (“L-SREP”). As a result, the MSI Group and MSIP is required to hold sufficient liquidity in the form of HQLA to meet both Pillar 1 and Pillar 2 requirements. Pillar 2 amounts are not disclosed in Table 39.

Main drivers of the LCR

The 12-month LCR average values have been used to analyse the main requirement’s drivers.

The most significant drivers of MSI Group and MSIP's cash outflows this quarter were secured wholesale funding, unsecured wholesale funding and outflows related to derivative exposures. MSI Group and MSIP’s cash inflows this quarter were primarily driven by secured lending which includes reverse repurchase transactions, securities borrowed and margin loan transactions.

Explanations of the Changes in the LCR over Time

The MSI Group's LCR increased from 185% to 186%, driven by a decrease in net average cash outflows (primarily driven by a decrease in outflows related to derivative exposures & other collateral requirements and decrease in non-operational deposits), partially offset by decrease in HQLA.

The MSIP LCR increased from 188% to 193%, driven by a decrease in net average cash outflows (primarily driven by a decrease in outflows related to derivative exposures & other collateral requirements and decrease in non-operational deposits), partially offset by decrease in HQLA.

Concentration of Funding Sources

The MSI Group funds itself through diverse sources. These sources may include equity capital, long-term debt, external structured notes issuance, securities sold under agreements to repurchase, securities lending and lines of credit.

The MSI Group funds itself through transactions with affiliates in the Morgan Stanley Group for capital, unsecured and secured funding, and through a diverse range of counterparties in unsecured and secured funding markets.

High-level description of the composition of the institution`s liquidity buffer

HQLA primarily comprises of Level 1 assets that includes government bonds, and cash with central banks.

Derivatives Exposures and Potential Collateral Calls

MSI Group participates in global derivatives markets. In some cases, derivative counterparties have contractual rights that require the entities to post collateral to them in the event that credit rating agencies downgrade Group’s credit rating. In measuring collateral call risks, all amounts of collateral that could be required to be posted in accordance with the terms and conditions of the downgrade trigger clauses found in applicable legal agreements are considered.

The impact of potential collateral calls related to derivative exposures is inherently uncertain and depends on various interrelated factors, such as the magnitude of the downgrade, the rating relative to peers, the rating assigned by the relevant agency pre-downgrade, individual client behaviour and future mitigating actions that could be taken. MSI Group manages the risk of potential collateral calls on derivative positions by employing a variety of risk mitigation strategies, including modelling the impact of credit rating agency downgrades in the liquidity stress test program, monitoring historical changes in variation margin, diversifying risk exposures, hedging, managing counterparty and product risk limits and maintaining Liquidity Resources to enable the MSI Group to meet unexpected collateral calls or other potentially adverse developments.

Currency mismatch in the LCR

A portion of MSI Group's business is conducted in currencies other than USD, and changes in FX rates relative to the USD, therefore, can affect the value of non-USD net assets, revenues and expenses. Potential exposures as a result of these fluctuations in currencies are closely monitored, and strategies are adopted to reduce the impact of these fluctuations on financial performance. These strategies may include the financing of non-USD assets with direct or swap-based borrowings in the same currency and the use of currency forward contracts or the spot market in various hedging transactions related to net assets, revenues, expenses or cash flows.

Quantitative Disclosures

The LCR quantitative disclosures, shown in Table 39 reflects the monthly average value for each quarter-end period. The figures reported in the "Total Weighted Value" column reflect the prescribed industry-wide rules and haircuts applicable to the LCR to determine the MSI Group and MSIP's eligible HQLA and cash in/outflow amounts. The figures reported in the "Total Unweighted Value" columns reflect gross values prior to the application of the LCR weights.

Table 39: Quantitative Information of LCR (UK LIQ1) – MSI Group and MSIP

$MM		a	b	c	d	e	f	g	h
MSI Group		**Total unweighted value (average)**				**Total weighted value (average)**			
UK 1a	Quarter ending on	**31 Dec 2023**	**30 Sep 2023**	**30 Jun 2023**	**31 Mar 2023**	**31 Dec 2023**	**30 Sep 2023**	**30 Jun 2023**	**31 Mar 2023**
UK 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
High-Quality Liquid Assets									
1	Total high-quality liquid assets (HQLA)					54,419	55,270	55,988	54,640
Cash-Outflows									
2	Retail deposits and deposits from small business customers, of which:	-	-	-	-	-	-	-	-
3	*Stable deposits*	-	-	-	-	-	-	-	-
4	*Less stable deposits*	-	-	-	-	-	-	-	-
5	Unsecured wholesale funding	20,165	20,768	21,573	20,866	19,095	19,797	20,874	20,462
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	-	-	-	-	-	-	-	-
7	*Non-operational deposits (all counterparties)*	19,564	20,222	21,102	20,451	18,494	19,251	20,403	20,047
8	*Unsecured debt*	601	546	471	415	601	546	471	415
9	Secured wholesale funding					44,072	42,399	41,296	40,445
10	Additional requirements	29,192	29,526	29,992	30,272	18,346	19,205	19,913	20,146
11	*Outflows related to derivative exposures and other collateral requirements*	23,334	23,811	24,430	24,768	16,802	17,703	18,502	18,816
12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	5,858	5,715	5,562	5,504	1,544	1,502	1,411	1,330
14	Other contractual funding obligations	50,097	47,667	47,262	47,443	1,025	1,162	1,233	1,278
15	Other contingent funding obligations	4,538	4,208	3,870	3,789	2,257	2,063	1,894	1,850
16	**Total Cash Outflows**					**84,795**	**84,626**	**85,210**	**84,181**
Cash Inflows									
17	Secured lending (e.g., reverse repos)	247,685	237,157	232,175	230,196	40,385	39,158	38,318	38,460
18	Inflows from fully performing exposures	10,566	10,711	10,618	10,729	9,963	10,037	9,911	10,027
19	Other cash inflows	6,367	6,632	7,384	7,821	6,367	6,632	7,384	7,821
UK-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					1,253	1,223	1,214	1,323
UK-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	**Total Cash Inflows**	**264,618**	**254,500**	**250,177**	**248,746**	**55,462**	**54,604**	**54,399**	**54,985**
UK-20a	*Fully exempt inflows*	-	-	-	-	-	-	-	-
UK-20b	*Inflows Subject to 90% Cap*	-	-	-	-	-	-	-	-
UK-20c	*Inflows Subject to 75% Cap*	216,429	205,635	201,589	199,241	55,462	54,604	54,399	54,985
						Total Adjusted Value			
UK-21	**Liquidity Buffer**					**54,419**	**55,270**	**55,988**	**54,640**
22	**Total Net Cash Outflows**					**29,333**	**30,022**	**30,811**	**29,316**
23	**Liquidity Coverage Ratio (%)**					**186.11%**	**184.60%**	**182.12%**	**188.73%**

$MM		a	b	c	d	e	f	g	h
MSIP		Total unweighted value (average)				Total weighted value (average)			
UK 1a	Quarter ending on	31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023	31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023
UK 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
High-Quality Liquid Assets									
1	Total high-quality liquid assets (HQLA)					41,207	41,991	42,999	42,976
Cash-Outflows									
2	Retail deposits and deposits from small business customers, of which:	-	-	-	-	-	-	-	-
3	*Stable deposits*	-	-	-	-	-	-	-	-
4	*Less stable deposits*	-	-	-	-	-	-	-	-
5	Unsecured wholesale funding	13,216	14,019	15,295	16,090	12,146	13,048	14,596	15,686
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	-	-	-	-	-	-	-	-
7	*Non-operational deposits (all counterparties)*	12,615	13,472	14,824	15,674	11,545	12,501	14,125	15,270
8	*Unsecured debt*	601	547	471	416	601	547	471	416
9	*Secured wholesale funding*					44,647	43,101	41,991	41,073
10	Additional requirements	21,570	21,893	22,467	22,828	14,892	15,659	16,437	16,842
11	*Outflows related to derivative exposures and other collateral requirements*	21,557	21,883	22,460	22,826	14,890	15,657	16,436	16,841
12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	13	10	7	2	2	2	1	1
14	Other contractual funding obligations	48,808	48,076	48,275	49,349	1,022	1,147	1,199	1,235
15	Other contingent funding obligations	4,586	4,265	3,948	3,878	2,281	2,092	1,933	1,895
16	**Total Cash Outflows**					**74,988**	**75,047**	**76,156**	**76,731**
Cash Inflows									
17	Secured lending (e.g., reverse repos)	251,517	241,048	236,097	234,542	40,611	39,351	38,442	38,566
18	Inflows from fully performing exposures	9,107	9,222	9,282	9,443	8,508	8,553	8,580	8,746
19	Other cash inflows	5,620	5,896	6,662	7,114	5,621	5,896	6,662	7,114
UK-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					1,075	1,055	1,035	1,163
UK-19b	(Excess inflows from a related specialised credit institution)							-	-
20	**Total Cash Inflows**	**266,244**	**256,166**	**252,041**	**251,099**	**53,665**	**52,745**	**52,649**	**53,263**
UK-20a	*Fully exempt inflows*	-	-	-	-	-	-	-	-
UK-20b	*Inflows Subject to 90% Cap*	-	-	-	-	-	-	-	-
UK-20c	*Inflows Subject to 75% Cap*	218,770	208,024	204,099	202,188	53,665	52,745	52,649	53,263
						Total adjusted Value			
UK-21	**Liquidity Buffer**					**41,207**	**41,991**	**42,999**	**42,976**
22	**Total Net Cash Outflows**					**21,491**	**22,469**	**23,588**	**23,583**
23	**Liquidity Coverage Ratio (%)**					**192.82%**	**188.33%**	**183.37%**	**182.90%**

17.3 Net Stable Funding Ratio

The NSFR as defined by UK CRR rules, is a funding liquidity ratio to ensure that the institution has a stable funding structure to cover existing assets and off-balance sheet commitments. Compliance with the ratio requires that sufficient weighted liabilities and own funds - ASF - are available to cover the funding requirement from weighted assets and off-balance sheet exposures - RSF.

MSI Group is required to comply on a daily basis with the NSFR and held a significant excess of $15.4Bn stable funding as at 31 December 2023. MSI Group maintained excess ASF, in comparison to RSF assets and off-balance sheet commitments, throughout 2023.

Composition of ASF and RSF

The management of the NSFR has been embedded into MSI Group internal processes to ensure that there are sufficient durable liabilities to cover the RSF requirements on an ongoing basis.

The Treasury Department and applicable business units (collectively the Centralised Liquidity Management Function) have primary responsibility for evaluating, monitoring and controlling the liquidity and funding resources. The primary sources of funding arise from capital, unsecured funding and SFTs.

The primary drivers of MSI Group's NSFR RSF are inventory, margin posted, derivatives exposures and secured financing transactions, weighted based on the liquidity value of the associated collateral and contributing to both ASF (if used to fund assets) and RSF (if used to source assets).

Morgan Stanley Group provides client clearing services globally for listed derivative & OTC clearing products which meet the requirements of Article 428da of the PRA rulebook and therefore reported interdependent assets and liabilities in the tables below.

The NSFR quantitative disclosures, shown in Table 40 reflects the average value of end of quarter observation over the last 4 quarters. The figures reported in the "Total Unweighted Value" columns reflect gross values prior to the application of the NSFR weights. The figures reported in the "Total Weighted Value" column reflect the prescribed, industry-wide NSFR rules to determine the ASF and RSF weighted values.

Table 40: Quantitative Information of NSFR (UK LIQ2) – MSI Group and MSIP

		a	b	c	d	e	a	b	c	d	e
		Unweighted value by residual maturity					Unweighted value by residual maturity				
$MM		No maturity	< 6 months	6 months to < 1 year	≥ 1year	Weighted value	No maturity	< 6 months	6 months to < 1 year	≥ 1year	Weighted value
MSI Group				Q4'23					Q3'23		
Available stable funding (ASF) Items											
1	**Capital items and instruments**	30,923	-	-	8,358	39,281	30,532	-	-	9,171	39,703
2	*Own funds*	30,923	-	-	8,358	39,281	30,532	-	-	9,171	39,703
3	*Other capital instruments*		-	-	-	-		-	-	-	-
4	Retail deposits		-	-	-	-		-	-	-	-
5	*Stable deposits*		-	-	-	-		-	-	-	-
6	*Less stable deposits*		-	-	-	-		-	-	-	-
7	Wholesale funding:		114,261	17,321	62,552	78,187		112,683	17,374	59,454	74,607
8	*Operational deposits*		-	-	-	-		-	-	-	-
9	*Other wholesale funding*		114,261	17,321	62,552	78,187		112,683	17,374	59,454	74,607
10	Interdependent liabilities		8,290	-	-	-		8,344	-	-	-
11	Other liabilities:	-	68,961	-	-	-	-	64,789	-	-	-
12	*NSFR derivative liabilities*	-					-				
13	*All other liabilities and capital instruments not included in the above categories*		68,961	-	-	-		64,789	-	-	-
14	**Total available stable funding (ASF)**					**117,468**					**114,310**
Required stable funding (RSF) items											
15	Total high-quality liquid assets (HQLA)					20,579					18,776
UK-15a	Assets encumbered for a residual maturity of one year or more in a cover pool		-	-	-	-		-	-	-	-
16	Deposits held at other financial institutions for operational purposes		2,364	-	-	1,182		1,324	-	-	662
17	Performing loans and securities:		172,780	2,338	40,901	48,052		173,473	2,565	38,984	46,944
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		94,708	62	3	1,239		95,582	136	3	1,543
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		75,595	1,338	1,208	10,076		75,426	1,576	1,362	10,594
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		1,510	73	332	1,081		1,658	70	363	1,184
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		558	46	-	304		540	46	-	294
22	*Performing residential mortgages, of which:*		-	-	-	-		-	-	-	-
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		-	-	-	-		-	-	-	-
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		967	865	39,358	35,656		807	783	37,256	33,623
25	Interdependent assets		8,290	-	-	-		8,344	-	-	-
26	Other assets:	-	71,207	300	20,436	31,944	-	71,981	319	20,093	31,868
27	*Physical traded commodities*				93	79				52	44
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		7,328	-	14,767	18,781		8,139	-	14,254	19,036
29	*NSFR derivative assets*		3,819	-	-	3,819		3,285	-	-	3,285
30	*NSFR derivative liabilities before deduction of variation margin posted*		55,311	-	-	2,766		55,542	-	-	2,777
31	*All other assets not included in the above categories*		4,749	300	5,576	6,499		5,015	319	5,787	6,726
32	Off-balance sheet items		3,521	188	2,093	290		3,053	246	2,329	281
33	**Total RSF**					**102,047**					**98,531**
34	**Net Stable Funding Ratio (%)**					**115.12%**					**116.05%**

Table 40 (continued) Quantitative Information of NSFR (UK LIQ2)

		a	b	c	d	e	a	b	c	d	e
		Unweighted value by residual maturity					Unweighted value by residual maturity				
	$MM	No maturity	< 6 months	6 months to < 1 year	≥ 1year	Weighted value	No maturity	< 6 months	6 months to < 1 year	≥ 1year	Weighted value
	MSI Group			Q2'23					Q1'23		
	Available stable funding (ASF) Items										
1	**Capital items and instruments**	29,935	-	-	9,427	39,361	29,379	-	-	9,686	39,065
2	*Own funds*	29,935	-	-	9,427	39,361	29,379	-	-	9,686	39,065
3	*Other capital instruments*		-	-	-	-		-	-	-	-
4	Retail deposits		-	-	-	-		-	-	-	-
5	*Stable deposits*		-	-	-	-		-	-	-	-
6	*Less stable deposits*		-	-	-	-		-	-	-	-
7	Wholesale funding:		112,905	17,325	58,020	73,283		114,254	17,786	55,657	71,318
8	*Operational deposits*		-	-	-	-		-	-	-	-
9	*Other wholesale funding*		112,905	17,325	58,020	73,283		114,254	17,786	55,657	71,318
10	Interdependent liabilities		8,958	-	-	-		10,411	-	-	-
11	Other liabilities:	-	58,342	-	-	-	-	55,282	-	-	-
12	*NSFR derivative liabilities*	-					-				
13	*All other liabilities and capital instruments not included in the above categories*		58,342	-	-	-		55,282	-	-	-
14	**Total available stable funding (ASF)**					**112,644**					**110,383**
	Required stable funding (RSF) items										
15	Total high-quality liquid assets (HQLA)					16,702					15,831
UK-15a	Assets encumbered for a residual maturity of one year or more in a cover pool		-	-	-	-		-	-	-	-
16	Deposits held at other financial institutions for operational purposes		928	-	-	464		487	-	-	244
17	Performing loans and securities:		176,544	2,624	36,849	46,210		174,893	2,483	35,144	45,698
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		93,015	190	4	1,744		85,934	184	56	2,158
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		80,755	1,586	1,566	11,612		85,278	1,548	1,555	11,879
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		1,884	61	432	1,349		2,782	130	526	1,918
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		564	14	-	290		1,420	14	-	725
22	*Performing residential mortgages, of which:*		-	-	-	-		-	-	-	-
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		-	-	-	-		-	-	-	-
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		890	787	34,847	31,505		899	621	33,007	29,743
25	Interdependent assets		8,958	-	-	-		10,411	-	-	-
26	Other assets:	-	79,259	309	20,004	33,646	-	82,885	324	19,984	34,571
27	*Physical traded commodities*				30	25				8	7
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		8,834	-	14,303	19,667		9,290	-	14,443	20,173
29	*NSFR derivative assets*		4,351	-	-	4,351		4,799	-	-	4,799
30	*NSFR derivative liabilities before deduction of variation margin posted*		60,243	-	-	3,012		61,881	-	-	3,094
31	*All other assets not included in the above categories*		5,831	309	5,671	6,591		6,915	324	5,533	6,498
32	Off-balance sheet items		2,812	159	2,451	271		2,766	67	2,448	264
33	**Total RSF**					**97,293**					**96,608**
34	**Net Stable Funding Ratio (%)**					**115.78%**					**114.27%**

$MM		a	b	c	d	e	a	b	c	d	e
		Unweighted value by residual maturity					Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1 year	≥ 1year	Weighted value	No maturity	< 6 months	6 months to < 1 year	≥ 1year	Weighted value
MSIP				Q4'23					Q3'23		
Available stable funding (ASF) Items											
1	**Capital items and instruments**	23,226	-	-	7,200	30,426	23,410	-	-	8,150	31,560
2	*Own funds*	23,226	-	-	7,200	30,426	23,410	-	-	8,150	31,560
3	*Other capital instruments*		-	-	-	-		-	-	-	-
4	Retail deposits		-	-	-	-		-	-	-	-
5	*Stable deposits*		-	-	-	-		-	-	-	-
6	*Less stable deposits*		-	-	-	-		-	-	-	-
7	Wholesale funding:		111,279	17,450	54,395	70,095		108,976	17,373	50,480	65,632
8	*Operational deposits*		-	-	-	-		-	-	-	-
9	*Other wholesale funding*		111,279	17,450	54,395	70,095		108,976	17,373	50,480	65,632
10	Interdependent liabilities		6,769	-	-	-		6,800	-	-	-
11	Other liabilities:	-	60,460	-	-	-	99	59,763	-	-	-
12	*NSFR derivative liabilities*	-					99				
13	*All other liabilities and capital instruments not included in the above categories*		60,460	-	-	-		59,763	-	-	-
14	**Total available stable funding (ASF)**					**100,521**					**97,192**
Required stable funding (RSF) items											
15	Total high-quality liquid assets (HQLA)					20,456					18,652
UK-15a	Assets encumbered for a residual maturity of one year or more in a cover pool		-	-	-	-		-	-	-	-
16	Deposits held at other financial institutions for operational purposes		1,795	-	-	898		925	-	-	462
17	Performing loans and securities:		172,184	2,159	39,437	46,650		175,296	2,271	37,596	45,457
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		93,639	62	3	1,276		97,140	137	3	1,506
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		76,231	1,192	1,049	9,852		75,848	1,314	1,185	10,279
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		1,397	70	66	797		1,548	68	102	906
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		445	43	-	246		431	43	-	238
22	*Performing residential mortgages, of which:*		-	-	-	-		-	-	-	-
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		-	-	-	-		-	-	-	-
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		917	835	38,319	34,725		760	752	36,306	32,766
25	Interdependent assets		6,769	-	-	-		6,800	-	-	-
26	Other assets:	-	56,014	270	14,674	23,804	-	55,636	296	14,342	23,753
27	*Physical traded commodities*				93	79				52	44
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		7,228	-	12,226	16,536		7,981	-	11,722	16,748
29	*NSFR derivative assets*		2,327	-	-	2,327		1,943	-	-	1,943
30	*NSFR derivative liabilities before deduction of variation margin posted*		43,364	-	-	2,168		42,391	-	-	2,120
31	*All other assets not included in the above categories*		3,095	270	2,355	2,694		3,321	296	2,568	2,898
32	Off-balance sheet items		13	-	-	1		12	-	-	1
33	**Total RSF**					**91,809**					**88,325**
34	**Net Stable Funding Ratio (%)**					**109.49%**					**110.04%**

$MM		a	b	c	d	e	a	b	c	d	e
		Unweighted value by residual maturity					Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1 year	≥ 1year	Weighted value	No maturity	< 6 months	6 months to < 1 year	≥ 1year	Weighted value
MSIP				Q2'23					Q1'23		
	Available stable funding (ASF) Items										
1	**Capital items and instruments**	23,480	-	-	8,399	31,880	23,522	-	-	8,649	32,172
2	*Own funds*	23,480	-	-	8,399	31,880	23,522	-	-	8,649	32,172
3	*Other capital instruments*		-	-	-	-		-	-	-	-
4	Retail deposits		-	-	-	-		-	-	-	-
5	*Stable deposits*		-	-	-	-		-	-	-	-
6	*Less stable deposits*		-	-	-	-		-	-	-	-
7	Wholesale funding:		108,551	17,350	49,012	64,286		110,023	17,718	47,399	63,023
8	*Operational deposits*		-	-	-	-		-	-	-	-
9	*Other wholesale funding*		108,551	17,350	49,012	64,286		110,023	17,718	47,399	63,023
10	Interdependent liabilities		7,089	-	-	-		8,072	-	-	-
11	Other liabilities:	74	55,394	-	-	-	74	53,621	-	-	-
12	*NSFR derivative liabilities*	74					74				
13	*All other liabilities and capital instruments not included in the above categories*		55,394	-	-	-		53,621	-	-	-
14	**Total available stable funding (ASF)**					**96,166**					**95,195**
	Required stable funding (RSF) items										
15	Total high-quality liquid assets (HQLA)					16,597					15,738
UK-15 a	Assets encumbered for a residual maturity of one year or more in a cover pool		-	-	-	-		-	-	-	-
16	Deposits held at other financial institutions for operational purposes		661	-	-	330		348	-	-	174
17	Performing loans and securities:		180,065	2,341	35,971	45,115		179,839	2,222	34,730	45,062
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		96,002	190	4	1,605		90,476	185	56	2,024
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		81,435	1,337	1,565	11,501		85,812	1,308	1,901	12,110
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		1,796	56	162	1,074		2,723	125	208	1,616
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		476	9	-	244		1,360	9	-	692
22	*Performing residential mortgages, of which:*		-	-	-	-		-	-	-	-
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		-	-	-	-		-	-	-	-
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		832	758	34,240	30,935		828	604	32,565	29,312
25	Interdependent assets		7,089	-	-	-		8,072	-	-	-
26	Other assets:	-	62,113	293	14,180	25,141	-	65,048	313	14,152	25,888
27	*Physical traded commodities*				30	25				8	7
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		8,631	-	11,704	17,285		8,953	-	11,842	17,675
29	*NSFR derivative assets*		2,776	-	-	2,776		3,234	-	-	3,234
30	*NSFR derivative liabilities before deduction of variation margin posted*		46,511	-	-	2,326		47,624	-	-	2,381
31	*All other assets not included in the above categories*		4,195	293	2,446	2,729		5,237	313	2,302	2,591
32	Off-balance sheet items		11	-	-	1		11	-	-	1
33	**Total RSF**					**87,184**					**86,863**
34	**Net Stable Funding Ratio (%)**					**110.29%**					**109.59%**

17.4 Asset Encumbrance

The encumbrance of assets, is a fundamental part of Morgan Stanley's business within the MSI Group. The following section describes how the MSI Group's encumbered and unencumbered assets, along with the matching liabilities, are utilised. An asset is considered encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn. The key sources of encumbrance include secured funding repo, securities lending, as well as derivatives trading. A portion of the encumbered assets are inter-affiliate transactions with other Morgan Stanley Group entities, drivers including funding needs, short coverage on the entity and collateral requirement. The main instances of encumbrance within the MSI Group is between MSIP and MSESE. The MSI Group primarily uses Industry standard collateral agreements mostly Credit Support Annexes ("CSA"), Global Master Repurchase Agreements ("GMRAs") and Global Master Securities Lending Agreements ("GMSLAs").

The majority of the on-balance sheet assets are not subject to any form of encumbrance, given they are mostly cash or receivable assets. The MSI Group also receives securities from the market, which are off-balance sheet, reported as collateral received in Table 42 (UK AE2). These may be pledged to the market and encumbered, or held as part of the MSI Group's unencumbered pool of assets. For on-balance sheet assets, the level of encumbrance over 2023 has increased by 2.2% from 2022. Collateral received has increased year on year with the encumbrance decreasing (2.8)% from 2022. In compliance with regulatory guidelines, amounts are presented as a median of the twelve month ends over 2023. Note the rows in the tables below are not additive, with the median calculated individually across all cells.

As disclosed in tables 41 and 42 encumbered assets primarily comprise those on- and off-balance sheet assets that are pledged as collateral against secured funding, collateral swaps, and other collateralised obligations. According to the EBA ITS on regulatory asset encumbrance reporting default funds and initial margins are considered as encumbered.

Table 41 below reflects the MSI Group unencumbered and encumbered on-balance sheet assets. The values represent the median for the year.

Table 41: Encumbered and unencumbered assets (UK AE1) – MSI Group

		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
	$MM		of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
	MSI Group[1, 2]	010	030	040	050	060	080	090	100
010	**Assets of the reporting institution**	**136,902**	**34,771**			**511,836**	**2,049**		
030	Equity instruments	40,292	12,901	40,292	12,901	20,264	120	20,264	120
040	Debt securities	30,782	22,611	30,782	22,611	7,064	1,798	7,064	1,798
050	of which: covered bonds	577	45	577	45	179	0	179	0
060	of which: asset-backed securities	559	-	559	-	789	-	789	-
070	of which: issued by general governments	22,796	21,612	22,796	21,612	2,920	1,798	2,920	1,798
080	of which: issued by financial corporations	4,281	154	4,281	154	1,764	-	1,764	-
090	of which: issued by non-financial corporations	3,770	762	3,770	762	1,146	-	1,146	-
120	Other assets[3,4]	63,839	-			478,788	-		

1.A significant portion of MSI Group's business is conducted in currencies other than USD.
2.Cells are marked N/A to indicate those components which are not reportable under EBA Guidelines.
3.Encumbered Other Assets includes on-balance sheet cash that has been segregated under CASS and cash collateral pledged against derivatives.
4.The majority of unencumbered Other Assets relate to derivative instruments.

During 2023, median on-balance sheet assets decreased by $(22.0)Bn to $648.7Bn primarily driven by derivative exposures on both MSIP and MSEHSE Group, partially offset by increased equity instruments on MSIP and debt securities on MSEHSE Group.

Table 42 below breaks down the off-balance sheet assets between those that have been encumbered and the amount available for encumbrance. The values in table 42 represent the median for the year.

Table 42: Collateral received and own debt securities issued (UK AE2) - MSI Group

	$MM	Fair value of encumbered collateral received or own debt securities issued		Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance	
			of which notionally eligible EHQLA and HQLA		of which notionally eligible EHQLA and HQLA
	MSI Group	**010**	**030**	**040**	**060**
130	**Collateral received by the reporting institution**	**272,326**	**177,964**	**51,176**	**39,934**
140	Loans on demand	-	-	-	-
150	Equity instruments	94,984	24,872	6,529	-
160	Debt securities	171,417	152,386	43,327	39,934
170	of which: covered bonds	515	38	20	-
180	of which: asset-backed securities	1,613	247	6,273	5,789
190	of which: issued by general governments	154,957	150,944	41,047	39,934
200	of which: issued by financial corporations	5,858	155	1,388	-
210	of which: issued by non-financial corporations	9,968	1,510	539	-
220	Loans and advances other than loans on demand	-	-	-	-
230	Other collateral received	5,001	-	-	-
240	**Own debt securities issued other than own covered bonds or securitisations**	**-**	**-**	**-**	**-**
241	**Own covered bonds and asset-backed securities issued and not yet pledged**			**-**	**-**
250	**TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	**410,149**	**213,216**		

In the year 2023, median collateral received increased by $15.1Bn to $323.5Bn primarily driven by collateral received from reverse repos pledged against repo transactions.

Table 43 below shows the extent to which liabilities have been matched to encumbered assets.

Table 43: Sources of encumbrance (UK AE3) – MSI Group

	$MM	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities other than covered bonds and ABS's encumbered
	MSI Group	**010**	**030**
010	Carrying amount of selected financial liabilities	141,022	143,839

In the year 2023, median on-balance sheet assets decreased by $(22.0)Bn to $648.7Bn primarily driven by derivative exposures on both MSIP and MSEHSE Group, partially offset by increased equity instruments on MSIP and debt securities on MSEHSE Group.

In the year 2023, median collateral received increased by $15.1Bn to $323.5Bn primarily driven by collateral received from reverse repos pledged against repo transactions.

18. Remuneration

18.1. Overview

This Remuneration Disclosure sets out the principles relating to compensation within MSI and the MSI Group. Some of the policies, practices and procedures outlined in the Disclosure apply globally to the Morgan Stanley Group. The chapter has been established in line the PRA Rulebook (Remuneration Part), the Financial Conduct Authority's ("FCA") Dual-Regulated firms Remuneration Code set out in the FCA's Senior Management Arrangements, Systems and Controls (SYSC) at SYSC 19D, the UK regulators' transposition of the Capital Requirements Directive ("the UK CRD V"), including Article 450 of the Capital Requirements Regulation, and any associated regulations and guidance (together the "UK Remuneration Rules").

All quantitative information is reported in million Pounds Sterling ("MM GBP"), unless indicated otherwise.

18.2 MSI Group Compensation Objectives and Strategy

The MSI Group is committed to a responsible and appropriate compensation structure that is designed to align the performance and conduct of employees to its business and risk strategy and the interests of shareholders. The objectives of the compensation structures are to be motivating, competitive, reflect the current best practices in corporate governance and risk management, and comply with applicable regulations.

The MSI Group's compensation processes are aligned with Morgan Stanley Group's core values: Do the Right Thing, Put Clients First, Lead with Exceptional Ideas, Commit to Diversity and Inclusion, and Give Back. This alignment is a key element considered as part of the performance measurement process.

The global Compensation, Management Development and Succession Committee ("CMDS Committee") of the Morgan Stanley Board of Directors continually evaluates Morgan Stanley Group's compensation programs with a view toward balancing the following key objectives, all of which support Morgan Stanley Group's culture and values and shareholders' interests:

Deliver Pay for Sustainable Performance

- Variable annual incentives and, for certain senior executives, performance-vested long-term incentives tied to future performance against strategic objectives
- Consideration of returns for shareholders and appropriate rewards to motivate employees

Align Compensation with Shareholders' Interests

- Significant portion of variable compensation is deferred, subject to cancellation and clawback, and tied to Morgan Stanley Group's stock with retention requirements
- Ongoing shareholder engagement to understand shareholder views

Mitigate Excessive Risk-taking

- Compensation arrangements do not incentivise unnecessary or excessive risk-taking that could have a material adverse effect on the Morgan Stanley Group
- Robust governance around review and approval of compensation programs, including from a risk perspective

Attract and Retain Top Talent

- Competitive pay levels to attract and retain the most qualified employees in a highly competitive global talent environment
- Variable compensation awards include vesting and cancellation provisions that retain employees and protect Morgan Stanley Group's interests

The EROC and the MSI Group Remuneration Committee ("MSI RemCo") provides formal oversight of EMEA compensation matters to ensure compensation practices in EMEA are compliant with the UK Remuneration Rules and follow good standards of practice.

18.3 Compensation Governance

The EROC and the MSI RemCo

The EROC is comprised of the EMEA Chief Executive Officer (Chair), the EMEA Head of Human Resources (Deputy Chair), the EMEA Chief Finance Officer ("EMEA CFO"), the EMEA General Counsel ("EMEA GC"), the EMEA Head of Compliance, and the EMEA CRO. The EROC met seven times during 2023 and certified compliance with regulatory requirements to the MSI RemCo.

The MSI RemCo was appointed by the MSI Board of Directors to oversee the design and implementation of the compensation policies and practices applicable to the MSI Group, which includes contributing to the global policy development that is subject to oversight by the CMDS Committee as well as overseeing compliance by the MSI Group with applicable EU and UK Remuneration Rules. On December 31, 2023, the MSI RemCo was comprised of five non-executive directors: Jonathan Bloomer (Chair), Terri Duhon, Jane Pearce, Melanie Richards and Paul Taylor, and met five times during 2023.

The CMDS Committee

On December 31, 2023, the CMDS Committee was comprised of four directors, including the independent Lead Director of the Board, all of whom are independent under the New York Stock Exchange listing standards and the independence requirements of Morgan Stanley Group. The members were Dennis M. Nally (Chair), Thomas H. Glocer, Stephen J. Luczo, and Rayford Wilkins Jr. In 2023, the CMDS Committee held nine meetings. The CMDS Committee operates under a written charter adopted by the Board, which is available on Morgan Stanley's website at https://www.morganstanley.com/about-us-governance/comchart.

The CMDS Committee regularly reviews (i) Morgan Stanley Group's performance with respect to execution of strategic objectives and evaluates executive performance in light of such performance; (ii) executive compensation strategy, including the competitive environment and the design and structure of Morgan Stanley Group's compensation programs to ensure that they are consistent with and support Morgan Stanley Group's compensation objectives; and (iii) market trends and legislative and regulatory developments affecting compensation in the U.S. and globally. In this respect, the Chair of the MSI RemCo meets with the CMDS Committee Chair at least annually to discuss local regulatory priorities and the global compensation processes.

Role of External Consultants and Other Stakeholders

The MSI Remco and the CMDS Committee have the power to appoint independent compensation consultants, legal counsel, financial or other advisors as it may deem necessary to assist it in the performance of its duties and responsibilities.

Together with the Global Chief Risk Officer ("Global CRO"), the CMDS Committee oversees Morgan Stanley Group's variable remuneration practices and arrangements to help ensure that such practices and arrangements: (i) are designed in accordance with the Morgan Stanley Group's responsibility to appropriately balance risk and financial results in a manner that does not encourage employee's to expose the Morgan Stanley Group to imprudent financial or non-financial risk, (ii) are consistent with the safety and soundness of the Firm, and (iii) are consistent with applicable related regulatory rules and guidance. The Global CRO attends CMDS Committee meetings at least annually, and on an as needed basis, to discuss the risk attributes of Morgan Stanley Group's variable remuneration practices and arrangements. The Morgan Stanley Group concluded that the Firm's current remuneration programs for 2023 do not incentivise employees to take unnecessary or excessive risk and that such programs do not create risks that are reasonably likely to have a materially adverse effect on the Morgan Stanley Group. The Global CRO reviewed the Morgan Stanley Group's compensation practices and arrangements from a risk perspective, and reviewed the risk assessment process and his findings and conclusions with the CMDS Committee. The CMDS Committee concurred with the risk assessment process and results.

The day-to-day compliance with MSI Group's obligations under the UK Remuneration Rules is delegated to EMEA Human Resources ("EMEA HR") and MSI Group's Control Functions. EMEA HR regularly reviews MSI Group's regulatory obligations with respect to compensation in each of the EMEA jurisdictions in which it operates, or with branches, and ensures that appropriate variations in policy relating to compensation structures approved by the CMDS Committee are fully compliant with applicable local laws and regulations in the jurisdictions covered by EMEA HR.

18.4 Identification of Material Risk Takers

The MSI Group has established a formal identification framework to identify employees whose professional activities have a material impact on the MSI Group's risk profile, referred to as Material Risk Taker ("MRTs"). The MSI Group MRTs identification framework complies with the qualitative and quantitative criteria set out in the Commission Delegated Regulation (EU) No 2021/923 and the PRA Rulebook. The identification framework is reviewed on an annual basis in line with the UK Remuneration Rules and the outcome of the review is subject to approval of the EROC and the MSI RemCo.

18.5 Link between Pay and Performance

In conjunction with Morgan Stanley Group's Global Incentive Compensation Discretion Policy, the MSI Group Remuneration Policy sets forth certain standards regarding the compensation parameters applied within the MSI Group.

Incentivising Right Behaviours

The following key features of the MSI Group Remuneration Policy ensure that the MSI Group does not incentivise employees to take unnecessary or excessive risk, and provide a link between an employee's compensation and the long-term interests of MSI Group:

- a balance of fixed and variable compensation;
- a balance between short-term and long-term incentives;
- mandatory deferrals into equity (or, if needed for local regulatory or business reasons, cash-based) incentive programs;
- risk-mitigating features of awards such as cancellation/malus and clawback provisions; and
- governance procedures followed in making compensation decisions.

Delivering all or a portion of deferred variable compensation in the form of equity links variable compensation to Morgan Stanley Group's performance through Morgan Stanley Group's stock price. Risk outcomes that result in a negative impact to Morgan Stanley Group reduce the value of the equity award, and employees are subject to this decline in value through the deferral period.

Morgan Stanley Group constantly reviews its policies and practices, and is working towards further enhancing the linkage between positive risk behaviours and remuneration outcomes.

Consideration of Capital and Liquidity Resources in the Variable Remuneration Pool Determination

Morgan Stanley Group has a 'pay for performance' philosophy, which is reflected throughout the four key objectives of its compensation programs (see section 18.2) and applies across all lines of business.

The final year-end bonus pool determination is subject to a multi-dimensional process that considers Morgan Stanley Group, business unit and individual performance, taking into account financial as well as non-financial performance metrics. This process includes a review of the adherence to risk limits, conduct and inclusion controls, market and competitive factors, regulatory outcomes, and business or location specific factors.

Moreover, MSI Group also ensures that the MSI Group's final year-end bonus pool would enable it to maintain a sound capital base, including liquidity and capital resources, and adequate risk bearing capacity, taking into account current and future year distributions.

18.6 Individual Performance Measurement

All employees have an Employee Performance Dashboard, which is an aggregation of various performance inputs, including non-financial and conduct related information, as applicable, in three areas:

- Performance & Contributions – includes employee performance evaluation forms (i.e., employee goals, feedback, self-evaluation)
- Culture & Leadership – includes employee survey results (if applicable) and self-disclosed employee contributions to culture on the employee self-evaluation
- Compliance, Conduct and Risk Management – includes information resulting from disciplinary incidents and input from Control Functions

Where appropriate, in addition to the full performance evaluation and 360 review process, performance evaluation managers are required to answer the following question regarding each employee as it relates to compliance, conduct and risk management: “Rate this employee’s conduct and adherence to the letter and spirit of Morgan Stanley Group’s compliance, risk management, controls and standards, and other policies including the Code of Conduct”.

18.7 Individual Compensation Determination Process

Morgan Stanley Group has a Global Incentive Compensation Discretion Policy that lays out standards for managers on the use of discretion when making annual compensation decisions and considerations for assessing risk management and outcomes. The policy specifically provides that all managers must consider whether their team members managed risk appropriately and effectively managed and supervised the risk control practices of the employees reporting into them during the performance year. Managers are trained on these requirements annually and are required to certify compliance with the applicable requirements.

In determining the amount of discretionary variable compensation to award an eligible employee, a compensation manager must consider only those factors that are legitimate, business-related and consistent with the MSI Group’s legal and regulatory obligations and policies and practices. With this discretion comes the responsibility to make pay decisions consistent with Morgan Stanley Group’s equal pay philosophy, which means that compensation managers are accountable for making deliberate, thoughtful, and defensible compensation decisions considering only legitimate, business-related factors. These factors include but are not limited to:

- The employee’s absolute and relative performance in an individual and, if relevant, supervisory capacity;
- The employee’s conduct and adherence to Morgan Stanley Group’s core values, including “Commit to Diversity and Inclusion”, ensures focus on diversity and inclusion when making compensation decisions;
- Performance feedback elicited through Morgan Stanley Group’s performance evaluation processes, including information provided by Control Function personnel;
- Any disciplinary outcomes administered to the employee during the performance year;
- Any circumstances during the performance year that may result in the cancellation and/or clawback of the employee’s previously awarded variable compensation;
- Market and competitive conditions.

The allocation of variable compensation to employees is a discretionary process and informed by the performance evaluation process outlined above. Morgan Stanley Group’s ‘pay for performance’ philosophy means that where a variable compensation award is not appropriate, none is paid; every year a portion of the eligible employee population receive no variable compensation. The governance around the performance evaluation and compensation decision-making process ensures decisions are a product of a number of inputs including performance, risk, and conduct.

Control Functions

In order to ensure the independence of Control Function employees, individual compensation decisions for employees working in those functions are determined by Control Function management and are not influenced by employees working in revenue-producing roles. In addition, benchmarking data is utilised to consider whether pay levels for key Control Function employees are commensurate with the market, and that MSI Group can attract and retain experienced personnel. The compensation decisions of all Control Function heads are reviewed and approved by the MSI RemCo.

Pay Equity

Morgan Stanley Group’s compensation program, and its related policies and practices, reflect and promote the objective that all employees, including women and ethnically diverse employees, are rewarded equitably. A system of checks and balances is in place within Morgan Stanley Group’s processes that support fair and equitable pay. This includes an annual global pay equity review and an analysis of employee compensation in consultation with external experts.

18.8 Compensation Structure

Morgan Stanley Group's compensation philosophy is based on the concept of annualised total reward (or total compensation) and accordingly compensation for the majority of employees is comprised of two key elements:

- Fixed compensation consisting of base salary and, for certain employees, a Role Based Allowance ("RBA"), which is determined based on an individual's role and responsibilities and is paid monthly in cash via the payroll;
- Variable compensation that is based on a number of factors, including but not limited to Morgan Stanley Group, business unit, and individual performance.

RBAs are considered to be fixed compensation because they meet the requirements of the relevant compensation rules, are paid monthly in cash via payroll and are based on an individual's role and responsibilities.

The structure of annual variable compensation for MRTs complies with the UK Remuneration Rules and is differentiated according to the MRT category and the amount of variable compensation awarded. The variable compensation is comprised of upfront cash, stock units, and a deferred equity award; it may also contain a deferred cash-based award if required for local legal or business reasons.

The following structure applies to relevant MRTs:

- A minimum of 40% of variable compensation is deferred, increasing to 60% where variable compensation is determined to be significant, as follows:
  - PRA Senior Managers have a seven-year deferral vesting on a pro-rata basis starting three years after grant
  - FCA Senior Managers have a five-year deferral vesting on a pro-rata basis starting a year after grant
  - Other MRTs have a four or five-year deferral vesting on a pro-rata basis starting a year after grant
- The deferred portion of annual variable compensation is generally awarded in equity[4]
  - Deferred equity awards are subject to sales restrictions for a period of 6 or 12-months post-vesting
- The upfront portion of annual variable compensation is awarded 50% in upfront cash and 50% as stock units:
  - Stock units vest and convert to shares after six months and are available to sell 12 months after grant

Subject to local law, variable annual variable compensation is subject to cancellation and/or clawback for a period of up to seven years from the date on which it is awarded. In the case of a PRA Senior Manager subject to an ongoing investigation, clawback can be extended to a period of up to ten years.

In accordance with UK Remuneration Rules, MRTs whose variable compensation is no more than (i) 33% of their total compensation, and (ii) £44,000 (or the local currency equivalent), are not subject to the full scope of UK Remuneration Rules. However, such MRTs continue to be subject to Morgan Stanley Group deferral practices for the general employee population and remain subject to cancellation and clawback terms applicable to MRTs.

MSI Group expects deferred compensation for MRTs to constitute a significant component of variable compensation, as it is designed to promote Morgan Stanley Group's long-term interests.

In addition, members of Morgan Stanley Group's Operating Committee are subject to an Equity Ownership Commitment, pursuant to which they are required to hold common stock and equity awards equal to a percentage of common stock received from equity awards (less allowances for the payment of any option exercise price and taxes) granted to them for service as a member of the Operating Committee.

Guaranteed variable compensation is only paid in exceptional circumstances in the context of hiring new employees in MSI Group and, in such instances, is limited to the first year of service. Such awards would only be made if the relevant legal entity has a sound and strong capital base. Awards of guaranteed variable compensation are subject to an approval process, which includes receiving approval from the appropriate Senior Manager, the EMEA Head of Compensation, the EMEA Head of HR and in certain circumstances the Morgan Stanley Group's Chief Human Resources Officer ("Global CHRO").

4. For entities where it is not legally permissible to grant deferred equity-based awards, deferred cash awards are provided under the Morgan Stanley Compensation Incentive Plan ("MSCIP") and/or the Morgan Stanley Investment Management Alignment Plan ("IMAP").

Termination payments made to certain employees upon leaving the MSI Group are considered in accordance with the MSI Group's severance framework, and are intended to avoid rewarding negative performance contributions or misconduct, in compliance with the relevant UK Remuneration Rules.

Ratio between Fixed and Variable Compensation

MSI Group's policy on the ratio between fixed and variable compensation is to allow for flexibility, whilst recognising the need to ensure that compensation is appropriately balanced between the fixed and variable compensation elements.

Following the joint statement from the FCA, PRA and Bank of England announcing the removal of the restrictions on the maximum fixed to variable compensation ("The bonus cap") which applied to MRTs in the MSI Group, the sole shareholder of the MSI Group, Morgan Stanley International Holdings Incorporated, approved the amendment of the MSI Group MRT Bonus cap to an appropriate internal bonus cap, effective from the 2023 performance year.

Deferred Compensation

Employees who reach a certain compensation threshold receive a portion of their variable incentive compensation in the form of deferred incentive compensation awards.

Each year, the CMDS Committee reviews the annual incentive compensation pool and the design and structure of the annual compensation program, including eligibility for deferred incentive compensation awards, the form of deferred variable compensation awards, deferral formulae applicable to variable remuneration, and the vesting and timing of payments and cancellation and clawback provisions of the deferred awards.

The form of deferred variable compensation awards (i.e., equity, cash, or a combination thereof) is determined based on a variety of factors, including the number of shares available for grant under Morgan Stanley Group's equity plans and, for MRTs, ensuring compliance with the requirements of the UK Remuneration Rules.

Delivering all or a portion of deferred variable compensation in the form of equity links variable compensation to Morgan Stanley Groups' performance through Morgan Stanley Group's stock price performance and aligns employee compensation with shareholder interests. Risk outcomes that result in a negative impact to Morgan Stanley Group reduce the value of the equity, and the employee is subject to this decline in value through the deferral period. In addition, there is a formal governance process to consider and determine ex-ante and ex-post adjustments to variable compensation. MSI Group believes that its compensation decisions for 2023 demonstrate its focus on long-term profitability and commitment to sustainable shareholder value with appropriate rewards to retain and motivate top talent throughout economic cycles.

18.9. Risk Adjustment

MSI Group continually monitors the effectiveness of its compensation structure and utilises a thorough process of considering risk-adjusted performance, compliance with risk limits and the market and competitive environment when sizing and allocating annual variable compensation pools.

Throughout the year, employee conduct matters that are escalated through Morgan Stanley Group's Global Conduct Risk Program are reviewed to determine whether they present situations that could require clawback or cancellation of previously awarded compensation, as well as downward adjustments to current year compensation. All variable compensation for MRTs has provisions that allow for clawback of any awards or compensation paid or delivered. Cancellations and clawbacks of previously awarded compensation are reviewed with the Employee Discipline Oversight Committee (a committee of senior management currently composed of Morgan Stanley Group's Chief Financial Officer, Chief Legal Officer, Global CRO, Global CHRO, Chief Audit Officer, and the Head of Non-Financial Risk) and reported to the CMDS Committee quarterly. This process is enhanced by a formalised EMEA malus review and compensation adjustment process overseen by the EROC. This process involves EROC assessing situations which may warrant adjustment to current year variable compensation and/or to apply cancellation and/or clawback to previously awarded compensation, with reference to specific criteria that are contained in governing variable compensation award documents and applicable policies. The MSI RemCo receives regular updates on the EMEA malus review process.

Furthermore, the MSI Group maintains an EMEA-wide Cancellation and Clawback Policy which is applicable to all MRTs within the EMEA region. Circumstances which trigger the application of this policy for the MSI Group employees include but are not limited to:

- There is reasonable evidence of serious misconduct. Serious misconduct means a situation in which Morgan Stanley Group and/or the relevant regulated entity and/or business unit have sufficient consideration to justify summary termination of employment;
- Morgan Stanley Group and/or the relevant regulated entity and/or relevant business unit in which an MRT is employed (or in relation to which they carry out some or all their duties) suffers a material failure of risk management;
- Morgan Stanley Group and/or the relevant regulated entity and/or relevant business unit suffers a material downturn in its financial performance (subject to cancellation only);
- The MRT directly and/or materially, through their conduct, contributed to a regulatory sanction (or sanctions) being imposed;
- The MRT failed to meet appropriate standards of fitness and propriety; or
- In relation to a PRA Buyout Award, a Reduction Notice is received in accordance with Rule 15A of the Remuneration Part of the PRA Rulebook

MSI Group will also take into consideration an MRT's proximity to the failure of risk management in question and that individual MRT's level of responsibility. Any variable remuneration is subject to repayment, recovery and recapture pursuant to MSI Group's EMEA MRT Cancellation and Clawback Policy, as amended from time to time, and any applicable clawback, repayment, recapture or recovery requirements imposed under applicable laws, rules and regulations.

18.10. Prohibition of personal hedging strategies

Personal hedging and pledging strategies which may undermine the risk alignment effects of variable remuneration are not permissible.

Staff members receive training and make an annual attestation to desist from such activities. Morgan Stanley monitors compliance by requiring employees to report their private custodial accounts, and additionally applies trading restrictions and approval processes to any transactions involving Morgan Stanley stock.

18.11. Quantitative Information on Compensation

Broken Down by Senior Management and Employees whose Actions Have a Material Impact on the Risk Profile of the MSI Group.

The following table sets out aggregate quantitative information on the compensation of MRTs (520 by natural headcount for 2023) who are employed by, or are seconded to, any entities of the MSI Group that were subject to the UK Remuneration Rules in 2023, including, but not limited to:

- Morgan Stanley & Co. International plc
- Morgan Stanley Bank International Limited
- Morgan Stanley Europe SE Holding Group
- Morgan Stanley France S.A.

Table 44: Remuneration awarded for the financial year (UK REM1)

£MM MSI Group		Row reference	a MB Supervisory Function	b MB Management Function	c Other Senior Management	d Other Identified Staff
Fixed remuneration	Number of identified staff[1]	1	9	12	16	482
	Total fixed remuneration	2	1.40	15.00	15.20	249.60
	Of which: cash-based	3	1.40	15.00	15.20	249.60
	(Not applicable in the EU)	4				
	Of which: shares or equivalent ownership interests	UK-4a	-	-	-	-
	Of which: share-linked instruments or equivalent non-cash instruments	5	-	-	-	-
	Of which: other instruments	UK-5x	-	-	-	-
	(Not applicable in the EU)	6				
	Of which: other forms	7	-	-	-	-
	(Not applicable in the EU)	8				
Variable remuneration	Number of identified staff[1]	9	-	11	15	385
	Total variable remuneration	10	-	15.20	20.80	230.90
	Of which: cash-based	11	-	3.00	4.30	52.10
	Of which: deferred	12	-	-	-	-
	Of which: shares or equivalent ownership interests	UK-13a	-	12.10	16.50	178.80
	Of which: deferred	UK-14a	-	9.10	12.20	127.20
	Of which: share-linked instruments or equivalent non-cash instruments	UK-13b	-	-	-	-
	Of which: deferred	UK-14b	-	-	-	-
	Of which: other instruments	UK-14x	-	-	-	-
	Of which: deferred	UK-14y	-	-	-	-
	Of which: other forms	15	-	-	-	-
	Of which: deferred	16	-	-	-	-
Total remuneration		17	**1.41**	**30.20**	**36.00**	**480.50**

1.Number of identified staff beneficiaries by full-time employment according to PRA guidelines.

Table 45: Special payments to staff whose professional activities have a material impact on institutions' risk profile (UK REM2)

£MM MSI Group	Row reference	a MB Supervisory Function	b MB Management Function	c Other Senior Management	d Other Identified Staff
Guaranteed variable remuneration awards					
Guaranteed variable remuneration awards - Number of identified staff[1]	1	-	-	-	6
Guaranteed variable remuneration awards -Total amount	2	-	-	-	5.22
Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap	3	-	-	-	2.89
Severance payments awarded in previous periods, that have been paid out during the financial year					
Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff[1]	4	-	-	-	-
Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount	5	-	-	-	-
Severance payments awarded during the financial year					
Severance payments awarded during the financial year - Number of identified staff[1]	6	-	-	-	41
Severance payments awarded during the financial year - Total amount	7	-	-	-	10.66
Of which paid during the financial year	8	-	-	-	-
Of which deferred	9	-	-	-	-
Of which severance payments paid during the financial year, that are not taken into account in the bonus cap	10	-	-	-	-
Of which highest payment that has been awarded to a single person	11	-	-	-	2.04

1.Number of identified staff beneficiaries by full-time employment according to PRA guidelines.

Table 46: Deferred remuneration (UK REM3)

£MM		a	b	c	d	e	f	UK - g	UK - h
MSI Group									
Deferred and retained remuneration	Row reference	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e.changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
MB Supervisory function[1]	1	-	-	-	-	-	-	-	-
Cash-based	2	-	-	-	-	-	-	-	-
Shares or equivalent ownership interests	3	-	-	-	-	-	-	-	-
Share-linked instruments or equivalent non-cash instruments	4	-	-	-	-	-	-	-	-
Other instruments	5	-	-	-	-	-	-	-	-
Other forms	6	-	-	-	-	-	-	-	-
MB Management function	7	105.50	38.10	67.40	-	-	(2.50)	18.90	11.40
Cash-based	8	7.70	5.70	2.00	-	-	-	3.80	-
Shares or equivalent ownership interests	9	97.80	32.40	65.40	-	-	(2.50)	15.00	11.40
Share-linked instruments or equivalent non-cash instruments	10	-	-	-	-	-	-	-	-
Other instruments	11	-	-	-	-	-	-	-	-
Other forms	12	-	-	-	-	-	-	-	-
Other senior management	13	58.40	19.50	38.90	-	-	(1.40)	17.40	11.20
Cash-based	14	4.50	3.00	1.50	-	-	-	2.60	-
Shares or equivalent ownership interests	15	53.90	16.50	37.40	-	-	(1.40)	14.70	11.20
Share-linked instruments or equivalent non-cash instruments	16	-	-	-	-	-	-	-	-
Other instruments	17	-	-	-	-	-	-	-	-
Other forms	18	-	-	-	-	-	-	-	-
Other identified staff	19	714.40	297.40	417.00	-	-	(15.80)	233.30	147.20
Cash-based	20	39.50	33.90	5.60	-	-	–	23.30	–
Shares or equivalent ownership interests	21	674.90	263.60	411.40	-	-	(15.80)	210.00	147.20
Share-linked instruments or equivalent non-cash instruments	22	-	-	-	-	-	-	-	-
Other instruments	23	-	-	-	-	-	-	-	-
Other forms	24	-	-	-	-	-	-	-	-
Total amount	**25**	**878.30**	**355.00**	**523.30**	**-**	**-**	**(19.70)**	**269.60**	**169.90**

1.MB Supervisory function is not entitled to variable compensation and does not have values to be reported under UK REM3.

Table 47: Remuneration of 1 million EUR or more per year (UK REM4)

		a
(All values in EUR)	Row reference	Identified staff that are high earners as set out in Article 450(i) CRR
1 000 000 to below 1 500 000	1	101
1 500 000 to below 2 000 000	2	50
2 000 000 to below 2 500 000	3	26
2 500 000 to below 3 000 000	4	13
3 000 000 to below 3 500 000	5	5
3 500 000 to below 4 000 000	6	5
4 000 000 to below 4 500 000	7	2
4 500 000 to below 5 000 000	8	4
5 000 000 to below 6 000 000	9	2
6 000 000 to below 7 000 000	10	3
7 000 000 and above	11	8

Table 48: Information of staff whose professional activities have a material impact on institutions' risk profile (identified staff) (UK REM5)

£MM		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			Business areas						
MSI Group	Row reference	MB Supervisory function	MB Management function	Total MB	Investment Banking	Retail Banking	Asset Management	Corporate Functions	Independent internal control functions	All Other	Total
Total number of identified staff[1]	1										**519**
Of which: members of the MB	2	9	12	21							
Of which: other senior management	3				6	-	1	5	4	-	
Of which: other identified staff	4				414	-	1	29	38	-	
Total remuneration of identified staff	5	**1.40**	**34.70**	**36.10**	**460.00**	**-**	**2.10**	**25.40**	**24.30**	**-**	
Of which: variable remuneration	6	-	17.80	17.80	226.60	-	1.20	11.80	9.40	-	
Of which: fixed remuneration	7	1.40	16.90	18.30	233.50	-	0.90	13.60	15.00	-	

1.Number of Identified Staff based on FTE in accordance with PRA guidelines.

This document represents the annual Compensation Disclosure of the MSI Group, as required under the CRR. The annual public Pillar III qualitative and quantitative disclosures are published separately and can be found at http://www.morganstanley.com/about-us-ir/pillar-uk.

19. Appendix I: Board of Directors Knowledge, Skills and Expertise

Appointments to MSI Board

When identifying and recommending candidates to join the MSI Board, the MSI Nomination and Governance Committee will consider a broad range of qualities and characteristics, giving due regard to ensuring a diverse range of approaches, backgrounds, skills, experience, opinions and views are present on the MSI Board and its Committees. It will also take into account regulatory requirements and relevant policies of the MSI Group. When identifying and selecting non-executive directors, the MSI Nomination and Governance Committee may also consult with executive search firms. New directors go through tailored induction programmes and all directors are provided with ongoing training.

Diversity and the Composition of the MSI Board

The MSI Board recognises the importance and benefits of diversity both within business operations and at a board level. All appointments to the MSI Board and its Committees are made on merit, in the context of the skills and experience that the MSI Board as a whole requires to be effective, with due regard given to the benefits of diversity. When assessing the composition of the MSI Board and recommending new directors; the MSI Nomination and Governance Committee considers the benefits of diversity, including gender and ethnic diversity.

The MSI Board aspires to continue to meet or exceed diversity targets, including a minimum (i) 40% female representation and (ii) one Board director from an ethnic minority background by 2025. As at 31 December 2023, the female representation on the board was 39% and the MSI Board met its ethnicity target. Selection of diverse candidates to join the MSI Board will be, in part, dependent on the pool of candidates with the necessary background, skills and experience. In order to promote the specific objective of diversity at Board level, the Nomination and Governance Committee expects short-lists of potential candidates prepared by external executive search firms to be diverse and balanced.

Non-Executive Directors

Jonathan Bloomer

Jonathan was appointed a non-executive director of the MSI Board in November 2016 and became Chair of the MSI Board and MSI Nomination & Governance Committee with effect from 31 March 2018 and Chair of the MSI Remuneration Committee in February 2021. He is also a member of the MSI Audit and Risk Committees.

Jonathan has over 40 years' experience working in accounting and financial services firms. He was a Partner at Arthur Andersen from 1987 to 1994 before leaving to join the Prudential Group plc where he spent over 10 years including as Group Finance Director and Group Chief Executive Officer. Jonathan also spent six years at Cerberus Capital, a global private equity firm, as a European Partner and Senior Member of the Global Operations team.

Jonathan holds non-executive directorships with other financial institutions.

He is a Chartered Accountant and holds a B.Sc. in Physics from Imperial College.

Megan Butler

Megan was appointed a non-executive director of the MSI Board in October 2022. She became Chair of the MSI Audit Committee with effect from 17 May 2023 and is also a member of the MSI Risk and Nomination & Governance Committees.

Megan has over thirty years' experience working in financial services including over twenty years' working for UK financial services regulators. She was previously Executive Director for Transformation for the FCA and prior to that she was Executive Director of Supervision of the Investment Wholesale and Specialists Division of the FCA. Before joining the FCA she held roles at the PRA, including as Executive Director of the International Banks Directorate and she held various roles at the Financial Services Authority between 2000 and 2013, latterly as the Director of the International Banks Division. Megan started her career at the London Stock Exchange where she held a number of different roles.

Megan has a LLB (Hons) from Sheffield University and was called to the Bar in 1987.

David Cannon

David was appointed a non-executive director of the MSI Board in June 2013. He is a member of the MSI Risk, Nomination & Governance Committees and was interim Chair of the MSI Audit Committee until May 2023 when he stepped down and Megan Butler assumed the role of Chair.

David has over thirty years' experience in the financial sector, with a particular focus on accounting and investment banking. He was a Partner at Ernst & Young from 1986 to 1995, leading the audit of a number of large financial services groups and being responsible for one of Ernst & Young's audit divisions before leaving in 1995 to become Chief Financial Officer of BZW/Barclays Capital. He returned to Ernst & Young in 1998 as Managing Partner of the London Financial Services Office. Between 2003 and 2012, David held a number of positions at Deutsche Bank including Deputy Group Chief Finance Officer and Chief Finance Officer for the Investment Bank.

From 2015 to 2019, David was a member of the Conduct Committee of the Financial Reporting Council and Chair of its Audit Quality Review Committee. He has an M.A. in PPE from the University of Oxford and is a qualified Chartered Accountant.

Terri Duhon

Terri was appointed a non-executive director of the MSI Board in April 2016. She is Chair of the MSI Risk Committee and member of the MSI Audit, Nomination & Governance and Remuneration Committees.

Terri has over twenty five years' risk and financial markets experience. She worked for JPMorgan as a derivatives trader for eight years and was Global Head of Structured Credit at ABN AMRO. In 2004 she founded an expert advisory company and has been retained as a financial risk expert for major regulators.

Terri has held a number of non-executive director appointments and is currently a director of Rathbones Group plc and Wise plc. She is an Associate Fellow at Oxford University Said Business School. She graduated from MIT in Mathematics in 1994.

Frank Mattern

Frank was appointed a non-executive director of the MSI Board in January 2023.

Frank is an Independent Advisor and was previously a Senior Partner at McKinsey & Company serving global financial institutions and capital market infrastructure providers, corporations and the public sector for 30 years. He led the Business Technology Office and held a number of roles including as Managing Partner of the German office and was a member of the Global Operating Committee, the Global Board of Directors and was Chair of the McKinsey Global Institute.

Frank holds roles a number of board memberships.

Frank studied Business Administration and Economics at Westfälische Wilhelm Universität Münster/Germany, and the London School of Economics. He holds an MBA from the Wharton School, University of Pennsylvania.

Jane Pearce

Jane was appointed a non-executive director of the MSI Board in October 2022. She is also a member of the MSI Risk, Audit and Remuneration Committees.

Jane has held a number of different roles in financial service firms over the last 30 years', her most recent executive role was in the Equity Strategy team at Nomura International plc. Prior to that she held senior roles in the Equity Strategy and Research Departments at Lehman Brothers from 2000 to 2008. She has also held roles as an Equity Analyst in the Technology Sector at Lehman Brothers and HSBC and a finance project manager at JP Morgan. She started her career at Arthur Anderson where she qualified as a Chartered Accountant.

Jane is Audit Committee Chair and a non-executive director with a number of other financial institutions. She has an Honours Degree in Business Studies & Accounting from the University of Edinburgh.

Melanie Richards

Melanie was appointed a non-executive director of the MSI Board in July 2021. She is also a member of the MSI Risk, Audit, Remuneration and Nomination & Governance Committees.

Melanie has nearly 40 years' experience working in banking and financial services with a particular focus on corporate finance and capital markets. Prior to retiring from her executive career in September 2020, Melanie had been a partner in the Debt Advisory practice of KPMG LLP for nearly twenty years where she co built the practice. Melanie served as a member of the KPMG LLP board from 2012 to 2020 including as Deputy Chair from 2017, and culminating in her role as acting chair during 2020. Before joining KPMG in 2001, Melanie held various roles in banks, latterly as the Head of Private Placements at the Royal Bank of Canada between 1997 and 2000.

Melanie received an honorary doctorate, Business Administration, from Oxford Brookes University in 2016.

Paul Taylor

Paul was appointed a non-executive director of the MSI Board in August 2020. He is also a member of the MSI Risk, Audit, Remuneration and the Nomination & Governance Committees.

Paul has over 35 years' experience working in a range of roles in the science and technology sector, predominantly within or connected with the Ministry of Defence or other central government departments. From 2014 to 2020 Paul led KPMG's Information Protection and Business Resilience practice in the UK. He is a member of the Technology Advisory Board for NatWest Group plc, a member of a number of Government Technical Committees and a member of Council at Loughborough University.

Paul graduated from Teesside Polytechnic with a BSc in Chemical Engineering and is a Fellow of the Royal Academy of Engineering and of the Weatherhead Centre for International Affairs at Harvard University. Paul was awarded a CBE in the King's New Year Honours in January 2023.

Executive Directors

Christopher Beatty

Christopher is the EMEA Chief Operating Officer and an executive director on the MSI Board (appointed August 2023).

Christopher joined Morgan Stanley in 2000 and has held a number of roles, including as Chief Operating Officer for ISG Continental Europe, Asia ISG Chief Operating Officer, Global Head of Electronic Client Execution & Trading Control and Chief Operating Officer EMEA Institutional Equities Division.

Prior to joining Morgan Stanley he held roles at JP Morgan and Dean Witter Reynolds.

Christopher graduated from St John's University, New York in 1995 with a Bachelor of Science in Business Administration.

Oliver Behrens

Oliver is Chair of Morgan Stanley Europe SE, Morgan Stanley Bank AB and Morgan Stanley Europe Holding SE Management Boards. He was appointed as an executive director on the MSI Board in January 2021.

Oliver has over 39 years banking experience. Prior to joining the firm Oliver spent 9 years at DekaBank where he was responsible for the Asset Management business and later the Institutional Sales and Trading business. He began his career at Deutsche Bank AG where he spent 24 years mainly in the Asset Management business.

Oliver holds a degree in economics from Hagen and Tuebingen.

David Cantillon

David is Head of the Institutional Equity Division and an executive director of the MSI Board (appointed January 2023).

David joined Morgan Stanley in 2007 and has held a number of roles, including Head of Equity Distribution in Europe and Prime Brokerage Europe. Prior to joining Morgan Stanley, he held senior roles at Goldman Sachs in the Prime Brokerage European business and as Head of European Convertible Bonds.

David graduated from University College Cork in 1993 with a Bachelor of Commerce Honours degree.

William Greene

William is Country Head for Germany and Austria and is an executive director of the MSI Board (appointed May 2023). William joined Morgan Stanley in 1998 and has held a number of roles, including Director of Asia Equity Research, Senior Transportation Analyst and Senior Lending Analyst. Prior to joining Morgan Stanley he was an analyst at Salomon Brothers Inc.

William graduated from Cornell University in 1991 with a Bachelor of Arts & Science and is a CFA Charter holder.

Kim Lazaroo

Kim is the EMEA Chief Administration Officer and is an executive director of the MSI Board (appointed February 2019). Prior to this she held a number of roles including EMEA Chief Financial Officer and EMEA Head of Global Corporate Controllers and Global Head of Legal Entity Controllers.

Kim joined Morgan Stanley in October 2015 from Goldman Sachs Group where she was Global Legal Entity Controller (2011 to 2015) and prior to this Kim held Financial and Legal Entity Controller roles. Kim joined Goldman Sachs in 1994 from Coopers & Lybrand where she worked for three years.

Kim has a Bachelor of Commerce in Accounting from the University of New South Wales.

Anthony Mullineaux

Anthony is the EMEA Chief Financial Officer and an executive director on the MSI Board (appointed October 2022).

Anthony joined the firm in 1993 and has held a number of senior positions in London and Hong Kong including Head of Financial Shared Services and Head of International Global In-House Centres from 2018 to 2021. Prior to that Anthony was EMEA Head of ISG Finance from 2015 to 2021 and Asia Pacific Chief Finance Officer from 2012 to 2014. Anthony joined Morgan Stanley from Coopers & Lybrand where he worked for three years.

Anthony is a Chartered Accountant and holds a Bachelor’s degree in Economics and Statistics from Exeter University.

Salvatore Orlacchio

Salvatore is the Head of EMEA Fixed Income and an executive director of the MSI Board (appointed June 2020). Salvatore has held a number of roles at the firm since joining in 1997 including EMEA Head of Fixed Income Sales and prior to that Head of interest Rates Distribution in EMEA and Sales Country Head for Italy Fixed Income and Institutional Equities division.

Salvatore has a BSC (Hons) in Economics from Naples University, and a M.Sc. in Economics and Finance from Warwick Business School.

Arya Sekhar

Arya is the EMEA Chief Risk Officer and an executive director on the MSI Board (appointed May 2020).

Arya joined the firm in April 2008 in the MRD and has served in key roles across the firm’s Risk Management division including Global Head of Market Risk Analytics, and in 2015 assumed the position of the Global Head of Liquidity Risk Department. He began his career in Mortgage Research in 2003 and has previously worked at Countrywide Securities Corporation and RBS Greenwich Capital.

Arya holds a Bachelor’s degree in Mechanical Engineering from Delhi University, a MBA in Finance from S.P Jain Institute and a Ph.D. in Finance from Oklahoma State University. He is also a CFA® Charter holder.

Noreen Whyte

Noreen is an executive director on the MSI Board (appointed May 2018) and is Chief Executive Officer of Morgan Stanley Bank International Ltd (appointed March 2016) and Global Co-Head of the Loan Solutions & Securitisation Group within the Global Capital Markets Group.

Noreen joined Morgan Stanley in 2005 from General Electric where she was Director of Originations at GE Home Lending. Noreen held operational and risk management roles in GE prior to joining the Structured Product Group in Fixed Income at Morgan Stanley.

Noreen graduated from the University of Westminster in 1995 with a BA (Hons) in International Business Studies. Noreen is sponsor of Morgan Stanley’s Black Youth and Women in Markets Forums.

Clare Woodman

Clare is Head of EMEA and Chief Executive Officer of MSIP and an executive director on the MSI Board (appointed September 2019). She is also responsible for Morgan Stanley's Operations Division globally and a member of the firm's Global Operating and Management Committees. Previously Clare served as Global Chief Operating Officer for Morgan Stanley's Institutional Securities Group. She joined Morgan Stanley from Clifford Chance.

Clare holds a number of senior positions across industry organisations: she is a member of the UK Investment Council, Chair of the US-UK Business Council and Chair of the FCA Markets Practitioner Panel.

Clare is a Trustee of the Morgan Stanley International Foundation and is an active sponsor of the firm's Women's Business Alliance and a Trustee of the FT Financial Literacy and Inclusion Campaign.

Clare is a qualified lawyer licensed to practice in the UK. Clare studied at the London Business School where she obtained her MBA and was awarded a CBE for Services to Finance.

Figure 6: MSI Directors: Number of Directorships

	Number of directorships held as at 31 December 2023	Directorships adjusted for SYSC4.3A.7(2)
Oliver Behrens	6	1
Chris Beatty	5	1
Jonathan Bloomer	5	3
Megan Butler	4	1
David Cannon	7	1
David Cantillon	3	1
Terri Duhon	10	4
William Greene	1	1
Kim Lazaroo	8	1
Frank Mattern	7	4
Anthony Mullineaux	4	1
Salvatore Orlacchio	2	1
Jane Pearce	7	3
Melanie Richards	8	2
Arya Sekhar	3	1
Paul Taylor	4	1
Noreen Whyte	6	1
Clare Woodman	5	1

20. Appendix II: Capital Instruments & Eligible Liabilities

Table 49: Capital instruments and eligible liabilities (UK CCA) - MSI Group and MSIP

	MSI Group	a		b			c			d
	Description	**Common Equity Tier 1**		**Additional Tier 1**			**Subordinated Debt**			**Senior Subordinated Debt**
1	Issuer	Morgan Stanley International Limited								
2	Unique Identifier	N/A								
2a	Public or private placement	Private								
3	Governing law(s) of the instrument	Companies Act 2006		English Law						
3a	Contractual recognition of write down and conversion powers of resolution authorities	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	Regulatory treatment									
4	Current treatment taking into account, where applicable, transitional CRR rules	Common Equity Tier 1		Additional Tier 1			Tier 2			Eligible Liability
5	Post-transitional CRR rules	Common Equity Tier 1		Additional Tier 1			Tier 2			Eligible Liability
6	Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	(Sub-) Consolidated								
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares		Perpetual Unsecured Securities			Subordinated Loan			Subordinated non-T2 Loan
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	USD 3,417MM		USD 800MM	USD 1,300MM	USD 2,200MM	USD 2,498MM	USD 2,100MM	USD 2,096MM	USD 9,400MM
9	Nominal amount of instrument	N/A	N/A	USD 800MM	USD 1,300MM	USD 2,200MM	USD 2,500MM	USD 2,100MM	USD 2,100MM	USD 9,400MM
UK-9a	Issue Price	N/A	N/A	USD 800MM	USD 1,300MM	USD 2,200MM	USD 2,500MM	USD 2,100MM	USD 2,100MM	USD 9,400MM
UK-9b	Redemption Price	N/A	N/A	USD 800MM	USD 1,300MM	USD 2,200MM	USD 2,500MM	USD 2,100MM	USD 2,100MM	USD 9,400MM
10	Accounting Classification	Shareholders' Equity					Liability - amortised cost			
11	Original date of issuance	13/11/1998	18/06/1998	13/06/2022	25/11/2020	23/08/2018	13/06/2022	11/8/2021	15/12/2023	27/11/2018
12	Perpetual or dated	Perpetual					Dated			
13	Original maturity date	No maturity					13/06/2033	11/8/2032	15/12/2034	395 days from issuance
14	Issuer call subject to prior supervisory approval	N/A	N/A	Yes	Yes	Yes	Yes	Yes	Yes	N/A
15	Option call date, contingent call dates and redemption amount	N/A	N/A	From 30th November 5 years post issuance plus tax and regulatory calls at 100%			5 years post issuance at 100% plus tax and regulatory calls at 100%			N/A
16	Subsequent call dates, if applicable	N/A	N/A	Daily thereafter						N/A
	Coupons / dividends									
17	Fixed or floating dividend / coupon	Floating		Fixed			Floating			
18	Coupon rate and any related index	N/A	N/A	7.4%	5.5%	7.5%	SOFR+2.34 %	SOFR + 1.44%	SOFR + 2.29%	Proxy*
19	Existence of a dividend stopper	No								
UK-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully Discretionary					Mandatory			
UK-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully Discretionary					Mandatory			
21	Existence of step up or other incentive to redeem	No								
22	Noncumulative or cumulative	Noncumulative					Cumulative			
23	Convertible or non-convertible	Nonconvertible								
24	If convertible, conversion trigger(s)	N/A								
25	If convertible, fully or partially	N/A								
26	If convertible, conversion rate	N/A								
27	If convertible, mandatory or optional conversion	N/A								
28	If convertible, specify instrument type convertible into	N/A								

MSI Group		a		b			c			d
Description		Common Equity Tier 1		Additional Tier 1			Subordinated Debt			Senior Subordinated Debt
29	If convertible, specify issuer of instrument it converts into	N/A								
30	Write-down features	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
31	If write-down, write-down trigger(s)	N/A	N/A	See below (A)			See below (B)			See below (C)
32	If write-down, full or partial	N/A	N/A	Full	Full	Full	Partial	Partial	Partial	Partial
33	If write-down, permanent or temporary	N/A	N/A	Permanent	Permanent	Permanent	Permanent	Permanent	Permanent	Permanent
34	If temporary write-down, description of write-up mechanism	N/A								
34a	Type of subordination (only for eligible liabilities)	N/A								Contractual
UK-34b	Ranking of the instrument in normal insolvency proceedings	Rank 1	Rank 1	Rank 2	Rank 2	Rank 2	Rank 3	Rank 3	Rank 3	Rank 4
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Perpetual Unsecured Securities		Subordinated Loan			Subordinated non-T2 Loan			Other Liabilities
36	Non-compliant transitioned features	No								
37	If yes, specify non-compliant features	N/A								
37a	Link to the full term and conditions of the instrument (signposting)	Link to full terms and conditions of Capital Instruments								

*Interest rate at which Morgan Stanley is offering loans, in the relevant currency, to members of the Morgan Stanley Group on such day, which counterparties have acknowledged and agreed to apply to any loan, acting on an arm's length basis.

Details of write-down trigger(s) (Row 31)

A Additional Tier 1: Contractual write down if CET1 Capital Ratio of MSI Group falls below 7%. BofE as the UK Resolution Authority has the authority to trigger the write down of the instrument upon the exercise of statutory powers in a resolution scenario.

B Subordinated Debt: BoE as the UK Resolution Authority has the authority to trigger the write down of the instrument upon the exercise of statutory powers or under the contractual terms if they deem the entity is failing or likely to fail, or if the MS resolution entity enters a resolution.

C Senior Subordinated Debt: BoE as the UK Resolution Authority has the authority to trigger the write down of the instrument under the contractual terms if they deem the entity is failing or likely to fail, or if the MS resolution entity enters a resolution.

MSIP		**a**			**b**			**c**			**d**
Description		**Common Equity Tier 1**			**Additional Tier 1**			**Subordinated Debt**			**Senior Subordinated Debt**
1	Issuer	Morgan Stanley & Co. International plc									
2	Unique Identifier	N/A									
2a	Public or private placement	Private									
3	Governing law(s) of the instrument	Companies Act 2006			English Law						
3a	Contractual recognition of write down and conversion powers of resolution authorities	No			Yes	Yes	Yes	Yes	Yes	Yes	Yes
	Regulatory treatment										
4	Current treatment taking into account, where applicable, transitional CRR rules	Common Equity Tier 1			Additional Tier 1			Tier 2			Eligible Liability
5	Post-transitional CRR rules	Common Equity Tier 1			Additional Tier 1			Tier 2			Eligible Liability
6	Eligible at solo/ (sub-)consolidated/ solo&(sub-)consolidated	Solo and (Sub-) Consolidated									
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares			Perpetual Unsecured Securities			Subordinated Loan			Subordinated non-T2 Loan
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	USD 12,977MM			USD 800MM	USD 1,300MM	USD 2,200MM	USD 2,498MM	USD 1,400MM	USD 1,198MM	USD 6,700MM
9	Nominal amount of instrument	N/A	N/A	N/A	USD 800MM	USD 1,300MM	USD 2,200MM	USD 2,500MM	USD 1,400MM	USD 1,200MM	USD 6,700MM
UK-9a	Issue Price	N/A	N/A	N/A	USD 800MM	USD 1,300MM	USD 2,200MM	USD 2,500MM	USD 1,400MM	USD 1,200MM	USD 6,700MM
UK-9b	Redemption Price	N/A	N/A	N/A	USD 800MM	USD 1,300MM	USD 2,200MM	USD 2,500MM	USD 1,400MM	USD 1,200MM	USD 6,700MM
10	Accounting Classification	Shareholders' Equity						Liability - amortised cost			
11	Original date of issuance	1/2/1994	28/10/1986	22/12/2011	13/06/2022	25/11/2020	23/08/2018	13/06/2022	11/8/2021	15/12/2023	27/11/2018
12	Perpetual or dated	Perpetual						Dated			
13	Original maturity date	No maturity						13/06/2033	11/8/2032	15/12/2034	395 days from date of issuance
14	Issuer call subject to prior supervisory approval	N/A	N/A	N/A	Yes	Yes	Yes	Yes	Yes	Yes	N/A
15	Option call date, contingent call dates and redemption amount	N/A	N/A	N/A	From 30th November 5 years post issuance plus tax and regulatory calls at 100%			5 years post issuance at 100% plus tax and regulatory calls at 100%			N/A
16	Subsequent call dates, if applicable	N/A	N/A	N/A	Daily thereafter						N/A
	Coupons / dividends										
17	Fixed or floating dividend / coupon	Floating			Fixed			Floating			
18	Coupon rate and any related index	N/A	N/A	N/A	7.4%	5.5%	7.5%	SOFR+2.34 %	SOFR + 1.44%	SOFR + 2.29%	Proxy*
19	Existence of a dividend stopper	No									
UK-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully Discretionary						Mandatory			
UK-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully Discretionary						Mandatory			
21	Existence of step up or other incentive to redeem	No									
22	Noncumulative or cumulative	Noncumulative						Cumulative			

MSIP		a			b			c			d
	Description	**Common Equity Tier 1**			**Additional Tier 1**			**Subordinated Debt**			**Senior Subordinated Debt**
23	Convertible or non-convertible	Nonconvertible									
24	If convertible, conversion trigger(s)	N/A									
25	If convertible, fully or partially	N/A									
26	If convertible, conversion rate	N/A									
27	If convertible, mandatory or optional conversion	N/A									
28	If convertible, specify instrument type convertible into	N/A									
29	If convertible, specify issuer of instrument it converts into	N/A									
30	Write-down features	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	See below (A)			See below (B)			See below (C)
32	If write-down, full or partial	N/A	N/A	N/A	Full	Full	Full	Partial	Partial	Partial	Partial
33	If write-down, permanent or temporary	N/A	N/A	N/A	Permanent	Permanent	Permanent	Permanent	Permanent	Permanent	Permanent
34	If temporary write-down, description of write-up mechanism	N/A									
34a	Type of subordination (only for eligible liabilities)	N/A									Contractual
UK-34b	Ranking of the instrument in normal insolvency proceedings	Rank 1	Rank 1	Rank 1	Rank 2	Rank 2	Rank 2	Rank 3	Rank 3	Rank 3	Rank 4
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Perpetual Unsecured Securities			Subordinated Loan			Subordinated non-T2 Loan			Other liabilities
36	Non-compliant transitioned features	No									
37	If yes, specify non-compliant features	N/A									
37a	Link to the full term and conditions of the instrument (signposting)	Link to full terms and conditions of Capital Instruments									

*Interest rate at which Morgan Stanley is offering loans, in the relevant currency, to members of the Morgan Stanley Group on such day, which counterparties have acknowledged and agreed to apply to any loan, acting on an arm's length basis.

Details of write-down trigger(s) (Row 31)

A Additional Tier 1: Contractual write down if CET1 Capital Ratio of MSIP or MSI Group falls below 7%. BoE as the UK Resolution Authority has the authority to trigger the write down of the instrument upon the exercise of statutory powers in a resolution scenario.

B Subordinated Debt: BoE as the UK Resolution Authority has the authority to trigger the write down of the instrument upon the exercise of statutory powers or under the contractual terms if they deem the entity is failing or likely to fail, or if the MS resolution entity enters a resolution.

C Senior Subordinated Debt: BoE as the UK Resolution Authority has the authority to trigger the write down of the instrument under the contractual terms if they deem the entity is failing or likely to fail, or if the MS resolution entity enters a resolution.

21. Appendix III: Own Funds Disclosure Template

Table 50 shows the composition of regulatory own funds for the MSI Group and MSIP as at 31 December 2023.

Table 50: Composition of regulatory own funds (UK CC1) - MSI Group and MSIP

$MM		a	b
MSI Group		Amounts	Reference to UK CC2
	Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	3,417	A
	of which: Instrument type 1		
	of which: Instrument type 2		
	of which: Instrument type 3		
2	Retained earnings	16,922	B
3	Accumulated other comprehensive income (and other reserves)	6,226	C
UK-3a	Funds for general banking risk	-	
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1	-	
5	Minority interests (amount allowed in consolidated CET1)	-	
UK-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	642	D
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**27,207**	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	(1,319)	
8	Intangible assets (net of related tax liability) (negative amount)	(777)	E
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	(9)	F
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	-	
12	Negative amounts resulting from the calculation of expected loss amounts	(235)	
13	Any increase in equity that results from securitised assets (negative amount)	-	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	304	G
15	Defined-benefit pension fund assets (negative amount)	(8)	H
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	-	
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
UK-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	
UK-20b	of which: qualifying holdings outside the financial sector (negative amount)	-	
UK-20c	of which: securitisation positions (negative amount)	-	
UK-20d	of which: free deliveries (negative amount)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-	
22	Amount exceeding the 17,65% threshold (negative amount)	-	
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	
25	of which: deferred tax assets arising from temporary differences	-	
UK-25a	Losses for the current financial year (negative amount)	-	
UK-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	-	
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	-	
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	(265)	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(2,309)**	
29	**Common Equity Tier 1 (CET1) capital**	**24,898**	
	Additional Tier 1 (AT1) capital: instruments		
30	Capital instruments and the related share premium accounts	4,300	
31	of which: classified as equity under applicable accounting standards	4,300	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1 as described in Article 486(3) CRR	-	

UK-33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1	-	
UK-33b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1	-	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**4,300**	
	Additional Tier 1 (AT1) capital: regulatory adjustments		
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)	-	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	-	
42a	Other regulatory adjustments to AT1 capital	-	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**	
44	**Additional Tier 1 (AT1) capital**	**4,300**	I
45	**Tier 1 capital (T1 = CET1 + AT1)**	**29,198**	
	Tier 2 (T2) capital: instruments		
46	Capital instruments and the related share premium accounts	6,694	
47	Amount of qualifying items referred to in Article 484 (5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR	-	
UK-47a	Amount of qualifying items referred to in Article 494a (2) CRR subject to phase out from T2	-	
UK-47b	Amount of qualifying items referred to in Article 494b (2) CRR subject to phase out from T2	-	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Credit risk adjustments	-	
51	**Tier 2 (T2) capital before regulatory adjustments**	**6,694**	
	Tier 2 (T2) capital: regulatory adjustments		
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	
UK-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	-	
UK-56b	Other regulatory adjustments to T2 capital	-	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-	
58	**Tier 2 (T2) capital**	**6,694**	J
59	**Total capital (TC = T1 + T2)**	**35,892**	
60	**Total Risk exposure amount**	**155,523**	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	16.01%	
62	Tier 1 (as a percentage of total risk exposure amount)	18.77%	
63	Total capital (as a percentage of total risk exposure amount)	23.08%	
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	9.30%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement	0.62%	
67	of which: systemic risk buffer requirement	-	
UK-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**	**9.83%**	

	Amounts below the thresholds for deduction (before risk weighting)		
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	686	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	-	
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	334	K
	Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on T2 instruments subject to phase out arrangements	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

$MM MSIP		a Amounts	b Reference to UK CC2
	Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	12,977	A
	of which: Instrument type 1		
	of which: Instrument type 2		
	of which: Instrument type 3		
2	Retained earnings	4,241	B
3	Accumulated other comprehensive income (and other reserves)	1,004	C
UK-3a	Funds for general banking risk	-	
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1	-	
5	Minority interests (amount allowed in consolidated CET1)	-	
UK-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	521	D
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**18,743**	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	(1,210)	
8	Intangible assets (net of related tax liability) (negative amount)	-	E
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-	
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	-	
12	Negative amounts resulting from the calculation of expected loss amounts	(158)	
13	Any increase in equity that results from securitised assets (negative amount)	-	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	303	F
15	Defined-benefit pension fund assets (negative amount)	-	
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	-	
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
UK-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	
UK-20b	of which: qualifying holdings outside the financial sector (negative amount)	-	
UK-20c	of which: securitisation positions (negative amount)	-	
UK-20d	of which: free deliveries (negative amount)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-	
22	Amount exceeding the 17,65% threshold (negative amount)	-	
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	
25	of which: deferred tax assets arising from temporary differences	-	
UK-25a	Losses for the current financial year (negative amount)	-	
UK-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	-	
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	-	
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	(178)	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(1,245)**	
29	**Common Equity Tier 1 (CET1) capital**	**17,498**	
	Additional Tier 1 (AT1) capital: instruments		
30	Capital instruments and the related share premium accounts	4,300	
31	of which: classified as equity under applicable accounting standards	4,300	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1 as described in Article 486(3) CRR	-	
UK-33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1	-	
UK-33b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1	-	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	

36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**4,300**	
	Additional Tier 1 (AT1) capital: regulatory adjustments		
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)	-	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	-	
42a	Other regulatory adjustments to AT1 capital	-	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	-	
44	**Additional Tier 1 (AT1) capital**	**4,300**	G
45	**Tier 1 capital (T1 = CET1 + AT1)**	**21,798**	
	Tier 2 (T2) capital: instruments		
46	Capital instruments and the related share premium accounts	5,096	
47	Amount of qualifying items referred to in Article 484 (5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR	-	
UK-47a	Amount of qualifying items referred to in Article 494a (2) CRR subject to phase out from T2	-	
UK-47b	Amount of qualifying items referred to in Article 494b (2) CRR subject to phase out from T2	-	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Credit risk adjustments	-	
51	**Tier 2 (T2) capital before regulatory adjustments**	**5,096**	
	Tier 2 (T2) capital: regulatory adjustments		
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	
UK-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	-	
UK-56b	Other regulatory adjustments to T2 capital	-	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-	
58	**Tier 2 (T2) capital**	**5,096**	**H**
59	**Total capital (TC = T1 + T2)**	**26,894**	
60	**Total Risk exposure amount**	**117,820**	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	14.85%	
62	Tier 1 (as a percentage of total risk exposure amount)	18.50%	
63	Total capital (as a percentage of total risk exposure amount)	22.83%	
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	9.27%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement	0.62%	
67	of which: systemic risk buffer requirement	-	
UK-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**	**8.70%**	
	Amounts below the thresholds for deduction (before risk weighting)		
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	772	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	128	I

75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	230	J
	Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on T2 instruments subject to phase out arrangements	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

MSI Group and MSIP are required to maintain a minimum ratio of own funds to RWAs. As at 31 December 2023, MSI Group and MSIP are in compliance with the PRA capital requirements as defined in the PRA rulebook.

Table 51 shows the reconciliation of regulatory own funds in Table 50 to balance sheet in the audited financial statements.

Table 51: Reconciliation of regulatory own funds to balance sheet in the audited financial statements (UK CC2) – MSI Group and MSIP

$MM

MSI Group	Balance sheet as per financial statements[1] As at 31 December 2023	Under regulatory scope of consolidation As at 31 December 2023	Reference to UK CC1
Assets - Breakdown by asset classes according to the balance sheet in the financial statements			
Cash And Short-Term Deposits	30,175	30,175	
Trading Financial Assets	376,564	376,564	
Secured Financing	127,470	127,470	
Loans And Advances	175	175	
Investment Securities	127	127	
Trade And Other Receivables	88,806	88,806	
of which: Defined Pension Fund Assets (net of related tax liability)	8	8	H
Physical Commodities	-	-	
Current Tax Assets	459	459	
Deferred Tax Assets	343	343	
of which: Deferred tax assets that rely on future profitability and do not arise from temporary differences	9	9	F
of which: Deferred tax assets that rely on future profitability and arise from temporary differences	334	334	K
Other Assets	170	170	
Investments In Subsidiaries Associates And Joint Ventures	0	0	
Property Plant And Equipment	978	978	
Intangible Assets	832	832	
of which: Intangibles net of related tax liabilities	777	777	E
TOTAL ASSETS	**626,099**	**626,099**	
Liabilities - Breakdown by liability classes according to the balance sheet in the financial statements			
Bank Loans And Overdrafts	4,284	4,284	
Trading Financial Liabilities	316,257	316,257	
Secured Borrowing	103,559	103,559	
Trade And Other Payables	101,206	101,206	
Debt And Other Borrowings	67,474	67,474	
of which: Subordinated debt[2]	6,694	6,694	J
of which: Senior subordinated debt	12,167	12,167	
Provisions	217	217	
Current Tax Liabilities	138	138	
Deferred Tax Liabilities	2	2	
Post-Employment Benefit Obligations	31	31	
TOTAL LIABILITIES	**593,168**	**593,168**	
Shareholders' equity			
Share Capital	7,678	7,678	
of which: amount eligible for CET1	3,378	3,378	A
Other Equity Instruments	4,300	4,300	I
Share Premium Account	39	39	A
Currency Translation Reserve	(587)	(587)	
of which: Previous years currency translation reserve	(840)	(840)	C
of which: currency translation reserve not recognised in own funds	253	253	
Pension Reserve	(91)	(91)	C
Debt Valuation Adjustment Reserve	(304)	(304)	C & G
Capital Contribution Reserve	6,061	6,061	C
Capital Redemption Reserve	1,400	1,400	C
Available-For-Sale Reserve	-	-	
Retained Earnings	18,293	18,293	
of which: Previous years retained earnings	16,922	16,922	B
of which: Interim verified profit	642	642	D
of which: Profit or loss attributable to owners of the parent	729	729	
Equity Attributable To The Owners Of The Company	32,489	32,489	
Non-Controlling Interests	442	442	
TOTAL EQUITY	**32,931**	**32,931**	
TOTAL LIABILITIES AND EQUITY	**626,099**	**626,099**	

1.MSI Group does not publish financial statements and the reported balances are reconciled to audited consolidated non-statutory financial information.
2.This represents regulatory subordinated debt adjusted for amortisation.

$MM	a	b	c
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	
MSIP	As at 31 December 2023	As at 31 December 2023	Reference to UK CC1
Assets - Breakdown by asset classes according to the balance sheet in the published			
Cash And Short-Term Deposits	18,070	18,070	
Trading Financial Assets	336,646	336,646	
Secured Financing	119,902	119,902	
Loans And Advances	103	103	
Investment Securities	125	125	
Trade And Other Receivables	73,917	73,917	
Physical Commodities	-	-	
Current Tax Assets	456	456	
Deferred Tax Assets	230	230	
of which: Deferred tax assets that rely on future profitability and arise from temporary differences	230	230	J
Other Assets	27	27	
Investments In Subsidiaries Associates And Joint Ventures	128	128	I
Property Plant And Equipment	16	16	
Intangible Assets	0	0	
of which: Intangibles net of related tax liabilities	0	0	
TOTAL ASSETS	**549,620**	**549,620**	
Liabilities - Breakdown by liability classes according to the balance sheet in the			
Bank Loans And Overdrafts	2	2	
Trading Financial Liabilities	274,538	274,538	
Secured Borrowing	105,064	105,064	
Trade And Other Payables	86,583	86,583	
Debt And Other Borrowings	59,697	59,697	
of which: Subordinated debt[1]	5,096	5,096	H
of which: Senior subordinated debt	6,700	6,700	
Provisions	124	124	
Current Tax Liabilities	20	20	
Deferred Tax Liabilities	-	-	
Post-Employment Benefit Obligations	1	1	
TOTAL LIABILITIES	**526,029**	**526,029**	
Shareholders' equity			
Share Capital	16,766	16,766	
of which: amount eligible for CET1	12,465	12,465	A
Other Equity Insturements	4,300	4,300	G
Share Premium Account	512	512	A
Currency Translation Reserve	(95)	(95)	C
Pension Reserve	(1)	(1)	C
Debt Valuation Adjustment Reserve	(303)	(303)	C & F
Capital Contribution Reserve	3	3	C
Capital Redemption Reserve	1,400	1,400	C
Available-For-Sale Reserve	-	-	
Retained Earnings	5,309	5,309	
of which: Previous years retained earnings	4,241	4,241	B
of which: Interim verified profit	521	521	D
of which: Profit or loss attributable to owners of the parent	548	548	
Equity Attributable To The Owners Of The Company	23,591	23,591	
Non-Controlling Interests	-	-	
TOTAL EQUITY	**23,591**	**23,591**	
TOTAL LIABILITIES AND EQUITY	**549,620**	**549,620**	

1. This represents the regulatory subordinated debt adjusted for amortisation.

The above table highlights the difference in the basis of consolidation for accounting and prudential reporting purposes as it compares the carrying values as reported under IFRS with the carrying values under the scope of regulatory consolidation.

22. Appendix IV: Countercyclical Capital Buffer

Table 52 shows the geographical distribution of credit exposures relevant for the calculation of CCyB as at 31 December 2023 for the MSI Group and MSIP.

Table 52: Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer (UK CCyB1) – MSI Group and MSIP

		a	b	c	d	e	f	g	h	i	j	k	l	m
		General credit exposures		Trading book exposures				Own fund requirements						
		Exposure value under the standardised approach	Exposure value under the IRB approach	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal models	Securitisation exposures Exposure value for Non-Trading book	Total exposure value	Relevant credit risk exposures - Credit risk	Relevant credit exposures – Market risk	Relevant credit exposures – Securitisation positions in the Non-Trading book	Total	Risk-weighted exposure amounts	Own fund requirement weights	CCyB rate
MSI Group		$MM	$MM	$MM	$MM	$MM	$MM	$MM	$MM	$MM	$MM	$MM	%	%
10	Australia	60	2,449	-	63	-	2,572	85	16	-	101	1,265	1.83%	1.00%
	Bulgaria	-	-	-	11	-	12	-	8	-	8	103	0.15%	2.00%
	Croatia	-	45	-	-	-	45	-	-	-	-	-	-	1.00%
	Cyprus	-	4	-	2	-	6	-	2	-	2	37	0.05%	2.00%
	Czech Republic	4	-	-	18	-	22	-	3	-	3	37	0.05%	2.00%
	Denmark	5	1,205	-	85	-	1,294	35	24	-	59	746	1.08%	2.50%
	Estonia	-	-	-	18	-	18	-	4	-	4	50	-	1.50%
	France	4,516	3,625	91	1,633	-	9,865	143	95	-	238	2,965	4.28%	0.50%
	Germany	5,056	2,511	45	574	-	8,187	113	78	-	191	2,382	3.44%	0.75%
	Hong Kong	13	1,267	4	125	-	1,409	65	29	-	94	1,179	1.70%	1.00%
	Iceland	-	-	-	22	-	22	-	5	-	5	61	0.09%	2.00%
	Ireland	92	4,150	3	23	26	4,294	171	5	26	202	2,530	3.65%	1.00%
	Lithuania	-	-	-	-	-	-	-	-	-	-	1,726	2.49%	1.00%
	Luxembourg	318	6,051	73	54	-	6,496	279	23	-	302	3,777	5.46%	0.50%
	Netherlands	33	2,599	52	209	-	2,893	91	47	-	138	1,726	2.49%	1.00%
	Norway	20	280	10	82	-	391	5	15	-	20	244	0.35%	2.50%
	Romania	-	-	-	25	-	25	-	11	-	11	142	0.20%	1.00%
	Slovakia	-	6	-	12	-	19	1	3	-	4	42	0.06%	1.50%
	Slovenia	-	-	-	3	-	3	-	1	-	1	28	0.04%	0.50%
	Sweden	67	790	10	22	-	889	22	11	-	33	401	0.58%	2.00%
	United Kingdom	8,311	7,568	1,061	353	204	17,496	555	492	36	1,083	13,530	19.54%	2.00%
	Other	9,473	60,176	1,054	6,845	1	77,550	2,180	859	1	3,040	38,007	54.92%	0.00%
20	**Total**	**27,968**	**92,726**	**2,403**	**10,179**	**231**	**133,508**	**3,745**	**1,731**	**63**	**5,539**	**69,227**	**100.00%**	
MSIP														
10	Australia	59	2,305	-	36	-	2,400	83	6	-	89	1,110	2.00%	1.00%
	Bulgaria	-	-	-	11	-	12	-	8	-	8	103	0.19%	2.00%
	Croatia	-	45	-	-	-	45	-	-	-	-	-	-	1.00%
	Cyprus	-	1	-	2	-	3	-	2	-	2	25	0.05%	0.50%
	Czech Republic	-	-	-	18	-	18	-	3	-	3	35	0.06%	2.00%
	Denmark	1	98	-	84	-	183	6	24	-	30	373	1	2.50%
	Estonia	-	-	-	18	-	18	-	4	-	4	50	0.09%	1.50%
	France	2,607	48	-	1,247	-	3,901	15	72	-	87	1,087	1.96%	0.50%
	Germany	4,088	476	-	486	-	5,050	25	40	-	65	812	1.47%	0.75%
	Hong Kong	10	1,187	1	125	-	1,323	63	29	-	92	1,152	2.08%	1.00%
	Iceland	-	-	-	22	-	22	-	5	-	5	61	0.11%	2.00%
	Ireland	20	4,175	-	23	26	4,245	167	5	26	198	2,481	4.48%	1.00%
	Lithuania	-	-	-	-	-	-	-	-	-	-	1	-%	1.00%
	Luxembourg	160	4,927	-	54	-	5,140	224	16	-	240	3,006	5.42%	0.50%
	Netherlands	16	877	-	194	-	1,086	25	36	-	61	769	1.39%	1.00%
	Norway	18	17	-	77	-	111	2	11	-	13	163	0.29%	2.50%
	Romania	-	-	-	25	-	25	-	11	-	11	142	0.26%	1.00%
	Slovakia	-	-	-	12	-	12	-	3	-	3	34	0.06%	1.50%
	Slovenia	-	-	-	3	-	3	-	1	-	1	11	0.02%	0.50%
	Sweden	18	530	-	18	-	566	10	8	-	18	229	0.41%	2.00%
	United Kingdom	6,174	7,417	939	340	204	15,073	435	479	36	950	11,871	21.43%	2.00%
	Other	6,791	54,886	932	4,790	1	67,404	1,914	637	-	2,551	31,890	57.56%	0.00%
20	**Total**	**19,962**	**76,989**	**1,872**	**7,585**	**231**	**106,640**	**2,969**	**1,400**	**62**	**4,431**	**55,405**	**100.00%**	

The countercyclical buffer rate increased across multiple countries. The most significant is the UK.

Table 53 shows the amount of institution-specific CCyB as at 31 December 2023 for the MSI Group and MSIP.

Table 53: Amount of institution-specific countercyclical capital buffer (UK CCyB2) – MSI Group and MSIP

		a	a
$MM		MSI Group	MSIP
1	**Total risk exposure amount**	**155,523**	**117,820**
2	Institution specific countercyclical capital buffer rate	0.62%	0.62%
3	Institution specific countercyclical capital buffer requirement	964	731

Countercyclical buffer has increased following increase in CCyB rate of UK to 2% in the second half of 2023.

23. Appendix V: Additional Credit and Counterparty Credit Risk Tables

Table 54 shows a breakdown of net loans and advances and debt securities by residual maturity as at 31 December 2023 for the MSI Group and MSIP.

Table 54: Maturity of exposures (UK CR1-A) - MSI Group and MSIP

$MM		a	b	c	d	e	f
				Net exposure value			
MSI Group		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1	Loans and advances	-	85	3,892	-	1,221	5,198
2	Debt securities	-	110	1	-	-	111
3	**Total**	**-**	**195**	**3,893**	**-**	**1,221**	**5,309**
MSIP							
1	Loans and advances	-	67	2,277	-	799	3,143
2	Debt securities	-	110	1	-	-	111
3	**Total**	**-**	**177**	**2,278**	**-**	**799**	**3,254**

Over the second half of 2023, a decrease in loans & advances was due to a reduction in unsettled trades.

Table 55 shows changes in the stock of non-performing loans and advances as at 31 December 2023 for the MSI Group and MSIP.

Table 55: Changes in the stock of non-performing loans and advances (UK CR2) – MSI Group and MSIP

$MM		a
MSI Group		Gross carrying amount
010	**Initial stock of non-performing loans and advances**	**134**
020	Inflows to non-performing portfolios	195
030	Outflows from non-performing portfolios	(260)
040	Outflows due to write-offs	(6)
050	Outflow due to other situations	(254)
060	**Final stock of non-performing loans and advances**	**69**
MSIP		
010	Initial stock of non-performing loans and advances	**110**
020	Inflows to non-performing portfolios	182
030	Outflows from non-performing portfolios	(231)
040	Outflows due to write-offs	(6)
050	Outflow due to other situations	(225)
060	**Final stock of non-performing loans and advances**	**61**

During the year, MSI Group’s and MSIP's non-performing loans and advances decreased primarily due to trade and other receivables.

Table 56 shows an overview of performing and non-performing exposures and the related provisions as at 31 December 2023 for the MSI Group and MSIP.

Table 56: Performing and Non-performing exposures and related provisions (UK CR1) – MSI Group and MSIP

$MM		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
MSI Group			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3	Accumulated partial write-off	On performing exposures	On non-performing exposures
005	**Cash balances at central banks and other demand deposits**	**30,052**	**30,052**	**-**	**80**	**-**	**80**	**-**	**-**	**-**	**(80)**	**-**	**(80)**	**-**	**-**	**-**
010	**Loans and advances**	**216,359**	**35,105**	**52,837**	**69**	**2**	**67**	**(1)**	**(1)**	**-**	**(52)**	**-**	**(52)**	**-**	**127,492**	**-**
020	Central banks	2,151	-	1,104	-	-	-	-	-	-	-	-	-	-	1,020	-
030	General governments	1,130	-	1,130	-	-	-	-	-	-	-	-	-	-	-	-
040	Credit institutions	40,475	419	12,316	9	-	9	-	-	-	(3)	-	(3)	-	27,212	-
050	Other financial corporations	171,161	34,605	37,134	58	2	56	-	-	-	(47)	-	(47)	-	99,077	-
060	Non-financial corporations	1,442	81	1,153	2	-	2	(1)	(1)	-	(2)	-	(2)	-	183	-
070	Of which SMEs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
080	Households	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
090	**Debt securities**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
110	General governments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
120	Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
130	Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
140	Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150	**Off-balance-sheet exposures**	**4,745**	**4,511**	**221**	**-**	**-**	**-**	**(5)**	**(4)**	**(1)**	**-**	**-**	**-**		**14**	**-**
160	Central banks	-	-	-	-	-	-	-	-	-	-	-	-		-	-
170	General governments	-	-	-	-	-	-	-	-	-	-	-	-		-	-
180	Credit institutions	90	90	-	-	-	-	-	-	-	-	-	-		-	-
190	Other financial corporations	771	575	184	-	-	-	(1)	-	(1)	-	-	-		14	-
200	Non-financial corporations	3,884	3,846	37	-	-	-	(4)	(4)	-	-	-	-		-	-
210	Households	-	-	-	-	-	-	-	-	-	-	-	-		-	-
220	**Total**	**251,156**	**69,668**	**53,058**	**149**	**2**	**147**	**(6)**	**(5)**	**(1)**	**(132)**	**-**	**(132)**	**-**	**127,506**	**-**
MSIP																
005	**Cash balances at central banks and other demand deposits**	**18,283**	**18,283**	**-**	**77**	**-**	**77**	**-**	**-**	**-**	**(77)**	**-**	**(77)**	**-**	**-**	**-**
010	**Loans and advances**	**193,921**	**33,445**	**39,602**	**61**	**-**	**61**	**-**	**-**	**-**	**(50)**	**-**	**(50)**	**-**	**119,720**	**-**
020	Central banks	1,167	-	1,029	-	-	-	-	-	-	-	-	-	-	112	-
030	General governments	709	-	709	-	-	-	-	-	-	-	-	-	-	-	-
040	Credit institutions	42,377	1,313	7,281	6	-	6	-	-	-	(1)	-	(1)	-	33,103	-
050	Other financial corporations	148,629	32,131	29,728	53	-	53	-	-	-	(47)	-	(47)	-	86,322	-
060	Non-financial corporations	1,039	1	855	2	-	2	-	-	-	(2)	-	(2)	-	183	-
070	Of which SMEs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
080	Households	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
090	**Debt securities**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
110	General governments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
120	Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
130	Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
140	Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150	**Off-balance-sheet exposures**	**14**	-	-	-	-	-	-	-	-	-	-	-		-	-
160	Central banks	-	-	-	-	-	-	-	-	-	-	-	-		-	-
170	General governments	-	-	-	-	-	-	-	-	-	-	-	-		-	-
180	Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-		-	-
190	Other financial corporations	14	-	-	-	-	-	-	-	-	-	-	-		-	-
200	Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-		-	-
210	Households	-	-	-	-	-	-	-	-	-	-	-	-		-	-
220	**Total**	**212,218**	**51,728**	**39,602**	**138**	**-**	**138**	**-**	**-**	**-**	**(127)**	**-**	**(127)**	**-**	**119,720**	**-**

Over the second half of 2023, neither MSI Group or MSIP observed a significant movement in Stage 3 non-performing cash balances. The decrease in Stage 2 and Stage 3 non-performing loans and advances is primarily due to trade and other receivables.

Table 57 shows the quality of non-performing exposures by geography as at 31 December 2023 for the MSI Group and MSIP.

Table 57: Quality of non-performing exposures by geography (UK CQ4) – MSI Group and MSIP

$MM		a	b	c	d	e	f	g
		Gross carrying/nominal amount						
			Of which non-performing					
MSI Group				Of which defaulted	Of which subject to impairment	Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
010	**On-balance sheet exposures[1]**	**216,428**	**69**	**69**	**88,011**	**(52)**		**-**
020	United States of America	92,048	12	12	37,515	(1)		-
030	France	29,106	2	2	2,909	(1)		-
040	United Kingdom	19,575	7	7	12,106	(7)		-
050	Cayman Islands	12,319	2	2	6,471	-		-
060	Other countries	63,380	46	46	29,010	(43)		-
070	**Off-balance sheet exposures[2]**	**4,745**	**-**	**-**			**(5)**	
080	France	2,793	-	-			-	
090	Italy	568	-	-			(1)	
100	Germany	331	-	-			-	
110	Netherlands	257	-	-			(1)	
120	Other countries	796	-	-			(3)	
130	**Total**	**221,173**	**69**	**69**	**88,011**	**(52)**	**(5)**	**-**
MSIP								
010	**On-balance sheet exposures[1]**	**193,982**	**61**	**61**	**73,108**	**(50)**		**-**
020	United States of America	86,678	11	11	35,275	(1)		-
030	Germany	22,809	2	2	2,070	-		-
040	United Kingdom	18,389	4	4	10,920	(6)		-
050	Cayman Islands	12,220	2	2	6,372	-		-
060	Australia	9,737	-	-	2,417	-		-
070	Other countries	44,149	42	42	16,054	(43)		-
080	**Off-balance sheet exposures[2]**	**14**	**-**	**-**			**-**	
090	United States of America	14	-	-			-	
110	**Total**	**193,996**	**61**	**61**	**73,108**	**(50)**	**-**	**-**

1.Countries exceeding 5% of total gross carrying amount (On-balance sheet) for MSI Group and MSIP are reported individually.
2.Countries exceeding 5% of total gross carrying amount (Off-balance sheet) for MSI Group and MSIP are reported individually.

Over the second half of 2023, decrease in exposures against United States of America and France are primarily within trade and other receivables.

Countries included within "Other countries" category in Table 42:

	On-balance sheet	Off-balance sheet
MSI Group	Andorra, Angola, Anguilla, Argentina, Armenia, Australia, Austria, Azerbaijan, Bahamas, Bahrain, Belgium, Benin, Bermuda, Botswana, Brazil, Brunei Darussalam, Bulgaria, Cameroon, Canada, Chile, China, Colombia, Cote d'Ivoire, Croatia, Curacao, Cyprus, Czechia, Denmark, Egypt, Estonia, Finland, Gabon, Georgia, Germany, Gibraltar, Greece, Guernsey, Hong Kong, Hungary, Iceland, India, Indonesia, Ireland, Isle of Man, Israel, Italy, Japan, Jersey, Jordan, Kazakhstan, Kenya, Korea (Republic of), Kuwait, Latvia, Liechtenstein, Lithuania, Luxembourg, Macao, Macedonia (the former Yugoslav Republic of), Malaysia, Malta, Mauritius, Mexico, Monaco, Mongolia, Morocco, Namibia, Netherlands, New Zealand, Nigeria, Norway, Oman, Pakistan, Panama, Peru, Philippines, Poland, Portugal, Puerto Rico, Qatar, Romania, Russian Federation, Samoa, San Marino, Saudi Arabia, Senegal, Serbia, Singapore, Slovakia, Slovenia, South Africa, Spain, Supra Nationals, Sweden, Switzerland, Taiwan, Thailand, Tunisia, Turkey, Ukraine, United Arab Emirates, Uruguay, Uzbekistan, Vietnam, Virgin Islands (British)	Austria, Denmark, Jersey, Luxembourg, Norway, Spain, Sweden, United Kingdom, United States
MSIP	Andorra, Angola, Anguilla, Argentina, Armenia, Austria, Azerbaijan, Bahamas, Bahrain, Belgium, Benin, Bermuda, Botswana, Brazil, Brunei Darussalam, Bulgaria, Cameroon, Canada, Chile, China, Colombia, Cote d'Ivoire, Croatia, Curacao, Cyprus, Czechia, Denmark, Egypt, Estonia, Finland, France, Gabon, Georgia, Gibraltar, Greece, Guernsey, Hong Kong, Hungary, Iceland, India, Indonesia, Ireland, Isle of Man, Israel, Italy, Japan, Jersey, Jordan, Kazakhstan, Kenya, Korea (Republic of), Kuwait, Latvia, Liechtenstein, Lithuania, Luxembourg, Macao, Macedonia (the former Yugoslav Republic of), Malaysia, Malta, Mauritius, Mexico, Monaco, Mongolia, Morocco, Namibia, Netherlands, New Zealand, Nigeria, Norway, Oman, Pakistan, Panama, Peru, Philippines, Poland, Portugal, Puerto Rico, Qatar, Romania, Russian Federation, Samoa, San Marino, Saudi Arabia, Senegal, Serbia, Singapore, Slovakia, Slovenia, South Africa, Spain, Supra Nationals, Sweden, Switzerland, Taiwan, Thailand, Tunisia, Turkey, Ukraine, United Arab Emirates, Uruguay, Uzbekistan, Vietnam, Virgin Islands (British)	

Table 58 shows the credit quality of loans and advances to non-financial corporations by industry as at 31 December 2023 for the MSI Group and MSIP.

Table 58: Credit quality of loans and advances to non-financial corporations by industry (UK CQ5) - MSI Group and MSIP

$MM		a	b	c	d	e	f
		Gross carrying amount					
			Of which non-performing				
MSI Group				Of which defaulted	Of which loans and advances subject to impairment	Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
010	Agriculture, forestry and fishing	2	-	-	2	-	-
020	Mining and quarrying	64	-	-	24	-	-
030	Manufacturing	369	2	2	233	(3)	-
040	Electricity, gas, steam and air conditioning supply	286	-	-	286	-	-
050	Water supply	24	-	-	2	-	-
060	Construction	13	-	-	13	-	-
070	Wholesale and retail trade	28	-	-	28	-	-
080	Transport and storage	38	-	-	38	-	-
090	Accommodation and food service activities	4	-	-	4	-	-
100	Information and communication	246	-	-	246	-	-
110	Financial and insurance activities	-	-	-	-	-	-
120	Real estate activities	65	-	-	65	-	-
130	Professional, scientific and technical activities	7	-	-	4	-	-
140	Administrative and support service activities	195	-	-	195	-	-
150	Public administration and defense, compulsory social security	-	-	-	-	-	-
160	Education	24	-	-	24	-	-
170	Human health services and social work activities	12	-	-	5	-	-
180	Arts, entertainment and recreation	14	-	-	14	-	-
190	Other services	53	-	-	53	-	-
200	**Total**	**1,444**	**2**	**2**	**1,236**	**(3)**	**-**
MSIP							
010	Agriculture, forestry and fishing	2	-	-	2	-	-
020	Mining and quarrying	47	-	-	7	-	-
030	Manufacturing	329	2	2	193	(2)	-
040	Electricity, gas, steam and air conditioning supply	88	-	-	88	-	-
050	Water supply	2	-	-	2	-	-
060	Construction	13	-	-	13	-	-
070	Wholesale and retail trade	23	-	-	23	-	-
080	Transport and storage	20	-	-	20	-	-
090	Accommodation and food service activities	3	-	-	3	-	-
100	Information and communication	164	-	-	164	-	-
110	Financial and insurance activities	-	-	-	-	-	-
120	Real estate activities	65	-	-	65	-	-
130	Professional, scientific and technical activities	2	-	-	2	-	-
140	Administrative and support service activities	191	-	-	191	-	-
150	Public administration and defense, compulsory social security	-	-	-	-	-	-
160	Education	24	-	-	24	-	-
170	Human health services and social work activities	8	-	-	1	-	-
180	Arts, entertainment and recreation	14	-	-	14	-	-
190	Other services	46	-	-	46	-	-
200	**Total**	**1,041**	**2**	**2**	**858**	**(2)**	**-**

Over the second half of 2023, MSI Group’s and MSIP's loans and advances to non-financial corporations decreased primarily due to trade and other receivables within mining and quarrying, and information and communication, partially offset by an increase in administrative and support services activities.

Table 59 shows the extent of the use of CRM techniques as at 31 December 2023 for the MSI Group and MSIP.

Table 59: CRM techniques overview: Disclosure of the use of credit risk mitigation techniques (UK CR3) – MSI Group and MSIP

$MM	a	b	c	d	e
MSI Group	**Unsecured carrying amount**	**Secured carrying amount**	**Of which secured by collateral**	**Of which secured by financial guarantees**	**Of which secured by credit derivatives**
1 Loans and advances	118,935	127,492	127,492	-	-
2 Debt securities	-	-	-	-	
3 Total	**118,935**	**127,492**	**127,492**	**-**	**-**
4 Of which non-performing exposures	17	-	-	-	-
5 Of which defaulted	17	-			
MSIP					
1 Loans and advances	92,495	119,720	119,720	-	-
2 Debt securities	-	-	-	-	
3 Total	**92,495**	**119,720**	**119,720**	**-**	**-**
4 Of which non-performing exposures	11	-	-	-	-
5 Of which defaulted	11	-			

Over the second half of 2023, MSI Group’s and MSIP's loans and advances decreased primarily due to trade and other receivables, and cash balances with central banks, further offset by increase in secured financing.

Table 60 shows SA credit risk exposures at 31 December 2023 for the MSI Group and MSIP.

Table 60: Standardised approach: Credit risk exposure and CRM effects (UK CR4) – MSI Group and MSIP

		a	b	c	d	e	f
		Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet exposures	RWAs	RWAs density
MSI Group		$MM	$MM	$MM	$MM	$MM	%
1	Central governments or central banks	1,144	-	1,144	-	882	77%
2	Regional government or local authorities	17	-	17	-	0	1%
3	Public sector entities	7	-	7	-	0	6%
4	Multilateral development banks	12	-	12	-	0	0%
5	International organisations	13	-	13	-	0	0%
6	Institutions	424	345	424	69	341	69%
7	Corporates	1,138	224	1,138	91	1,355	110%
8	Retail	-	-	-	-	-	-
9	Secured by mortgages on immovable property	-	-	-	-	-	-
10	Exposures in default	1	-	1	-	1	150%
11	Exposures associated with particularly high risk	-	-	-	-	-	-
12	Covered bonds	-	-	-	-	-	-
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-
16	Other items	1,167	-	1,167	-	1,167	100%
17	**Total**	**3,923**	**569**	**3,923**	**160**	**3,746**	**92%**
MSIP							
1	Central governments or central banks	903	-	903	-	600	66%
2	Regional government or local authorities	16	-	16	-	-	1%
3	Public sector entities	6	-	6	-	-	5%
4	Multilateral development banks	12	-	12	-	-	-
5	International organisations	12	-	12	-	-	-
6	Institutions	364	13	364	3	309	84%
7	Corporates	808	-	808	-	829	103%
8	Retail	-	-	-	-	-	-
9	Secured by mortgages on immovable property	-	-	-	-	-	-
10	Exposures in default	0	-	0	-	0	150%
11	Exposures associated with particularly high risk	-	-	-	-	-	-
12	Covered bonds	-	-	-	-	-	-
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-
16	Other items	50	-	50	-	50	100%
17	**Total**	**2,171**	**13**	**2,171**	**3**	**1,788**	**82%**

Over the second half of 2023, MSI Group's and MSIP's RWAs decreased due to a reduction in unsettled trades with corporates.

Table 61 shows the breakdown of exposures under SA by exposure class and risk weight as at 31 December 2023 for the MSI Group.

Table 61: Standardised approach (UK CR5)- MSI Group

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
$MM		**Risk weight**																
MSI Group		**0%**	**2%**	**4%**	**10%**	**20%**	**35%**	**50%**	**70%**	**75%**	**100%**	**150%**	**250%**	**370%**	**1250%**	**Others**	**Total**	**Of which: unrated**
1	Central governments or central banks	720	-	-	-	19	-	58	-	-	11	2	334	-	-	-	1,144	-
2	Regional government or local authorities	17	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17	-
3	Public sector entities	5	-	-	-	2	-	-	-	-	-	-	-	-	-	-	7	-
4	Multilateral development banks	12	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12	-
5	International organisations	13	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13	-
6	Institutions	-	69	-	-	232	-	63	-	-	69	50	-	-	10	-	493	74
7	Corporates	-	-	-	-	31	-	123	-	-	823	244	-	-	8	-	1,229	414
8	Retail exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Exposures secured by mortgages on immovable property	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Exposures in default	-	-	-	-	-	-	-	-	-	-	1	-	-	-	-	1	-
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Units or shares in collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
16	Other items	-	-	-	-	-	-	-	-	-	1,167	-	-	-	-	-	1,167	-
17	**Total**	**767**	**69**	**-**	**-**	**284**	**-**	**244**	**-**	**-**	**2,070**	**297**	**334**	**-**	**18**	**-**	**4,083**	**488**

Over the second half of 2023, the decrease in RWAs is due to a reduction in unsettled trades with corporates.

Table 62 shows the total SA exposures, including CCR, for each exposure class and broken down by CQS.

Table 62: Standardised approach EAD by credit quality step - MSI Group

$MM

MSI Group[1]		**CQS1**	**CQS2**	**CQS3**	**CQS4**	**CQS5**	**CQS6**	**Other[2]**	**Unrated**	**Total**
Central Governments or Central Banks	GROSS EAD	1,044	18	57	7	4	2	13	-	**1,145**
	EAD	1,044	18	57	7	4	2	13	-	**1,145**
Corporates	GROSS EAD	31	224	281	74	37	13	1,691	-	**2,351**
	EAD	31	224	226	50	37	13	1,613	-	**2,194**
High risk	GROSS EAD	-	-	-	-	-	-	-	-	**-**
	EAD	-	-	-	-	-	-	-	-	**-**
Institutions	GROSS EAD	8,425	5,882	69	104	9	40	9,156	-	**23,685**
	EAD	8,180	5,882	69	104	9	40	7,611	-	**21,895**
Multilateral developments banks	GROSS EAD	12	-	-	-	-	-	-	-	**12**
	EAD	12	-	-	-	-	-	-	-	**12**
Public sector entities	GROSS EAD	7	-	-	-	-	-	-	-	**7**
	EAD	7	-	-	-	-	-	-	-	**7**
Regional governments or Local Authorities	GROSS EAD	16	1	-	-	-	-	3	-	**20**
	EAD	16	1	-	-	-	-	3	-	**20**
International Organisations	GROSS EAD	13	-	-	-	-	-	-	-	**13**
	EAD	13	-	-	-	-	-	-	-	**13**
Securitisation	GROSS EAD	-	-	71	-	9	-	98	165	**343**
	EAD	-	-	71	-	9	-	98	165	**343**
Other Items	GROSS EAD	-	35	-	-	-	-	1,133	-	**1,168**
	EAD	-	35	-	-	-	-	1,133	-	**1,168**
Total	**GROSS EAD**	**9,548**	**6,160**	**478**	**185**	**59**	**55**	**12,094**	**165**	**28,744**
	EAD	**9,303**	**6,160**	**423**	**161**	**59**	**55**	**10,471**	**165**	**26,797**

1. Under the SA, ts are generally applied according to the relevant exposure class and the associated credit quality (CRR Article 113). Credit quality may be determined by reference to the credit assessments of an ECAI, which are then mapped to a CQS. The unrated segment represents exposure for which no ECAI credit assessment is available.
2. The Other segment represents exposures where alternative rules to the CQS treatment described in the note above apply. The majority of exposures in this segment are exposures to central counterparties to which a fixed risk weight is applied.

Over the second half of 2023, MSI Group's EAD decreased due to a reduced exposure with exchanges.

Table 63 shows the breakdown of exposures under the FIRB approach by exposure class and the effect on the RWAs of credit derivatives used as CRM techniques as at 31 December 2023 for the MSI Group and MSIP.

Table 63: IRB approach: Effect on the RWAs of credit derivatives used as CRM techniques (UK CR7) – MSI Group and MSIP

		a	b	a	b
		MSI Group		MSIP	
$MM		Pre-credit derivatives RWAs	Actual RWAs	Pre-credit derivatives RWAs	Actual RWAs
1	**Exposures under FIRB[1]**	**6,237**	**6,237**	**2,949**	**2,949**
2	Central governments and central banks	410	410	133	133
3	Institutions	2,148	2,148	1,833	1,833
4	Corporates	3,679	3,679	983	983
4.1	*of which Corporates - SMEs*			-	-
4.2	*of which Corporates - Specialised lending*			-	-
10	**Total (including F-IRB exposures and A-IRB exposures)**	**6,237**	**6,237**	**2,949**	**2,949**

1. MSI Group and MSIP have no AIRB exposures.

Over the second half of 2023, the increase in MSI Group’s RWAs was primarily driven by corporate debt exposure partially offset by reduction in cash deposits with institutions. The decrease in MSIP's RWAs was driven by a reduction in cash deposits with institutions.

Table 64 shows the parameters used for the calculation of capital requirements under IRB approach as at 31 December 2023 for the MSI Group.

Table 64: IRB approach: Credit risk exposures by exposure class and PD range (UK CR6) - MSI Group

	PD range	On-balance sheet exposure	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post CRM	Exposure weighted average PD	Number of obligors	Exposure weighted average LGD	Exposure weighted average maturity	RWA after supporting factors	Density of RWA	Expected loss amount	Value adjustments and provisions
	a	b	c	d	e	f	g	h	i	j	k	l	m
MSI Group		$MM	$MM	%	$MM	%	#	%	Years	$MM	%	$MM	$MM
	0.00 to <0.15	13,932	2	75%	13,934	0.01%	6	45%	0	410	3%	1	-
	0.00 to <0.10	13,932	2	75%	13,934	0.01%	6	45%	0	410	3%	1	-
	0.10 to <0.15	-	-	-	-	-	-	-	-	-	-	-	-
	0.15 to <0.25	-	-	-	-	-	-	-	-	-	-	-	-
	0.25 to <0.50	-	-	-	-	-	-	-	-	-	-	-	-
	0.50 to <0.75	-	-	-	-	-	-	-	-	-	-	-	-
	0.75 to <2.50	-	-	-	-	-	-	-	-	-	-	-	-
	0.75 to <1.75	-	-	-	-	-	-	-	-	-	-	-	-
	1.75 to <2.5	-	-	-	-	-	-	-	-	-	-	-	-
	2.50 to <10.00	-	-	-	-	-	-	-	-	-	-	-	-
	2.5 to <5	-	-	-	-	-	-	-	-	-	-	-	-
	5 to <10	-	-	-	-	-	-	-	-	-	-	-	-
	10.00 to <100.00	-	-	-	-	-	-	-	-	-	-	-	-
	10 to <20	-	-	-	-	-	-	-	-	-	-	-	-
	20 to <30	-	-	-	-	-	-	-	-	-	-	-	-
	30.00 to <100.00	-	-	-	-	-	-	-	-	-	-	-	-
	100.00 (Default)	-	-	-	-	-	-	-	-	-	-	-	-
Exposure class 1	**Central governments or central banks**	**13,932**	**2**		**13,934**		**6**		**-**	**410**		**1**	**-**
	0.00 to <0.15	9,933	601	77%	10,395	0.05%	90	45%	1	1,645	16%	2	(4)
	0.00 to <0.10	9,757	599	77%	10,217	0.05%	66	45%	1	1,586	16%	2	(3)
	0.10 to <0.15	177	2	75%	178	0.14%	24	45%	0	59	33%	0	(1)
	0.15 to <0.25	142	57	75%	184	0.22%	10	45%	0	78	42%	0	(1)
	0.25 to <0.50	224	2	75%	225	0.35%	7	45%	1	134	59%	0	-
	0.50 to <0.75	-	-	-	-	-	-	-	-	-		-	-
	0.75 to <2.50	168	9	75%	175	1.26%	10	45%	1	193	111%	1	-
	0.75 to <1.75	168	9	75%	175	1.26%	10	45%	1	193	111%	1	-
	1.75 to <2.5	-	-	-	-	-	-	-	-	-	-	-	-
	2.50 to <10.00	-	-	-	-	-	-	-	-	-	-	-	-
	2.5 to <5	-	-	-	-	-	-	-	-	-	-	-	-
	5 to <10	-	-	-	-	-	-	-	-	-	-	-	-
	10.00 to <100.00	40	8	79%	47	11.13%	81	45%	1	98	210%	2	-
	10 to <20	40	8	79%	47	11.13%	81	45%	1	98	210%	2	-
	20 to <30	-	-	-	-	-	-	-	-	-	-	-	-
	30.00 to <100.00	-	-	-	-	-	-	-	-	-	-	-	-
	100.00 (Default)	34	-	-	34	100.00%	2	45%	0	0	0%	1500	-
Exposure class 2	**Institutions**	**10,541**	**677**		**11,060**		**200**		**4**	**2,148**		**20**	**(5)**
	0.00 to <0.15	1,051	4,562	75%	4,475	0.08%	92	45%	2	1,505	34%	2	(6)
	0.00 to <0.10	760	3,824	75%	3,631	0.06%	63	45%	2	1,120	31%	1	(6)
	0.10 to <0.15	291	738	75%	844	0.14%	29	45%	2	385	46%	1	-
	0.15 to <0.25	28	423	75%	345	0.22%	11	45%	2	191	55%	0	-
	0.25 to <0.50	116	146	75%	227	0.35%	13	45%	2	143	63%	0	-
	0.50 to <0.75	4	16	75%	16	0.55%	6	45%	0	10	64%	0	-
	0.75 to <2.50	77	582	75%	515	1.05%	39	45%	2	388	75%	2	(1)
	0.75 to <1.75	77	522	75%	470	0.94%	30	45%	1	321	68%	2	(1)
	1.75 to <2.5	-	60	75%	45	2.20%	9	45%	4	66	147%	0	-
	2.50 to <10.00	4	141	75%	109	4.95%	34	45%	3	185	169%	2	(2)
	2.5 to <5	4	141	75%	109	4.95%	34	45%	3	185	169%	2	(2)
	5 to <10	-	-	-	-	-	-	-	-	-		-	-
	10.00 to <100.00	433	76	75%	491	17.33%	116	45%	2	1,257	256%	38	(119)
	10 to <20	214	76	75%	272	11.13%	95	45%	3	676	249%	14	(1)
	20 to <30	219	0	75%	219	25.02%	21	45%	1	581	265%	25	(118)
	30.00 to <100.00	-	-	-	-	-	-	-	-	-		-	-
	100.00 (Default)	222	7	75%	228	100.00%	34	45%	4	0	0%	102	-
Exposure class 3	**Corporates**	**1,935**	**5,953**		**6,406**		**345**		**17**	**3,679**		**146**	**(129)**
	Total (all exposure classes)	**26,408**	**6,632**		**31,400**		**551**		**21**	**6,237**		**167**	**(134)**

Over the second half of 2023, the increase in MSI Group's RWAs was primarily from corporate debt exposure partially offset by a reduction in cash deposits with institutions.

Table 65 provides disclosure of the extent of the use of CRM techniques for the MSI Group and MSIP as at 31 December 2023.

Table 65: IRB approach: Disclosure of the extent of the use of CRM techniques (UK CR7-A) - MSI Group and MSIP

			Credit risk Mitigation techniques[2]											Credit risk Mitigation methods in the calculation of RWAs	
			Funded credit Protection (FCP) Part of exposures covered by -									Unfunded credit Protection (UFCP) Part of exposures covered by -			
		FIRB Total exposures[1]	Financial Collaterals	Other eligible collaterals	Immovable property Collaterals	Receivables	Other physical collateral	Other funded credit protection	Cash on deposit	Life insurance policies	Instruments held by a third party	Guarantees	Credit Derivatives	RWA post all CRM assigned to the obligor exposure class	RWA with substitution effects
		a	b	c	d	e	f	g	h	i	j	k	l	m	n
	MSI Group	**$MM**	**(%)**	**(%)**	**(%)**	**(%)**	**(%)**	**(%)**	**(%)**	**(%)**	**(%)**	**(%)**	**(%)**	**$MM**	**$MM**
1	Central governments and central banks	13,934	-	-	-	-	-	-	-	-	-	-	-	408	410
2	Institutions	11,060	1.24%	-	-	-	-	-	-	-	-	0.08%	-	2,057	2,148
3	Corporates	6,406	70.49%	-	-	-	-	-	-	-	-	4.02%	-	3,976	3,679
	Of which: -														
3.1	SMEs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.2	Specialised lending	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.3	Other	6,406	70.49%	-	-	-	-	-	-	-	-	4.02%	-	3,976	3,679
4	**Total**	**31,400**	**36.56%**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2.09%**	**-**	**6,441**	**6,237**
	MSIP														
1	Central governments and central banks	3,062	-	-	-	-	-	-	-	-	-	-	-	133	133
2	Institutions	10,032	62.21%	-	-	-	-	-	-	-	-	-	-	1,805	1,833
3	Corporates	1,052	1.44%	-	-	-	-	-	-	-	-	-	-	541	983
	Of which: -			-	-	-	-	-	-	-	-	-	-	-	-
3.1	SMEs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.2	Specialised lending	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.3	Other	1,052	1.44%	-	-	-	-	-	-	-	-	-	-	541	983
4	**Total**	**14,146**	**53.93%**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,479**	**2,949**

1.Total Exposure represents exposure after the use of CRM techniques.
2.Collateralisation is derived as funded credit protection or unfunded credit protection per category as a percentage of exposure before the use of CRM techniques.

CRM techniques are not used largely to mitigate risks, with the exception of exposures to Corporates, some of which are mitigated by guarantees.

Table 66 shows CCR exposures under the SA approach by exposure class and risk weight for the MSI Group as at 31 December 2023.

Table 66: Standardised approach: CCR exposures by regulatory exposure class and risk weight (UK CCR3)- MSI Group

$MM		Risk weight										
		a	b	c	d	e	f	g	h	i	j	k	l
MSI Group		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Total exposure value
1	Central governments or central banks	0	-	-	-	-	-	-	-	2	-	-	2
2	Regional government or local authorities	-	-	-	-	3	-	-	-	-	-	-	3
3	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	15,059	6,141	-	192	5			6			21,403
7	Corporates	-	-	-	-	-	103			861			964
8	Retail	-	-	-	-	-	-	-	-	-	-	-	-
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	-	-	-	-	-	-	-	-	-	-	-	-
11	**Total exposure value**	**0**	**15,059**	**6,141**	**-**	**195**	**108**	**-**	**-**	**869**	**-**	**-**	**22,372**

Over the second half of 2023, institutional exposures with exchanges primarily having 2% risk weight has decreased. This table excludes RWAs derived from own funds requirements for CVA. Exposures to QCCPs are included except where MSI Group is acting as a financial intermediary between a client and a QCCPs.

Table 67 shows all the relevant parameters used for the calculation of CCR capital requirements for the IRB approach as at 31 December 2023 for the MSI Group.

Table 67: IRB approach: CCR exposures by portfolio and PD scale (UK CCR4) - MSI Group

		a	b	c	d	e	f	g
MSI Group		Exposure value $MM	Exposure weighted average PD %	Number of obligors #	Exposure weighted average LGD %	Exposure weighted average maturity Years	RWAs $MM	RWAs density %
1	**Central governments and central banks**							
1	0.00 to <0.15	11,961	0.02%	129	45.00%	1	808	6.76%
2	0.15 to <0.25	100	0.22%	9	45.00%	2	47	46.97%
3	0.25 to <0.50	173	0.35%	8	45.00%	0	66	38.29%
4	0.50 to <0.75	0	0.55%	3	45.00%	0	0	48.16%
5	0.75 to <2.50	99	1.53%	9	45.00%	3	120	120.42%
6	2.50 to <10.00	-	-	-	-	-	-	-
7	10.00 to <100.00	101	24.97%	6	45.00%	1	251	248.65%
8	100.00 (Default)	-	-	-	-	-	-	-
		12,434	0.24%	164	45.00%	1	1,292	10.39%
2	**Corporates**							
1	0.00 to <0.15	34,718	0.07%	6,913	45.40%	2	10,487	30.21%
2	0.15 to <0.25	4,857	0.22%	1,079	45.00%	1	2,561	52.73%
3	0.25 to <0.50	5,302	0.35%	1,594	45.00%	1	3,332	62.85%
4	0.50 to <0.75	4,221	0.55%	487	45.00%	1	3,325	78.78%
5	0.75 to <2.50	6,711	1.24%	1,607	45.00%	1	7,380	109.97%
6	2.50 to <10.00	521	4.95%	353	45.00%	1	787	150.91%
7	10.00 to <100.00	1,121	16.22%	1,224	45.00%	1	2,690	239.97%
8	100.00 (Default)	0	100.00%	1	45.00%	1	0	0.00%
		57,451	0.64%	13,258	45.24%	1	30,562	53.20%
3	**Institutions**							
1	0.00 to <0.15	40,984	0.07%	247	45.37%	1	8,710	21.25%
2	0.15 to <0.25	1,154	0.22%	54	45.21%	1	678	58.81%
3	0.25 to <0.50	1,380	0.35%	87	45.37%	1	875	63.38%
4	0.50 to <0.75	267	0.55%	42	45.00%	1	210	78.60%
5	0.75 to <2.50	589	1.34%	82	45.50%	2	764	129.72%
6	2.50 to <10.00	175	4.95%	10	45.00%	2	314	179.21%
7	10.00 to <100.00	543	13.42%	94	61.24%	2	1,877	345.59%
8	100.00 (Default	-	-	-	-	-	-	-
		45,092	0.28%	616	45.56%	1	13,428	29.78%
	Total (all CCR relevant exposure classes)	**114,977**	**0.46%**	**14,038**	**45.34%**	**1**	**45,282**	**39.38%**

Over the second half of 2023, exposures to Corporates in all PD bands increased due to movement in OTC and Listed derivatives.

Table 68 shows the credit quality of performing & non-performing exposures.

Table 68: Credit Quality of Performing and Non-Performing exposures (UK CQ3) – MSI Group and MSIP

		a	b	c	d	e	f	g	h	i	j	k	l
$MM		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
MSI Group			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
005	**Cash balances at central banks and other demand deposits**	**30,052**	**30,052**	**-**	**80**	**-**	**-**	**-**	**80**	**-**	**-**	**-**	**80**
010	**Loans and advances**	**216,359**	**216,296**	**63**	**69**	**1**	**9**	**9**	**47**	**3**	**-**	**-**	**69**
020	Central banks	2,151	2,151	-	-	-	-	-	-	-	-	-	-
030	General governments	1,130	1,130	-	-	-	-	-	-	-	-	-	-
040	Credit institutions	40,475	40,458	17	9	-	2	4	2	1	-	-	9
050	Other financial corporations	171,161	171,133	28	58	-	7	5	44	2	-	-	58
060	Non-financial corporations	1,442	1,424	18	2	1	-	-	1	-	-	-	2
070	Of which SMEs	-	-	-	-	-	-	-	-	-	-	-	-
080	Households	-	-	-	-	-	-	-	-	-	-	-	-
090	**Debt securities**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
110	General governments	-	-	-	-	-	-	-	-	-	-	-	-
120	Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-
130	Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
140	Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
150	**Off-balance-sheet exposures**	**4,745**			**-**								**-**
160	Central banks	-			-								-
170	General governments	-			-								-
180	Credit institutions	90			-								-
190	Other financial corporations	771			-								-
200	Non-financial corporations	3,884			-								-
210	Households	-			-								-
220	**Total**	**251,156**	**246,348**	**63**	**149**	**1**	**9**	**9**	**127**	**3**	**-**	**-**	**149**
MSIP													
005	**Cash balances at central banks and other demand deposits**	**18,283**	**18,283**	**-**	**77**	**-**	**-**	**-**	**77**	**-**	**-**	**-**	**77**
010	**Loans and advances**	**193,921**	**193,882**	**39**	**61**	**1**	**6**	**6**	**46**	**2**	**-**	**-**	**61**
020	Central banks	1,167	1,167	-	-	-	-	-	-	-	-	-	-
030	General governments	709	709	-	-	-	-	-	-	-	-	-	-
040	Credit institutions	42,377	42,374	3	6	-	1	3	1	1	-	-	6
050	Other financial corporations	148,629	148,604	25	53	-	5	3	44	1	-	-	53
060	Non-financial corporations	1,039	1,028	11	2	1	-	-	1	-	-	-	2
070	Of which SMEs	-	-	-	-	-	-	-	-	-	-	-	-
080	Households	-	-	-	-	-	-	-	-	-	-	-	-
090	**Debt securities**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
110	General governments	-	-	-	-	-	-	-	-	-	-	-	-
120	Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-
130	Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
140	Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-
150	**Off-balance-sheet exposures**	**14**			**-**								**-**
160	Central banks	-			-								-
170	General governments	-			-								-
180	Credit institutions	-			-								-
190	Other financial corporations	14			-								-
200	Non-financial corporations	-			-								-
210	Households	-			-								-
220	**Total**	**212,218**	**212,165**	**39**	**138**	**1**	**6**	**6**	**123**	**2**	**-**	**-**	**138**

The above table shows the aging of performing & non-performing exposures, specifically loans & advances, cash balances with central banks and other demand deposits and off-balance sheet exposures.

Table 69 shows (i) exposure values as defined in Article 166 CRR and (ii) the total exposure value for exposures subject to the SA and to the IRB approach, defined by Article 429(4) CRR under the leverage approach. This is further categorised into those exposures subject to permanent partial use, the IRB Approach and those subject to an IRB roll-out plan.

Table 69: Scope of the use of IRB and SA approaches (UK CR6-A) – MSI Group

		a	b	c	d	e
		Exposure value as defined in Article 166 CRR for exposures subject to IRB approach	Total exposure value for exposures subject to the Standardised approach and to the IRB approach	Percentage of total exposure value subject to the permanent partial use of the SA	Percentage of total exposure value subject to IRB Approach	Percentage of total exposure value subject to a roll-out plan
MSI Group		$MM	$MM	%	%	%
1	Central governments or central banks	13,934	15,121	8%	92%	-
1.1	*Of which Regional governments or local authorities*		8	1	-	-
1.2	*Of which Public sector entities*		-	-	-	-
2	Institutions	11,060	11,659	4%	96%	-
3	Corporates	6,406	6,280	20%	80%	-
3.1	*Of which Corporates - Specialised lending, excluding slotting approach*		-	-	-	-
3.2	*Of which Corporates - Specialised lending under slotting approach*		-	-	-	-
4	Retail	-	-	-	-	-
4.1	*of which Retail – Secured by real estate SMEs*		-	-	-	-
4.2	*of which Retail – Secured by real estate non-SMEs*		-	-	-	-
4.3	*of which Retail – Qualifying revolving*		-	-	-	-
4.4	*of which Retail – Other SMEs*		-	-	-	-
4.5	*of which Retail – Other non-SMEs*		-	-	-	-
5	Equity	294	294	-	100%	-
6	Other non-credit obligation assets	-	1,148	100%	-	-
7	**Total**	**31,694**	**34,502**	**12%**	**88%**	-

In 2023, cash deposits under IRB approach reduced with central governments or central banks.

Table 70 and 71 shows the breakdown of number of obligors by exposure class at the beginning of the year which then defaulted during the year. It also adds back-testing information based on the five most recent years average for PDs by each exposure class.

Table 70: IRB approach – Back-testing of PD per exposure class (fixed PD scale) (UK CR9) – MSI Group[1]

FIRB

Exposure class	PD range	Number of obligors in the end of previous year	Of which number of obligors which defaulted in the year	Observed average default rate	Exposure weighted average PD	Average PD	Average historical annual default rate
a	b	c	d	e	f	g	h
Central governments and central banks				%	%	%	%
	0.00 to <0.15	7	-	-	0.01%	0.02%	-
	0.00 to <0.10	7	-	-	0.01%	0.02%	-
	0.10 to <0.15	-	-	-	-	-	-
	0.15 to <0.25	-	-	-	-	-	-
	0.25 to <0.50	-	-	-	-	-	-
	0.50 to <0.75	-	-	-	-	-	-
	0.75 to <2.50	-	-	-	-	-	-
	0.75 to <1.75	-	-	-	-	-	-
	1.75 to <2.5	-	-	-	-	-	-
	2.50 to <10.00	-	-	-	-	-	-
	2.5 to <5	-	-	-	-	-	-
	5 to <10	-	-	-	-	-	-
	10.00 to <100.00	1	-	-	11.13%	11.13%	-
	10 to <20	1	-	-	11.13%	11.13%	-
	20 to <30	-	-	-	-	-	-
	30.00 to <100.00	-	-	-	-	-	-
	100.00 (Default)	-	-	-	-	-	-
Institutions							
	0.00 to <0.15	129	-	-	0.05%	0.08%	-
	0.00 to <0.10	-	-	-	-	-	-
	0.10 to <0.15	129	-	-	0.14%	0.08%	-
	0.15 to <0.25	33	-	-	0.22%	0.22%	-
	0.25 to <0.50	16	-	-	0.35%	0.35%	-
	0.50 to <0.75	1	-	-	0.55%	0.55%	-
	0.75 to <2.50	19	-	-	1.26%	1.57%	-
	0.75 to <1.75	9	-	-	1.26%	0.88%	-
	1.75 to <2.5	10	-	-	2.20%	2.20%	-
	2.50 to <10.00	-	-	-	-	-	-
	2.5 to <5	-	-	-	-	-	-
	5 to <10	-	-	-	-	-	-
	10.00 to <100.00	146	-	-	11.13%	11.22%	-
	10 to <20	145	-	-	11.13%	11.13%	-
	20 to <30	1	-	-	25.02%	25.02%	-
	30.00 to <100.00	-	-	-	-	-	-
	100.00 (Default)	4	-	-	100.00%	100.00%	-
Corporates							
	0.00 to <0.15	382	-	-	0.08%	0.09%	-
	0.00 to <0.10	250	-	-	0.06%	0.06%	-
	0.10 to <0.15	132	-	-	0.14%	0.14%	-
	0.15 to <0.25	105	-	-	0.22%	0.22%	-
	0.25 to <0.50	93	-	-	0.35%	0.35%	-
	0.50 to <0.75	67	-	-	0.55%	0.55%	-
	0.75 to <2.50	101	-	-	1.05%	1.42%	-
	0.75 to <1.75	72	-	-	0.94%	1.11%	-
	1.75 to <2.5	29	-	-	2.20%	2.20%	-
	2.50 to <10.00	46	-	-	4.95%	4.95%	-
	2.5 to <5	46	-	-	4.95%	4.95%	-
	5 to <10	-	-	-	-	-	-
	10.00 to <100.00	675	-	-	17.33%	11.87%	2.03%
	10 to <20	639	-	-	11.13%	11.13%	4.04%
	20 to <30	36	-	-	25.02%	25.02%	2.00%
	30.00 to <100.00	-	-	-	-	-	-
	100.00 (Default)	37	-	-	100.00%	100.00%	-

1. MSI Group has no AIRB exposures.

Table 71 shows PD ranges in accordance with their internal grades that they map to the scale used by the external ECAI, instead of a fixed external PD range in Table 71.

Table 71: IRB approach – Back-testing of PD per exposure class (only for PD estimates according to point (f) of Article 180(1) CRR) (UK CR9.1) – MSI Group[1]

FIRB

a	b	c	d	e	f	g	h
			Number of obligors in the end of previous year				
Exposure class	PD range	External rating equivalent		Of which number of obligors which defaulted in the year	Observed average default rate	Average PD	Average historical annual default rate
Central governments and central banks					%	%	%
	0.0072 to <0.0114	AAA	4	-	-	0.01%	-
	0.0114 to <0.0138	AA+	-	-	-	0.01%	-
	0.0138 to <0.0219	AA	1	-	-	0.01%	-
	0.0219 to <0.0347	AA-	1	-	-	0.02%	-
	0.0347 to <0.055	A+	-	-	-	0.03%	-
	0.055 to <0.0873	A	-	-	-	0.06%	-
	0.0873 to <0.1384	A-	1	-	-	0.09%	-
	0.1384 to <0.2194	BBB+	-	-	-	0.14%	-
	0.2194 to <0.348	BBB	-	-	-	0.22%	-
	0.348 to <0.5518	BBB-	-	-	-	0.35%	-
	0.5518 to <0.875	BB+	-	-	-	0.55%	-
	0.875 to <1.3875	BB	-	-	-	0.88%	-
	1.3875 to <2.2002	BB-	-	-	-	1.39%	-
	2.2002 to <4.9479	B+	-	-	-	2.20%	-
	4.9479 to <11.1269	B	-	-	-	4.95%	-
	11.1269 to <25.0223	B-	1	-	-	11.13%	-
	25.0223 to <100 (Default)	CCC	-	-	-	25.02%	-
	100 (Default)	D	-	-	-	100.00%	-
Institutions							
	0.03 to <0.03472[2]	AAA to AA-	18	-	-	0.03%	-
	0.0347 to <0.055	A+	15	-	-	0.03%	-
	0.055 to <0.0873	A	24	-	-	0.06%	-
	0.0873 to <0.1384	A-	33	-	-	0.09%	-
	0.1384 to <0.2194	BBB+	39	-	-	0.14%	-
	0.2194 to <0.348	BBB	33	-	-	0.22%	-
	0.348 to <0.5518	BBB-	16	-	-	0.35%	-
	0.5518 to <0.875	BB+	1	-	-	0.55%	-
	0.875 to <1.3875	BB	9	-	-	0.88%	-
	1.3875 to <2.2002	BB-	-	-	-	1.39%	-
	2.2002 to <4.9479	B+	10	-	-	2.20%	-
	4.9479 to <11.1269	B	-	-	-	4.95%	-
	11.1269 to <25.0223	B-	145	-	-	11.13%	-
	25.0223 to <100 (Default)	CCC	1	-	-	25.02%	-
	100 (Default)	D	4	-	-	100.00%	-
Corporates							
	0.03 to <0.03472[2]	AAA to AA-	38	-	-	0.03%	-
	0.0347 to <0.055	A+	54	-	-	0.03%	-
	0.055 to <0.0873	A	76	-	-	0.06%	-
	0.0873 to <0.1384	A-	82	-	-	0.09%	-
	0.1384 to <0.2194	BBB+	132	-	-	0.14%	-
	0.2194 to <0.348	BBB	105	-	-	0.22%	-
	0.348 to <0.5518	BBB-	93	-	-	0.35%	-
	0.5518 to <0.875	BB+	67	-	-	0.55%	-
	0.875 to <1.3875	BB	39	-	-	0.88%	-
	1.3875 to <2.2002	BB-	33	-	-	1.39%	-
	2.2002 to <4.9479	B+	29	-	-	2.20%	-
	4.9479 to <11.1269	B	46	-	-	4.95%	-
	11.1269 to <25.0223	B-	639	-	-	11.13%	4.00%
	25.0223 to <100 (Default)	CCC	36	-	-	25.02%	2.00%
	100 (Default)	D	37	-	-	100.00%	-

1. MSI Group has no AIRB exposures.
2. PD Range 0.03 to < 0.03472 represent those exposures to a corporate or an institution where the PD shall be at least 0.03% in line with CRR Article 160.

24. Appendix VI: MSI Group Non-Statutory Financial Information

MORGAN STANLEY INTERNATIONAL LIMITED

Consolidated non-statutory financial information

31 December 2023

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Directors' Responsibilities Statement

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

i) the accounting policies are appropriate to the circumstances of the Morgan Stanley International Group which comprises Morgan Stanley International Limited (the "Company") and its subsidiaries (together the "Group") and the policies have been consistently applied and adequately disclosed;

ii) significant accounting estimates applied are reasonable; and

iii) the consolidated non-statutory financial information is free from material misstatement.

Board of Directors:

J Bloomer	Chair
C Beatty	appointed 18 August 2023
O Behrens	
M Butler	
D Cannon	
D Cantillon	appointed 17 January 2023
T Duhon	
W Greene-Jr	appointed 1 May 2023
A Kohli	resigned 21 August 2023
K Lazaroo	
F Mattern	appointed 1 January 2023
A Mullineaux	
S Orlacchio	
J Pearce	
L Reichlin	resigned 31 May 2023
M Richards	
D Russell	resigned 17 January 2023
A Sekhar	
P Taylor	
N Whyte	
C Woodman	

Approved by the Board and signed on its behalf by:

DocuSigned by:

ANTHONY MULLINEAUX

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A Mullineaux

Director

18 April 2024

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORGAN STANLEY INTERNATIONAL LIMITED

Report on the Audit of the Consolidated Non-Statutory Financial Information

Opinion

In our opinion the consolidated non-statutory financial information of Morgan Stanley International Limited (the "Group") for the year ended 31 December 2023 has been properly prepared in accordance with the accounting policies stated in notes 1 and 2.

We have audited the consolidated non-statutory financial information which comprises:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated statement of changes in equity;
- the consolidated statement of financial position; and
- the related notes 1 to 2.

The financial reporting framework that has been applied in their preparation is the accounting policies stated in note 1 and 2.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the consolidated non-statutory financial information section of our report.

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated non-statutory financial information in the UK, including the Financial Reporting Council's (the "FRC"s') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter–Basis of Accounting

We draw attention to Note 1 and 2 to the consolidated non-statutory financial information, which describes the basis of accounting and is a special purpose framework. The consolidated non-statutory financial information is prepared to provide financial reporting at the same level as the annual public Pillar 3 qualitative and quantitative disclosures required by the Capital Requirements Directive ("CRD") in relation to the Morgan Stanley International Group. As a result, the consolidated non-statutory financial information may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Conclusions Relating to Going Concern

In auditing the consolidated non-statutory financial information, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the consolidated non-statutory financial information is appropriate.

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

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

Other Information

The other information comprises the information included in the director's Responsibilities Statement, other than the consolidated non-statutory financial information and our auditor's report thereon. The directors are responsible for the other information contained within the consolidated non-statutory financial information. Our opinion on the consolidated non-statutory financial information does not cover the other information and we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the consolidated non-statutory financial information in accordance with the financial reporting provisions laid out in notes 1 and 2 to the consolidated non-statutory financial information, and for such internal control as the directors determine is necessary to enable the preparation of consolidated non-statutory financial information that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Information

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

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

Extent to which the Audit was Considered Capable of Detecting Irregularities, Including Fraud

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

We considered the nature of the Group's industry and its control environment and reviewed the Group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit, in-house legal counsel and those charged with governance about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the consolidated non-statutory financial information. The key laws and regulations we considered in this context included the UK Companies Act 2006, pensions legislation and tax legislation; and
- do not have a direct effect on the consolidated non-statutory financial information but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These include regulatory requirements.

We discussed among the audit engagement team, including relevant internal specialists such as tax, IT and fraud specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the consolidated non-statutory financial information.

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

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

- reviewing consolidated non-statutory financial information disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the consolidated non-statutory financial information;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and other regulatory authorities including the PRA and the FCA.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Matters on which We are Required to Report by Exception

Under the ISAs (UK) we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of Our Report

This report is made solely to the Group's directors, as a body, in accordance with our engagement letter dated 16 February 2024 and solely for the purpose of providing an opinion over the consolidated non-statutory financial information contained within this document titled 'consolidated non-statutory financial information'. Our report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without prior written express consent. We accept no duty, responsibility or liability to any other party in connection with the report or this engagement.

The engagement partner on the audit resulting in this independent auditor's report is Fiona Walker.

DocuSigned by:

Deloitte LLP

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Deloitte LLP

London, United Kingdom

18 April 2024

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MORGAN STANLEY INTERNATIONAL LIMITED

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2023

in $ millions	2023	2022
Net gains from financial instruments at fair value through profit or loss	6,145	6,274
Fee and commission income	4,336	4,445
Other revenue	47	107
Interest income	12,454	3,143
Interest expense	(13,355)	(4,122)
Net interest expense	(901)	(979)
Net revenue	**9,627**	**9,847**
Net gain/(loss) on investments in subsidiaries, associates and joint ventures	1	(111)
Non-interest expenses:		
Operating expense	(7,867)	(7,628)
Net impairment loss on financial instruments	(6)	(157)
PROFIT BEFORE TAX	**1,755**	**1,951**
Income tax expense	(409)	(510)
PROFIT FOR THE YEAR	**1,346**	**1,441**
Attributable to:		
Owners of the parent	1,324	1,428
Non-controlling interest	22	13
PROFIT FOR THE YEAR	**1,346**	**1,441**

The notes on pages 11 to 24 form an integral part of the consolidated non-statutory financial information.

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MORGAN STANLEY INTERNATIONAL LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2023

in $ millions	2023	2022
PROFIT FOR THE YEAR	**1,346**	**1,441**
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of net defined benefit liability	(16)	40
Changes in fair value attributable to own credit risk on financial liabilities designated at fair value	(189)	137
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences arising on foreign operations	267	(445)
Net amount reclassified to consolidated income statement upon disposal of subsidiary	—	105
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX	**62**	**(163)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,408**	**1,278**
Attributable to:		
Owners of the parent	1,371	1,270
Non-controlling interest	37	8
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,408**	**1,278**

The notes on pages 11 to 24 form an integral part of the consolidated non-statutory financial information.

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MORGAN STANLEY INTERNATIONAL LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2023

in $ millions	2023	2022
Share capital and other equity instruments – at 1 January	**6,678**	**5,878**
Issuance of AT1 Instrument	—	800
Issuance of ordinary share capital	1,000	—
Share capital and other equity instruments – at 31 December	**7,678**	**6,678**
Share premium account – at 1 January and 31 December	**38**	**38**
Pension reserve – at 1 January	**(75)**	**(115)**
Remeasurement of net defined benefit liability	(16)	40
Pension reserve – at 31 December	**(91)**	**(75)**
Currency translation reserve – at 1 January	**(839)**	**(504)**
Foreign currency translation differences arising on foreign operations	252	(440)
Net amount reclassified to consolidated income statement upon disposal of subsidiary	—	105
Currency translation reserve – at 31 December	**(587)**	**(839)**
Capital contribution reserve – at 1 January and 31 December	**6,061**	**6,061**
Capital redemption reserve – at 1 January and and 31 December	**1,400**	**1,400**
Debt valuation reserve – at 1 January	**(122)**	**(259)**
Changes in fair value attributable to own credit risk on financial liabilities designated at fair value	(189)	137
Realised debt valuation losses	7	—
Debt valuation reserve – at 31 December	**(304)**	**(122)**
Retained earnings - at 1 January	**17,267**	**16,069**
Profit for the year	1,324	1,428
Realised debt valuation losses	(7)	—
Dividends	(323)	(236)
Share based payments	—	1
Income tax - current and deferred	32	5
Retained earnings - at 31 December	**18,293**	**17,267**
Total comprehensive income for the year attributable to owners of the parent	1,371	1,270
Equity attributable to the owners of the parent - at 31 December	**32,488**	**30,408**
Non-controlling interest - at 1 January	**428**	**—**
Profit for the year	22	13
Foreign currency translation differences arising on foreign operations	15	(5)
Total comprehensive income for the year attributable to non-controlling interest	**37**	**8**
Issuance of AT1 Instrument	—	433
Dividends	(22)	(13)
Non-controlling interest - at 31 December	**443**	**428**
Other comprehensive income for the year	62	(163)
Total comprehensive income for the year	1,408	1,278
Total equity at 31 December	**32,931**	**30,836**

The notes on pages 11 to 24 form an integral part of the consolidated non-statutory financial information.

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MORGAN STANLEY INTERNATIONAL LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2023

in $ millions	2023	2022
ASSETS		
Cash and short term deposits	30,175	36,557
Trading financial assets (of which $48,421 million (2022: $38,512 million) were pledged to various parties)	376,564	371,712
Secured financing	127,470	127,750
Loans and advances	175	168
Investment securities	127	142
Trade and other receivables	88,806	102,056
Current tax assets	459	231
Deferred tax assets	343	280
Other assets	170	172
Property, plant and equipment	978	1,003
Intangible assets	832	789
TOTAL ASSETS	**626,099**	**640,860**
LIABILITIES		
Bank loans and overdrafts	4,284	8,130
Trading financial liabilities	316,257	342,467
Secured borrowing	103,559	90,144
Trade and other payables	101,206	111,369
Debt and other borrowings	67,474	57,492
Provisions	217	213
Current tax liabilities	138	181
Deferred tax liabilities	2	2
Post-employment benefit obligations	31	26
TOTAL LIABILITIES	**593,168**	**610,024**
EQUITY		
Share capital	3,378	2,378
Other equity instruments	4,300	4,300
Share premium account	38	38
Currency translation reserve	(587)	(839)
Capital contribution reserve	6,061	6,061
Capital redemption reserve	1,400	1,400
Pension reserve	(91)	(75)
Debt valuation reserve	(304)	(122)
Retained earnings	18,293	17,267
Equity attributable to the owners of the parent	**32,488**	**30,408**
Non-controlling interest	**443**	**428**
TOTAL EQUITY	**32,931**	**30,836**
TOTAL LIABILITIES AND EQUITY	**626,099**	**640,860**

The consolidated non-statutory financial information was approved by the Board and authorised for issue on 18 April 2024.

Signed on behalf of the Board

DocuSigned by:
ANTHONY MULLINEAUX
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A Mullineaux
Director

The notes on pages 11 to 24 form an integral part of the consolidated non-statutory financial information.

1. BASIS OF PREPARATION

a. Statement of Compliance

The Company has prepared consolidated non-statutory financial information comprising information about the Group as at 31 December 2023. The Company confirms, in accordance with section 435 of the Companies Act 2006, that:

i) the consolidated non-statutory financial information does not constitute its statutory accounts;

ii) a copy of the Company's statutory accounts for the year ended 31 December 2023 will be filed with the Registrar of Companies for England and Wales, Companies House, Cardiff CF14 3UZ; and

iii) the Company's independent auditor has issued an unqualified report on the Company's statutory accounts for the year ended 31 December 2023.

The Group has prepared the consolidated non-statutory financial information in accordance with the recognition and measurement principles of International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and the United Kingdom ("UK"), Interpretations issued by the IFRS Interpretations Committee ("IFRIC"), as well as the basis of consolidation set out below. A summary of material accounting policies applied to the Group is detailed in note 2.

The consolidated non-statutory financial information has been prepared to provide financial reporting at the same level as the annual public Pillar 3 qualitative and quantitative disclosures required by the Capital Requirements Directive ("CRD") in relation to the Group.

b. New Standards and Interpretations Adopted During the Year

The following amendments to standards relevant to the Group's operations were adopted during the year. These amendments to standards did not have a material impact on the Group's consolidated non-statutory information.

Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors': Definition of Accounting Estimates were issued by the IASB in February 2021, for prospective application in accounting periods beginning on or after 1 January 2023. The amendments were adopted by the UK in November 2022 and endorsed by the EU in March 2022.

Amendments to IAS 1 'Presentation of Financial Statements': Disclosure of Accounting Policies were issued by the IASB in February 2021, for prospective application in accounting periods beginning on or after 1 January 2023. The amendments were adopted by the UK in November 2022 and endorsed by the EU in March 2022.

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

Amendments to IAS 12: International Tax reform - Pillar Two Model Rules were issued by the IASB in May 2023, for application in accounting periods beginning on or after 1 January 2023. The amendments were adopted by the UK in July 2023 and endorsed by the EU in November 2023.

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

c. New Standards and Interpretations Not Yet Adopted

At the date of authorisation of this consolidated non-statutory financial information, the following amendments to standards relevant to the Group's operations were issued by the IASB but not mandatory for accounting periods beginning 1 January 2023. The Group does not expect that the adoption of the following amendments to standards will have a material impact on the Group's consolidated non-statutory financial information.

Amendments to IFRS 16 'Leases': Lease Liability in a Sale and Leaseback were issued by the IASB in September 2022 for prospective application in accounting periods beginning on or after 1 January 2024. Earlier application is permitted. The amendments were adopted by the UK in May 2023 and endorsed by the EU in November 2023.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current were issued by the IASB in January 2020, and revised in July 2020 and October 2022, for retrospective application in accounting periods beginning on or after 1 January 2024. Earlier application is permitted. The amendments were adopted by the UK in July 2023 and endorsed by the EU in December 2023.

Amendments to IAS 1: Non-current Liabilities with Covenants were issued by the IASB in October 2022 for application in accounting periods beginning on or after 1 January 2024. Earlier application is permitted. The amendments were adopted by the UK in July 2023 and endorsed by the EU in December 2023.

d. Basis of Measurement

The consolidated non-statutory financial information of the Group is prepared under the historical cost basis, except for certain financial instruments that have been measured at fair value as explained in the accounting policies below.

e. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In preparing the financial statements and consolidated financial statements, the Group make judgements and estimates that affect the application of accounting policies and reported amounts.

Critical accounting judgements are key decisions made by management in the application of the Group's accounting policies, other than those involving estimations, which have the most significant effects on the amounts recognised in the financial statements.

Key sources of estimation uncertainty represent assumptions and estimations made by management that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

The Group's key sources of estimation uncertainty are as follows:

- Valuation of Level 3 financial instruments: Valuation techniques used to measure the fair value of instruments categorised in Level 3 of the fair value hierarchy are dependent on unobservable parameters, and as such require the application of judgement, involving estimations and assumptions. The fair value for these financial instruments has been determined using parameters appropriate for the valuation methodology based on prevailing market evidence. It is recognised that the unobservable parameters could have a range of reasonable possible alternate values. See accounting policy note 2(d).
- Measurement of litigation and taxation provisions: Estimates are used in the calculation of provisions, which are initially measured, and subsequently remeasured, at the best estimate of the expenditure required to settle the obligation. With such items there is a possibility that, on conclusion at a future date, the final outcome may differ significantly. Whilst a range of outcomes is reasonably possible, the extent of the reasonably possible range has been assessed as not material. See accounting policy note 2(k). The Morgan Stanley Group has engaged in negotiations of Advanced Pricing Agreements with selected tax authorities in respect of its key transfer pricing methodologies and has, accordingly, accrued based on a best estimate. Negotiations may result in changes to methodologies or inputs that could have an impact on the Group's revenues in the future.

No critical accounting judgements have been made in the process of applying the Group's accounting policies that have had a significant effect on the amounts recognised in the financial statements.

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

f. Basis of Consolidation

The consolidated non-statutory financial information of the Group comprises information about the Company and its subsidiaries as at 31 December 2023. Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The information for the subsidiaries is prepared for the same reporting year as the Group, using consistent accounting policies. The financial information of subsidiaries which have a non-US dollar reporting currency is translated into US dollars as described in note 2(b). Subsidiaries are consolidated from the date that the Group gains control until the date that control ceases.

In certain cases, the Group may exercise control over another entity on behalf of investors or other parties. In such cases it is necessary, as part of the assessment of whether it should consolidate the entity, for the Group to determine whether it exercises such control primarily as an agent for the other investors or whether it does so primarily as principal on its own behalf. In making such a determination, management of the Group will consider all relevant factors, including in particular:

- the scope of the Group's decision-making authority over the investee;
- the rights, including removal rights, held by other parties;
- the remuneration to which the Group is entitled; and
- the significance of the Group's exposure to variability of returns from its interests in the entity.

Intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in preparing the consolidated non-statutory financial information.

Non-controlling interest represents the portion of profit or loss and total equity not owned, directly or indirectly, by the Group and are presented separately in the consolidated income statement, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to owners of the parent. The amount of non-controlling interest is measured at historical cost.

g. The Going Concern Assumption

The Group has considered its business activities, together with the factors likely to affect its future development, performance and position, such as the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk and liquidity risk. Retaining sufficient liquidity and capital to withstand market pressures remains central to the Morgan Stanley Group's and the Group's strategy.

Taking the above factors into consideration, the Directors believe it is reasonable to assume that the Group will have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the consolidated non-statutory financial information.

h. Change in Presentation

The Group has updated the presentation of Accruals and deferred income, which are now presented in the 'Trade and other payables' in the consolidated statement of financial position line. In prior reporting periods, 'Accruals and deferred income' of $938 million were presented as a separate line item in the consolidated statement of financial position. This presentation provides more relevant information. The comparative period has also been re-presented.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES

a. Functional Currency

Items included in the consolidated non-statutory financial information are measured and presented in US dollars, the currency of the primary economic environment in which the Group operates.

All currency amounts in the consolidated non-statutory financial information are rounded to the nearest million US dollars.

b. Foreign Currencies

All monetary assets and liabilities denominated in currencies other than US dollars are translated into US dollars at the rates ruling at the reporting date. Transactions and non-monetary assets and liabilities denominated in currencies other than US dollars are recorded at the rates prevailing at the dates of the transactions. Assets and liabilities of foreign operations are translated into US dollars using the closing rate. Translation differences arising from the net investments in the foreign operations are taken to the 'Currency translation reserve'.

The amount of change in the fair value of financial liabilities designated at fair value through profit and loss ("FVPL") that is attributable to changes in the credit risk of these liabilities (Debt Valuation Adjustment ("DVA")) includes foreign exchange differences thereon. All other translation differences are taken through the consolidated income statement. Exchange differences recognised in the consolidated income statement are presented in 'Other income' or 'Operating expense', except where noted in 2(c) below.

On disposal of a foreign operation, the related cumulative gain or loss in the 'Currency translation reserve' attributable to the owners of the parent is reclassified to the consolidated income statement and recorded within 'Net gain/(loss) on investments in subsidiaries, associates and joint ventures'.

c. Financial Instruments

i) Financial Instruments Mandatorily at Fair Value through Profit and Loss

Trading Financial Instruments

Trading financial instruments include government debt securities, corporate and other debt, traded loans, and corporate equities where the Group acquires the financial asset or financial liability for the purpose of selling or repurchasing in the near term or is part of a portfolio for which there is evidence of short term profit taking, and all derivative contracts.

Purchases and sales of non-derivative financial instruments classified as trading are initially recognised on settlement date at fair value, including regular way securities transactions. For purchases of non-derivative financial instruments classified as trading, from the date that the terms are agreed (trade date) until the settlement date, the Group recognises any unrealised fair value in the consolidated statement of financial position as 'Trading financial instruments' with corresponding profit or loss recognised within the consolidated income statement in 'Net gains/(losses) from financial instruments at fair value through profit or loss'. For sales of non-derivative financial instruments unrealised fair value changes are no longer recognised in the consolidated income statement from trade date. Upon settlement date the resulting financial instrument is recognised or de-recognised from the consolidated statement of financial position.

Derivatives, are initially recorded on trade date at fair value (see note 2(d) below). All subsequent changes in fair value are reflected in the consolidated income statement in 'Net gains/(losses) from financial instruments at fair value through profit or loss'.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. For all trading financial instruments, transaction costs are excluded from the initial fair value measurement of the financial instrument. These costs are recognised in the consolidated income statement in 'Operating expense'.

Non-Trading Financial Assets at Fair Value through Profit or Loss

Non-trading financial assets at FVPL include secured financing transactions such as cash collateral on securities borrowed and securities purchased under agreements to resell, prepaid over the counter ("OTC") contracts and financial assets arising upon consolidation of certain special purpose entities, and certain investment securities (unlisted equities).

Non-trading financial assets at FVPL are principally financial assets where the Group makes decisions based upon the assets' fair values. These assets are generally recognised on settlement date at fair value (see note 2(d) below), since they are neither regular way nor are they derivatives. From the date the terms are agreed (trade date), until the financial asset is funded (settlement date), the Group recognises any unrealised fair value changes in the financial asset as non-trading financial assets at FVPL. On settlement date, the fair value of consideration given is recognised as a non-trading financial asset at FVPL.

Transaction costs are excluded from the initial fair value measurement of the financial assets and are recognised in the consolidated income statement in 'Operating expense'.

Subsequent measurement of financial instruments mandatorily at fair value through profit or loss

All subsequent changes in fair value and foreign exchange differences are reflected in the consolidated income statement in 'Net gains/(losses) from financial instruments at fair value through profit or loss'. When interest is included as a component of an instrument's fair value, interest is also reflected in the consolidated income statement in 'Net gains/(losses) from financial instruments at fair value through profit or loss', otherwise it is included within 'Interest income' or 'Interest expense'.

ii) Financial Instruments Designated at Fair Value through Profit or Loss

Financial instruments designated at FVPL include corporate loans, unfunded loan commitments, prepaid OTC contracts, cash collateral on securities loaned and securities sold under agreements to repurchase, issued structured notes and other financial assets and liabilities.

The Group has designated certain financial instruments at FVPL when the designation at fair value eliminates or significantly reduces an accounting mismatch which would otherwise arise. The Group has also designated certain financial liabilities at FVPL where:

- the financial liability forms part of a group of financial assets or financial liabilities or both which are managed, evaluated and reported internally on a fair value basis; or
- the financial liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

From the date the transaction in a financial instrument designated at FVPL is entered into (trade date) until settlement date, the Group recognises any unrealised fair value changes in the contract as financial instruments designated at FVPL in the consolidated statement of financial position. On settlement date, the fair value of consideration given or received is recognised as a financial instrument designated at FVPL (see note 2(d) below).

All subsequent changes in fair value, foreign exchange differences, and dividends are reflected in the consolidated income statement in 'Net gains/(losses) from financial instruments at fair value through profit or loss', other than DVA on financial liabilities designated at FVPL which is recognised in the 'Debt valuation adjustment' reserve where those changes do not create or enlarge an accounting mismatch. When interest is included as a component of an instrument's fair value, interest is also reflected in the consolidated income statement in ''Net gains/(losses) from financial instruments at fair value through profit or loss', otherwise it is included within 'Interest income' or 'Interest expense'. DVA presented within other comprehensive income is not subject to reclassification to the consolidated income statement, but is transferred to 'Retained earnings' when realised.

All other subsequent changes in fair value, foreign exchange differences not relating to changes in the credit risk of those liabilities, interest and dividends are reflected in the consolidated income statement.

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

iii) Financial Assets and Financial Liabilities at Amortised Cost

Financial assets at amortised cost include cash and short-term deposits, certain trade and other receivables and certain loans and advances.

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

Financial assets are recognised at amortised cost when the Group's business model objective is to collect the contractual cash flows of the assets and where these cash flows are Solely Payments of Principal and Interest ("SPPI") on the principal amount outstanding until maturity. Such assets are recognised when the Group becomes a party to the contractual provisions of the instrument. The instruments are initially measured at fair value (see note 2(d) below) and subsequently measured at amortised cost less expected credit loss ("ECL") allowance. Interest is recognised in the consolidated income statement in 'Interest income', using the effective interest rate ("EIR") method. Transaction costs that are directly attributable to the acquisition of the financial asset are added to the fair value on initial recognition. ECL and reversals thereof are recognised in the consolidated income statement in 'Net impairment loss on financial instruments'.

Financial liabilities classified at amortised cost include bank loans and overdrafts, certain secured borrowings, certain trade and other payables, and certain debt and other borrowings.

Financial liabilities are classified as being subsequently measured at amortised cost, except where they are held for trading or are designated as measured at FVPL. They are recognised when the Group becomes a party to the contractual provisions of the instrument and are initially measured at fair value (see note 2(d) below) and subsequently measured at amortised cost. Interest is recognised in the consolidated income statement in 'Interest expense' using the EIR method. Transaction costs that are directly attributable to the issue of a financial liability are deducted from the fair value on initial recognition.

iv) Secured Financing and Secured Borrowings

In the course of financing its business and part of its trading activities, the Group enters into arrangements which involve the sale of securities with agreements to repurchase, the purchase of securities with resale agreements, the lending of securities with collateral received and the borrowing of securities with collateral given.

Securities received by the Group under resale arrangements and securities borrowing arrangements are generally not recognised on the consolidated statement of financial position.

Securities pledged or sold by the Group under sale and repurchase agreements and securities lending arrangements are generally not derecognised from the consolidated statement of financial position. Where cash collateralised, the resulting cash collateral balances repayable and accrued interest are designated at FVPL where the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed, evaluated and reported internally of a fair value basis; or at amortised cost if not so designated.

d. Fair Value

Fair Value Measurement

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

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

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

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

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

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

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

- Level 2 – Valuation techniques using observable inputs

  Valuations based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, significant market inputs other than quoted prices that are observable for the asset or liability, or market-corroborated inputs.

- Level 3 – Valuation techniques with significant unobservable inputs

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

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

The Group considers prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified to a lower Level of the fair value hierarchy.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the total fair value amount is disclosed in the level appropriate for the lowest level input that is significant to the total fair value of the asset or liability.

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

Valuation Techniques

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

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

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

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

The Group applies credit-related valuation adjustments ("CVA") to its Borrowings (primarily structured notes) which are designated at FVPL and to OTC derivatives. The Group considers the impact of changes in own credit spreads based upon observations of the secondary bond market spreads when measuring the fair value for Borrowings. For OTC derivatives, the impact of changes in both the Group's and the counterparty's credit rating is considered when measuring fair value. In determining the expected exposure the Group simulates the distribution of the future exposure to a counterparty, then applies market-based default probabilities to the future exposure, leveraging external third-party credit default swap ("CDS") spread data. Where CDS spread data are unavailable for a specific counterparty, bond market spreads, CDS spread data based on the counterparty's credit rating or CDS spread data that reference a comparable counterparty may be utilised. The Group also considers collateral held and legally enforceable master netting agreements that mitigate exposure to each counterparty.

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

Adjustments for model uncertainty are taken for positions whose underlying models are reliant on significant inputs that are neither directly nor indirectly observable, hence requiring reliance on established theoretical concepts in their derivation. These adjustments are derived by making assessments of the possible degree of variability using statistical approaches and market-based information where possible.

The Group may apply a concentration adjustment to certain of its OTC derivatives portfolios to reflect the additional cost of closing out a particularly large risk exposure. Where possible, these adjustments are based on observable market information but in many instances significant judgement is required to estimate the costs of closing out concentrated risk exposures due to the lack of liquidity in the marketplace.

Valuation Process

Valuation Control ("VC") within Finance is responsible for ensuring that the inventory carried at fair value in the Group's consolidated non-statutory financial information is presented in accordance with applicable accounting standards. VC is independent of the Business Units and reports to the Chief Financial Officer of the Morgan Stanley Group ("CFO"), who has final authority over the valuation of the Group's inventory. VC implements valuation control processes designed to validate the fair value of the Group's financial instruments measured at fair value including those derived from pricing models.

Model Control: VC, in conjunction with the Model Risk Management Department ("MRM"), which reports to the Chief Risk Officer of the Morgan Stanley Group ("CRO"), independently reviews valuation models. VC is responsible for reviewing that the model valuation methodology is appropriate, model inputs and valuations are consistent with accounting standards and an independent price verification can be performed. The Group generally subject valuations and models to a review process initially and on a periodic basis thereafter.

Independent Price Verification: The Business Units are responsible for determining the fair value of financial instruments using approved valuation models and valuation methodologies. Generally on a monthly basis, VC performs an independent review of the valuation in the books and records by determining the appropriateness of the inputs used by the Business Units and by testing compliance with the documented valuation methodologies approved in the model review process described above. External pricing data used to validate the valuation must meet minimum quality standards set by VC.

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

VC reviews the models and valuation methodology used to price new material Level 2 and Level 3 transactions and both Finance and

MRM must approve the fair value of the trade that is initially recognised.

Gains and Losses on Inception

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

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

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

Certain of the Group's assets and liabilities are measured at fair value on a non-recurring basis. The Group incurs losses or gains for any adjustments of these assets or liabilities to fair value.

For assets and liabilities measured at fair value on a non-recurring basis, fair value is determined by using various valuation approaches. The same hierarchy for inputs as described above, which requires that the observable inputs be used when available, is used in measuring fair value for these items.

e. Modification and derecognition of financial assets and liabilities

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

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

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

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

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

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

The Group derecognises financial liabilities when the Group's obligations are discharged or cancelled or when they expire.

f. Impairment of Financial Instruments

The Group recognises ECL for the following financial instruments that are not measured at FVPL:

- financial assets measured at amortised cost;
- loan commitments, except those that can be net settled in cash or with another financial instrument; and
- financial guarantees.

Measurement of ECL

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

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

Notwithstanding the above, for trade receivables a lifetime ECL is always calculated, without considering whether a SICR has occurred.

Assessment of SICR

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

The determination of a SICR is generally based on changes in the probability of default ("PD"), in conjunction with a rebuttable presumption that a SICR has occurred if a financial asset is more than 30 days past due.

Calculation of ECL

ECL is calculated using three main components:

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

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

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

When measuring ECLs, the Group considers multiple scenarios, except where practical expedients are used to determine ECL. Practical expedients are used where they are consistent with the principles described above.

ECL on certain trade receivables are calculated using a 'matrix' approach which reflects the previous history of credit losses on these financial assets, applying different provision levels based on the age of the receivable. Alternatively where there is a history of no credit losses, and where this is expected to persist into the future for structural or other reasons, such as collateral or other credit enhancement, it may be determined that the ECL for a financial instrument is de minimis (highly immaterial) and it may not be necessary to recognise the ECL.

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

Presentation of ECL

ECL is recognised in the consolidated income statement within 'Net impairment (loss)/reversal on financial instruments'.

Credit-impaired Financial Instruments

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

Definition of Default

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

Write-offs

Loans and debt securities are written off (either partially or in full) when they are deemed uncollectible. Financial assets that are written off could still be subject to enforcement activities for recoveries of amounts due.

g. Revenue Recognition

Revenues are recognised when the promised goods or services are delivered to the Group's customers, in an amount that is based on the consideration the Group expects to receive in exchange for those goods or services when such amounts are not probable of significant reversal.

Investment Banking

Revenue from investment banking activities consists of revenues earned from underwriting primarily equity and fixed income securities and advisory fees for mergers, acquisitions, restructuring and advisory assignments.

Underwriting revenues are generally recognised on trade date, if there is no uncertainty or contingency related to the amount to be paid. Underwriting costs are deferred and recognised when the related underwriting revenues are recorded.

Advisory fees are recognised over time based on the estimated progress of work as advice is provided to the client and is not probable of a significant reversal. Advisory expenses are recognised as incurred, including when reimbursed.

Asset Management Fees

Asset management, distribution and administration fees are generally based on related asset levels being managed, such as the assets under management of a customer's account, or the net asset value of a fund. These fees are generally recognised when services are performed and the fees become known. Management fees are reduced by estimated fee waivers and expense caps, if any, provided to the customer. Distribution fees contingent upon an investor exiting a fund are recognised when the investor exits the fund.

Sales commissions paid by the Group in connection with the sale of certain classes of shares of its open-end mutual fund products are accounted for as deferred commission assets and amortised to expense over the expected life of the contract. The Group periodically tests deferred commission assets for recoverability based on cash flows expected to be received in future periods. Other asset management and distribution costs are recognised as incurred.

Fee and Commission Income

Fee and commission income results from transaction-based arrangements in which the client is charged a fee for the execution of transactions. Such revenues primarily arise from transactions in equity securities; services related to sales and trading activities; futures, insurance products and options. Fee and commission income is recognised on trade date when the performance obligation is satisfied.

Fee and commission income in the consolidated income statement includes investment management fees, sales commissions, placement fees, advisory fees and syndication fees.

Other Items

Receivables from contracts with customers are recognised within ‘Trade and other receivables’ in the consolidated statement of financial position when the underlying performance obligations have been satisfied and the Group has the right per the contract to bill the customer. Contract assets are recognised when the Group has satisfied its performance obligations, however, customer payment is conditional, and are presented within ‘Other assets’. Contract liabilities are recognised when the Group has collected payment from a customer based on the terms of the contract, but the underlying performance obligations are not yet satisfied, and are presented within ‘Trade and other payables’.

Incremental costs to obtain the contract are expensed as incurred if the contract duration is one year or less. Revenues are not discounted when payment is expected within one year.

h. Fees and Commission Expense

Fees and commission expense in the consolidated income statement includes transaction and service fees. Amounts are recognised as the related services are received.

i. Combination of Businesses Under Common Control

Business combinations under common control, where all combining entities or businesses are ultimately controlled by the same party both before and after the business combination, are accounted for using the predecessor values method of accounting. This involves recognising non-financial assets and liabilities of the acquired business at the predecessors’ book value, without any change to reflect fair value of those assets and liabilities, and financial assets and liabilities of the acquired business at fair value. Any difference between the cost of acquisition and the carrying value of the assets and liabilities as of the date of the transfer is recorded as an adjustment to equity within ‘Retained earnings’. No additional goodwill is created by the business combination.

Post-acquisition, income received and expenses incurred by the business or businesses acquired are included in the consolidated income statement.

A non-controlling interest is recognised by the Group in respect of any portion of the total assets less total liabilities of an acquired entity or entities that is not owned by the Group.

When subsidiaries or businesses are sold or transferred to another entity under common control, any difference between the consideration received and the aggregate book value of the assets and liabilities of the disposed subsidiary or business is recorded in the consolidated income statement within 'Other revenue'. Where the consideration for the transfer is received in the form of shares, these are recorded at the aggregate book value of the assets and liabilities disposed of.

j. Income Tax

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated non-statutory financial information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and limited to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is reflected within other comprehensive income or equity, respectively.

Current tax assets are offset against current tax liabilities when there is a legally enforceable right to set off current tax assets against current tax liabilities and the Group intends to settle its current tax assets and current tax liabilities on a net basis or to realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and current tax liabilities on a net basis.

The income tax effect of distributions are recognised in profit or loss, other comprehensive income or equity dependent on where those past transactions that generated the distributable profits were recognised. The income tax effect of coupons of Additional Tier 1 instruments accounted for as distributions must be recognised in profit or loss.

k. Provisions, Contingent Liabilities and Commitments

Provisions are recognised when the Group has an identified present obligation as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle that obligation and when a reliable estimate can be made of the amount of the obligation.

A contingent liability is a possible obligation, that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group or a present obligation that arises from past events but is not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured.

A commitment is any legal obligation to potentially make or receive cash payments or transfer cash.

l. Employee Compensation Plans

Equity-settled Share-based Compensation Plans

Morgan Stanley issues awards in the form of restricted stock units ("RSUs") to employees of the Morgan Stanley Group for services rendered to the Group. Awards are equity-settled and the cost of the equity-based transactions with employees is measured based on the fair value of the equity instruments at grant date. The fair value of RSUs is based on the market price of Morgan Stanley common stock, measured as the volume-weighted average price on the grant date ("VWAP"). The fair value of RSUs not entitled to dividends until conversion is measured at VWAP reduced by the present value of dividends expected to be paid on the underlying shares prior to the scheduled conversion date.

Awards generally contain clawback and cancellation provisions. Certain awards provide Morgan Stanley the discretion to clawback or cancel all or a portion of the award under specified circumstances. Where award terms are considered subjective, a grant date cannot be established, and compensation for these awards is adjusted for changes in the fair value of the Morgan Stanley's common stock until conversion. Following amendments to clarify specific subjective award terms from April 2023, a grant date for the awards was established such that compensation expense for those awards is no longer adjusted for changes in the fair value of Morgan Stanley's common stock.

The Group recognise compensation costs over the relevant vesting period for each separately vesting portion of the award. An estimation of awards that will be forfeited prior to vesting due to the failure to satisfy service conditions is considered in calculating the total compensation cost to be amortised over the relevant vesting period.

Under Morgan Stanley Group chargeback arrangements, the Group pay Morgan Stanley for the procurement of shares. The Group pay Morgan Stanley the grant date fair value and any subsequent movement in fair value up to the time of conversion of the award and delivery of shares to the employees.

Share based compensation expense is recorded in 'Operating expense' in the consolidated income statement.

m. Post-Employment Benefits

The Group operates defined contribution and defined benefit post-employment plans.

Contributions due in relation to the Group's defined contribution post-employment plan are recognised in 'Operating expense' in the consolidated income statement when payable.

For the Group's defined benefit post-employment plans, the plan obligations are measured on an actuarial basis in accordance with the advice of an independent qualified actuary using the projected unit credit method and discounted at a rate that reflects the current rate of return on a high quality corporate bond of equivalent term and currency to the plan liabilities. Plan assets are measured at their fair value at the reporting date. For each defined benefit plan, a surplus or deficit of plan assets over liabilities is recognised in the consolidated statement of financial position as an asset or a liability respectively. If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The current service costs and any past service costs together with the net interest on the net defined benefit obligation/asset are charged to 'Operating expense' in the consolidated income statement. Remeasurements that arise in calculating the Group's obligation in respect of a plan are recognised in other comprehensive income, in the period in which they occur.

The Group participate in a defined benefit plan operated by another Morgan Stanley affiliate. The Group recognise recharges for the net defined benefit cost of the plan as a whole under inter-affiliate contractual agreements.

n. Offsetting of Financial Assets and Financial Liabilities

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

25. Appendix VII: CRR Reference Mapping

CRR Ref	High Level Summary	Compliance Reference
MSI Group & MSIP		
Article 431 Scope of disclosure requirements		
431 (1)	Requirement to publish Pillar 3 disclosures.	MSI Group publishes Pillar 3 disclosures on a quarterly basis.
431 (2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information.	Section 15 provides a description of the Operational Risk framework.
431 (3)	Institution must have a policy covering verification, comprehensiveness and appropriateness of disclosures. Written attestation by management is required. Information subject to internal verification.	The MSI Group has a dedicated Pillar 3 policy, reviewed on an annual basis. Section 1 includes Directors Responsibility Statement attested by the CFO.
431 (4)	All quantitative tables shall be accompanied by qualitative comments noting significant change, if any.	All tables meet this requirement
431 (5)	Explanation of ratings decision upon request.	Not Applicable
Article 432 Non-Material, proprietary or confidential information		
432 (1)	Institutions may omit information that is not material if certain conditions are met.	Compliance with this provision is covered by MSI Group's policy.
432 (2)	Institutions may omit information that is proprietary or confidential if certain conditions are met.	Compliance with this provision is covered by MSI Group's policy.
432 (3)	Where 432 (2) apply this must be stated in the disclosures, and more general information must be disclosed.	Not Applicable
Article 433: Frequency of disclosure		
433	Institution shall publish the disclosure in the manner set out in Articles 433a, 433b and 433c. Annual disclosure shall be published on the same date as the financial statements.	MSI Group publishes Pillar 3 disclosures on the same day as MSIP financial statements, or within a reasonable period.
433a	Specifies information to be disclosed by large institution along with frequency.	MSI Group publishes the Pillar 3 disclosure on a quarterly basis.
433b	Specifies information to be disclosed by small & non-complex institution along with the frequency.	Not Applicable
433c	Specifies information to be disclosed by other institutions along with the frequency.	Not Applicable
Article 434: Means of disclosure		
434 (1)	All disclosures shall be provided in one medium and it should be readily accessible and easily identifiable to the users.	The disclosures are published on the Morgan Stanley Investor Relations website. Signposting within the disclosure directs the reader to other publications as relevant.
434 (2)	All disclosures shall be available on the website and shall be kept accessible for a period set by national law.	The disclosures published on the Morgan Stanley Investor Relations website shall be available.
Article 435: Risk Management Objectives and Policies		
435 (1)	Disclose information on:	
435 (1) (a)	The strategies and processes to manage risks.	Section 3: Risk Management - 3.2 Risk Management Framework
435 (1) (b)	The structure and organisation of the risk management function.	Section 3: Risk Management - 3.2 Risk Management Framework
435 (1) (c)	The scope and nature of risk reporting and measurement systems.	Section 3: Risk Management - 3.2 Risk Management Framework
435 (1) (d)	The policies for hedging and mitigating risk	Section 3: Risk Management - 3.2 Risk Management Framework
435 (1) (e)	Declaration approved by the management body on the adequacy of risk management arrangements.	Section 3: Risk Management - "Adequacy of Risk Management Arrangements"
435 (1) (f)	Concise risk statement approved by the management body.	Section 3: Risk Management - 3.2 Risk Management Framework
435 (2) (a)	Number of directorships held by members of the management body.	Appendix I: Board of Directors Knowledge, Skill and Expertise - "Figure 7: MSI Directors: Number of Directorships"
435 (2) (b)	Recruitment policy for members of the management body, along with their knowledge, skills and expertise.	Appendix I: Board of Directors Knowledge, Skill and Expertise - "Appointments to MSI Board"
435 (2) (c)	Policy on diversity of the management body and results against targets.	Appendix I: Board of Directors Knowledge, Skill and Expertise - "Diversity and Composition of MSI Board"

435 (2) (d)	Disclosure of whether there is a separate Risk Committee and the number of times the committee has met during the year.	Section 3: Risk Management - 3.2 Risk Management Framework
435 (2) (e)	Description of the information flow to the management body.	Section 3: Risk Management - 3.2 Risk Management Framework
Article 436: Scope of Application		
436 (a)	Name of institution.	Section 1: Overview and Key Metrics
436 (b)	A reconciliation between the consolidated financial statements under the accounting and regulatory scope of consolidation.	Section 4: Basis of Preparation and Linkage to Financial Accounts
436 (c)	A breakdown of assets and liabilities of the consolidated financial statements broken down by type of risks.	Section 4: Basis of Preparation and Linkage to Financial Accounts - Table 2: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (UK LI1)
436 (d)	A reconciliation identifying the main differences between the carrying value in the financial statements and the regulatory exposure amount.	Section 4: Basis of Preparation and Linkage to Financial Accounts - Table 3: Main sources of differences between regulatory exposure amounts and carrying values in financial statements (UK LI2)
436 (e)	Prudent valuation adjustment, by type of risks, and the total of constituent elements separately for the trading book and Non-Trading book positions;	Section 16: Valuation Risk - Table 38: Prudent valuation adjustments (PVA) (UK PV1)
436 (f)	Legal impediments to transfer of own funds or repayment of liabilities between parent and subsidiaries.	Section 5: Capital Management
436 (g)	Capital shortfalls in any subsidiaries not included in the consolidation.	Not Applicable
436 (h)	If applicable, making use of the provisions laid out in Article 7 (derogation) & Article 9 (solo consolidation).	Not Applicable
Article 437: Own Funds		
437 (a)	Full reconciliation of CET1, AT1, T2.	Section 21: Appendix III: Own Funds Disclosure Template - Table 50: Composition of regulatory own funds (UK CC1) Table 51: Reconciliation of regulatory own funds to balance sheet in the audited financial statements (UK CC2)
437 (b)	Description of the main features of CET1, AT1, T2 instruments.	Section 20: Appendix II: Capital Instruments & Eligible Liabilities - Table 49: Main features of regulatory own funds instruments and eligible liabilities instruments (UK CCA)
437 (c)	Full terms & conditions of all CET1, AT1, T2 instruments.	
437 (d)(i)	Each prudential filter applied pursuant to Articles 32 to 35.	Section 21: Appendix III: Own Funds Disclosure Template – Table 50: Composition of regulatory own funds (UK CC1)
437 (d)(ii)	Each deduction applied pursuant to Articles 36, 56 and 66.	
437 (d)(iii)	Items not deducted in accordance with Articles 47, 48, 56, 66, 79.	
437 (e)	A description of all restrictions applied to the calculation of own funds.	Not Applicable
437 (f)	Where institutions disclose capital ratios calculated using elements of own funds determined on a different basis.	
Article 437a: Disclosure of Own Funds and Eligible Liabilities (CRR II)		
437a	Composition of own funds and eligible liabilities and ranking in the creditor hierarchy	Section 7: Total Loss-Absorbing Capacity - Table 7 : TLAC Composition; Table 8: TLAC Creditor ranking table
Article 438: Capital Requirements		
438 (a)	Summary of institution's approach to assessing capital adequacy.	Section 5: Capital Management
438 (b)	Amount of the additional own funds requirements based on the supervisory review and evaluation process and its composition.	Section 1: Overview and Key Metrics - Table 1a and 1b: Key metrics template (UK KM1)
438 (c)	Result of ICAAP	Upon request
438 (d)	Total risk-weighted exposure amount and the corresponding total own funds requirement to be broken down by the different risk categories.	Section 9: Capital Requirements and RWAs - Table 12: Overview of risk weighted exposure amounts (UK OV1)
438 (e)	On and off-balance-sheet exposures, risk-weighted exposure amounts for each category of specialised lending and for the categories of equity exposures. And, associated expected losses for each category of specialised lending.	Section 10: Credit Risk - Table 15: Specialised lending and equity exposures under the simple risk weighted approach (UK CR10.5)
438 (f)	Exposure value and risk-weighted exposure amount of own funds instruments held in any insurance undertaking, reinsurance undertaking or insurance holding company that the institutions do not deduct from their own funds.	Not Applicable
438 (g)	Supplementary own funds requirement and the capital adequacy ratio of the financial conglomerate.	

438 (h)	Variations in the risk-weighted exposure amounts of the current disclosure period compared to the immediately preceding disclosure period that result from the use of internal models, including an outline of the key drivers explaining those variations.	Section 10: Credit Risk - Table 13: RWA flow statements of credit risk exposures under the IRB approach (UK CR8) Table 17: RWA flow statements of CCR exposures under the IMM (UK CCR7) Section 12: Market Risk - Table 34: RWA flow statements of market risk exposures under the IMA (UK MR2-B)
Article 439: Exposure to Counterparty Credit Risk (CCR)		
439 (a)	Description of the methodology used to assign internal capital and credit limits for CCR.	Section 10: Credit Risk - "10.1 Credit Risk Management "
439 (b)	Description of policies for related to guarantees and other credit risk mitigants.	Section 10: Credit Risk - "10.3 Credit Risk Mitigation"
439 (c)	Description of policies with respect to general and specific wrong-way risk exposures.	Section 10: Credit Risk - "10.4 Counterparty Credit Exposures - Wrong Way Risk"
439 (d)	Amount of collateral to be provided in the event of a ratings downgrade.	Section 10: Credit Risk - "10.4 Counterparty Credit Exposures - Collateral Impact of a Downgrade"
439 (e)	For derivative transactions and for securities financing transactions, the amount of segregated and unsegregated collateral received and posted per type of collateral; provided in each case that:	Section 10: Credit Risk - Table 20: Composition of collateral for CCR exposures (UK CCR5)
439 (e)(i)	It shall not disclose such amounts unless both the fair value of collateral posted and collateral received in the form of debt securities exceed GBP 125 billion; and	
439 (e)(ii)	For subparagraph (i), use the twelve month rolling arithmetic mean of the fair value of collateral received or posted (as the case may be) in the form of debt securities, determined using quarterly data calculated in a manner consistent with data reported under Article 430(g) and covering the twelve months immediately preceding the disclosure reference date;	
439 (f)	Exposure values of derivative transactions before and after the effect of the credit risk mitigation and the associated risk exposure amounts broken down by applicable method.	Section 10: Credit Risk - Table 16: Analysis of CCR exposure by approach (UK CCR1)
439 (g)	Exposure values of securities financing transactions before and after the effect of the credit risk mitigation and the associated risk exposure amounts broken down by applicable m	
439 (h)	Exposure values after credit risk mitigation effects and the associated risk exposures for CVA capital charge, separately for each method.	Section 10: Credit Risk - Table 19: Transactions subject to own funds requirements for CVA risk (UK CCR2)
439 (i)	Exposure value to central counterparties and the associated risk exposures, separately for qualifying and non-qualifying central counterparties, and broken down by types of exposures;	Section 10: Credit Risk - Table 18: Exposures to CCPs (UK CCR8)
439 (j)	Notional amounts and fair value of credit derivative transactions broken down by product type and further broken down by credit protection bought and credit protection sold;	Section 10: Credit Risk - Table 21: Credit derivatives exposures (UK CCR6)
439 (k)	Estimate of alpha where the institution has received the permission of the competent authorities to use its own estimate of alpha.	Not Applicable
439 (l)	Disclosure of CCR exposure by portfolio and PD range under standardised and IRB approach	Section 23: Appendix V: Additional Credit and Counterparty Credit Risk Tables - Table 66: CCR exposures by regulatory exposure class and risk weight (UK CCR3) Table 67: IRB approach: CCR exposures by portfolio and PD scale (UK CCR4)
439 (m)	For institutions using the methods set out in Sections 4 to 5 of Chapter 6 of Title II Part Three, the size of their on and off-balance-sheet derivative business as calculated in accordance with Article 273a(1) or (2), as applicable.	Not Applicable
Article 440: Capital Buffers		
440 (a)	Geographical distribution of the exposure amounts and risk weighted exposure amounts of credit exposures relevant for the calculation of its countercyclical capital buffer.	Section 22: Appendix IV: Countercyclical Capital Buffer - Table 52: Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer (UK CCyB1)
440 (b)	Amount of institution-specific countercyclical capital buffer.	Section 22: Appendix IV: Countercyclical Capital Buffer - Table 53: Amount of institution-specific countercyclical capital buffer (UK CCyB2)
Article 441: Indicators of Global Systemic Importance		
441	Disclosure of the indicators of global systemic importance.	Not Applicable

Article 442: Credit Risk Adjustments		
442 (a)	Scope & definitions of "past due" and "impaired" for accounting purposes and differences, if any, between the definitions of "past due" and "default" for accounting and regulatory purposes;	Section 10: Credit Risk - 10.2 Credit Risk Capital Requirements - Credit Risk Adjustments
442 (b)	Description of the approaches and methods adopted for determining specific and general credit risk adjustments.	Section 10: Credit Risk - 10.2 Credit Risk Capital Requirements - Credit Risk Adjustments
442 (c)	Amount and quality of performing, non-performing and forborne exposures, including accumulated impairment, provisions and negative fair value changes due to credit risk and amounts of collateral and financial guarantees received;	Section 23: Appendix V: Additional Credit and Counterparty Credit Risk Tables – Table 56: Performing and non-performing exposures and related provisions (UK CR1) Table 57: Quality of non-performing exposures by geography (UK CQ4) Table 58: Credit quality of loans and advances to non-financial corporations by industry (UK CQ5)
442 (d)	An ageing analysis of accounting past due exposures;	Section 23: Appendix V: Additional Credit and Counterparty Credit Risk Tables - Table 68: Credit quality of performing and non-performing exposures (UK CQ3)
442 (e)	Gross carrying amounts of defaulted and non-defaulted exposures, accumulated specific and general credit risk adjustments, accumulated write-offs and the net carrying amounts distributed by geographical area and industry type;	Section 23: Appendix V: Additional Credit and Counterparty Credit Risk Tables – Table 56: Performing and non-performing exposures and related provisions (UK CR1) Table 57: Quality of non-performing exposures by geography (UK CQ4) Table 58: Credit quality of loans and advances to non-financial corporations by industry (UK CQ5)
442 (f)	Changes in the gross amount of defaulted on and off-balance-sheet exposures.	Section 23: Appendix V: Additional Credit and Counterparty Credit Risk Tables – Table 55: Changes in the stock of non-performing loans and advances (UK CR2)
442 (g)	Breakdown of loans and debt securities by residual maturity.	Section 23: Appendix V: Additional Credit and Counterparty Credit Risk Tables – Table 54: Maturity of exposures (UK CR1-A)
Article 443: Unencumbered Assets		
443	Disclosures on Unencumbered Assets.	Section 17: Liquidity Risk- 17.4 Asset Encumbrance
Article 444: Use of ECAI		
444 (a)	Names of the nominated ECAI used in the calculation of Standardised Approach RWAs and the reasons for any change.	Section 10: Credit Risk - "10.2 Credit Risk Capital Requirements" - External Credit Risk Assessments
444 (b)	Exposure class for which each ECAI is used.	
444 (c)	Description of the process used to transfer the issuer and issue credit ratings onto items not included in the Trading Book	Not Applicable
444 (d)	Mapping of the external rating of each ECAI with the risk weights to credit quality step.	
444 (e)	Exposure value post-credit risk mitigation associated with each credit quality step.	Section 23: Appendix V: Additional Credit and Counterparty Credit Risk Tables - Table 60: Standardised Approach: Credit risk exposure and CRM effects (UK CR4) Table 61: Standardised approach (UK CR5) Table 62: Standardised approach EAD by credit quality step Table 66: Standardised approach: CCR exposures by regulatory exposure class and risk weight (UK CCR3)
Article 445: Exposure to Market Risk		
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	Section 12: Market Risk - Table 32: Market risk under the standardised approach (UK MR1)
Article 446: Operational Risk		
446(a)	Approaches used to calculate operational risk	Section 14: Operational Risk - Table 37: Operational risk own funds requirements and risk-weighted exposure amounts (UK OR1)
446(b)	Description of the advanced methodology approach and the relevant internal and external factors considered.	Section 14: Operational Risk
446(c)	In the case of partial use, scope and coverage of the different methodologies used.	

Article 447: Disclosure of Key Metrics		
447(a)	Composition of own funds and own funds requirements	Section 1: Overview and Key Metrics - Table 1: Key metrics template (UK KM1)
447(b)	Total risk exposure amount	
447(c)	Amount and composition of additional own funds, where applicable	
447(d)	Combined buffer requirement	
447(e)(i)	Leverage ratio and total exposure measure;	
447(e)(ii)	For LREQ firms, the information in Article 451(1)(b) and (g) and 451(2)(b) to (d);	
447(f)(i)	Average or averages, as applicable, of liquidity coverage ratio	
447(f)(ii)	Average or averages, as applicable, of the total liquid assets, after applying relevant haircuts, included in the liquidity buffer	
447(f)(iii)	Averages of the liquidity outflows, inflows and net liquidity outflows	
447(g)(i)	Average or averages, as applicable, of net stable funding ratio	
447(g)(ii)	Average or averages, as applicable, of the available stable funding	
447(g)(iii)	Average or averages, as applicable, of the required stable funding	
447(h)	Own funds and eligible liabilities ratios and their components, numerator and denominator	Section 7: Total Loss-Absorbing Capacity - Table 6: TLAC Key Metrics
Article 448: Exposure to Interest Rate Risk on positions not included in the Trading Book		
448(1)	Institutions shall disclose the following quantitative and qualitative information on the risks arising from potential changes in interest rates that affect both the economic value of equity and the net interest income of their Non-Trading book activities	Section 13: Interest Rate Risk in the Banking Book (IRRBB) - Table 36: Quantitative information on IRRBB (UK IRRBB1)
448(1)(a)	Changes in the economic value of equity calculated under the following six supervisory shock scenarios for the current and previous disclosure periods:	
448(1)(a)(i)	Parallel shock up;	
448(1)(a)(ii)	Parallel shock down;	
448(1)(a)(iii)	Steepener shock (short rates down and long rates up);	
448(1)(a)(iv)	Flattener shock (short rates up and long rates down);	
448(1)(a)(v)	Short rates shock up;	
448(1)(a)(vi)	Short rates shock down;	
448(1)(b)	Changes in the net interest income calculated under the following two supervisory shock scenarios for the current and previous disclosure periods:	
448(1)(b)(i)	Parallel shock up;	
448(1)(b)(ii)	Parallel shock down;	
448(1)(c)	Description of key modelling and parametric assumptions used to calculate changes in the economic value of equity and in the net interest income required under points (a) and (b) of this paragraph;	Section 13: Interest Rate Risk in the Banking Book (IRRBB)
448(1)(d)	Explanation of the significance of the risk measures disclosed under points (a) and (b) of this paragraph and of any significant variations of those risk measures since the previous disclosure reference date;	
448(1)(e)	Description of how institutions define, measure, mitigate and control the interest rate risk of Non-Trading book activities for the purposes of the competent authorities' review including:	
448(1)(e)(i)	Description of the specific risk measures used to evaluate changes in the economic value of equity and net interest income;	
448(1)(e)(ii)	Description of the key modelling and parametric assumptions used in internal measurement systems for the purpose of calculating changes in the economic value of equity and in net interest income, as required under points (a) and (b) of this paragraph	
448(1)(e)(iii)	Description of the interest rate shock scenarios that institutions use to estimate the interest rate risk;	
448(1)(e)(iv)	Recognition of the effect of hedges against interest rate risks, including internal hedges	
448(1)(e)(v)	An outline of how often the evaluation of the interest rate risk occurs;	
448(1)(f)	Description of the overall risk management and mitigation strategies;	
448(1)(g)	Average and longest repricing maturity assigned to non-maturing deposits.	
448(2)	Descriptions relating to economic value of equity shall not apply to institutions that use the standardised framework	

Article 449: Exposure to Securitisation Positions		
449(a)	Description of securitisation and re-securitisation activities, including their risk management and investment objectives, their role and the extent to which they use securitisation transactions to transfer the credit risk of the securitised exposures to third parties with, where applicable, a separate description of their synthetic securitisation risk transfer policy;	Section 11: Securitisation
449(b)	Type of risks providing a distinction between STS and non-STS positions and:	
449(b)(i)	Risk retained in own-originated transactions;	
449(b)(ii)	Risk incurred in relation to transactions originated by third parties;	
449(c)	Approaches for calculating the risk-weighted exposure amounts, including the types of securitisation positions to which each approach applies and with a distinction between STS and non-STS positions;	
449(d)	A list of SSPEs falling into any of the following categories, including derivative contracts:	Not Applicable
449(d)(i)	SSPEs which acquire exposures originated by the institutions;	
449(d)(ii)	SSPEs sponsored by the institutions;	
449(d)(iii)	SSPEs and other legal entities for which the institutions provide securitisation-related services, such as advisory, asset servicing or management services;	
449(d)(iv)	SSPEs included in the institutions' regulatory scope of consolidation;	
449(e)	A list of any legal entities in relation to which the institutions have disclosed that they have provided support	
449(f)	A list of legal entities affiliated with the institutions and that invest in securitisations originated by the institutions or in securitisation positions issued by SSPEs sponsored by the institutions;	
449(g)	Summary of accounting policies for securitisation activity;	Section 11: Securitisation
449(h)	Names of the ECAIs used for securitisations and the types of exposure for which each agency is used;	Not Applicable
449(i)	Where applicable, a description of the Internal Assessment Approach including the structure of the internal assessment process and relation between internal assessment and external ratings of the relevant ECAI disclosed in accordance with point (h), the control mechanisms for the internal assessment process including discussion of independence, accountability, and internal assessment process review, the exposure types to which the internal assessment process is applied and the stress factors used for determining credit enhancement levels;	
449(j)	Carrying amount of securitisation exposures, separately for the trading book and the non-trading book, including information on whether institutions have transferred significant credit risk for which institutions act as originator, sponsor or investor, separately for traditional and synthetic securitisations, and for STS and non-STS transactions and broken down by type of securitisation exposures	Section 11: Securitisation - Table 23: Securitisation exposures in the Non-Trading book (UK SEC1) Table 24: Securitisation exposures in the trading book (UK SEC2)
449(k)	Following information for the Non-Trading book activities:	
449(k)(i)	Amount of securitisation positions where institutions act as originator or sponsor and the associated risk-weighted assets and capital requirements by regulatory approaches, including exposures deducted from own funds or risk weighted at 1250%, broken down between traditional and synthetic securitisations and between securitisation and re-securitisation exposures, separately for STS and non-STS positions, and further broken down into a meaningful number of risk-weight or capital requirement bands and by approach used to calculate the capital requirements;	Section 11: Securitisation - Table 28: Securitisation exposures in the Non-Trading book and associated regulatory capital requirements - institution acting as originator or as sponsor (UK SEC3)
449(k)(ii)	the aggregate amount of securitisation positions where institutions act as investor and the associated risk-weighted assets and capital requirements by regulatory approaches, including exposures deducted from own funds or risk weighted at 1250%, broken down between traditional and synthetic securitisations, securitisation and re-securitisation positions, and STS and non-STS positions, and further broken down into a meaningful number of risk weight or capital requirement bands and by approach used to calculate the capital requirements;	Section 11: Securitisation - Table 29: Securitisation exposures in the Non-Trading book and associated regulatory capital requirements - institution acting as investor (UK SEC4)
449(l)	for exposures securitised by the institution, the amount of exposures in default and the amount of the specific credit risk adjustments	Section 11: Securitisation - Table 30: Exposures securitised by the institution - Exposures in default and specific credit risk adjustments (UK SEC5)
Article 450: Remuneration Disclosures		
450	Remuneration Disclosure.	Section 18: Remuneration

Article 451: Leverage		
451(1)(a)	Leverage ratio	Section 8: Leverage - Table 10: Leverage ratio common disclosure (UK LR2)
451(1)(b)	Leverage ratio calculated as if central bank claims were required to be included in the total exposure measure;	
451(1)(c)	Breakdown of the total exposure measure as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements.	Section 8: Leverage - Table 9: Summary reconciliation of accounting assets and leverage ratio exposures (UK LR1) Table 10: Leverage ratio common disclosure (UK LR2) Table 11: Split of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures) (UK LR3)
451(1)(d)	Description of the processes used to manage the risk of excessive leverage.	Section 8: Leverage
451(1)(e)	Description of the factors that had an impact on the leverage ratio	
451(1)(f)	In relation to the quarterly periods up to 31 December 2022, the leverage ratio calculated as if Article 468 of the CRR did not apply for purposes of the capital measure under Article 429(3) of Chapter 3 of the Leverage Ratio (CRR) Part	Section 8: Leverage - Table 10: Leverage ratio common disclosure (UK LR2)
451(1)(g)	In relation to the quarterly periods up to 31 December 2024, the leverage ratio calculated as if Article 473a of the CRR did not apply for purposes of the capital measure under Article 429(3) of Chapter 3 of the Leverage Ratio (CRR) Part.	Section 8: Leverage - Table 10: Leverage ratio common disclosure (UK LR2)
451(2)	An LREQ firm must disclose each of the following:	Section 8: Leverage - Table 10: Leverage ratio common disclosure (UK LR2)
451(2)(a)	the average exposure measure;	
451(2)(b)	the average leverage ratio;	
451(2)(c)	the average leverage ratio calculated as if central bank claims were required to be included in the total exposure measure; and	
451(2)(d)	the countercyclical leverage ratio buffer.	
451(3)	An LREQ firm must disclose such information as is necessary to enable users to understand changes in the firm's total exposure measure and tier 1 capital (leverage) over the quarter that have affected the firm's average leverage ratio.	
451(4)(a)	Subject to paragraph 5: (a) for the purposes of paragraph 2(a) an LREQ firm must calculate its average exposure measure for a quarter as the sum of: (i) the arithmetic mean of the firm's total exposure measure in relation to on-balance sheet assets and securities financing transactions on each day in the quarter; and (ii) the arithmetic mean of the firm's total exposure measure excluding on-balance sheet assets and securities financing transactions on the last day of each month in the quarter; and	Section 8: Leverage - Table 10: Leverage ratio common disclosure (UK LR2)
451(4)(b)	(b) for the purposes of paragraphs 2(a) and 3, an LREQ firm must calculate its average leverage ratio for a quarter as its capital measure divided by its exposure measure where the: (i) capital measure is the arithmetic mean of the firm's tier 1 capital (leverage) on the last day of each month in the quarter; and (ii) exposure measure is the sum derived in accordance with (a), unless paragraph 5 applies in which case it shall be the sum derived in accordance with that paragraph.	
451(5)	In relation to the quarterly periods up to 1 January 2023 an LREQ firm must calculate its average exposure measure for a quarter as the sum of: (i) the arithmetic mean of the firm's total exposure measure in relation to on-balance sheet assets on each day in the quarter; and (ii) the arithmetic mean of the firm's total exposure measure excluding on-balance sheet assets on the last day of each month in the quarter.	Not Applicable
Article 451a: Liquidity coverage ratio, Net stable funding ratio and Liquidity risk management		
451a(1)	Information on liquidity coverage ratio, net stable funding ratio and liquidity risk management	Section 17: Liquidity Risk
451a(2)	Following information in relation to liquidity coverage ratio based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period:	Section 17: Liquidity Risk - 17.2 Liquidity Coverage Ratio - Table 39: Quantitative information of LCR (UK LIQ1)
451a(2)(a)	Average or averages, as applicable, of liquidity coverage ratio	
451a(2)(b)	Average or averages, as applicable, of total liquid assets, after applying the relevant haircuts, included in the liquidity buffer and a description of the composition of that liquidity buffer;	
451a(2)(c)	Averages of liquidity outflows, inflows and net liquidity outflows and the description of their composition.	

451a(3)	Following information in relation to net stable funding ratio for each quarter of the relevant disclosure period, based on end-of-the-quarter observations over the preceding four quarters:	Section 17: Liquidity Risk - 17.3 Net Stable Funding Ratio - Table 40: Net Stable Funding Ratio (UK LIQ2)
451a(3)(a)	Averages of their net stable funding ratio	
451a(3)(b)	Overview of the amount of available stable funding	
451a(3)(c)	Overview of the amount of required stable funding	
451a(4)	Arrangements, systems, processes and strategies put in place to identify, measure, manage and monitor their liquidity risk in accordance with the Internal Liquidity Adequacy Assessment Part of the PRA Rulebook	Section 17: Liquidity Risk - "17.1 Liquidity Risk Management"
Article 452: Use of the IRB Approach to Credit Risk		
452(a)	Permission for the use of IRB approach from the competent authority.	Section 9: Capital Requirements and RWAs Section 10.2: Credit Risk Capital Requirements
452(b)	Percentage of the total exposure value of each exposure class subject to the Standardised Approach as well as the part of each exposure class subject to a roll-out plan;	Section 23: Appendix V: Additional Credit and Counterparty Credit Risk Tables - Table 69: Scope of the use of IRB and SA approaches (UK CR6-A)
452(c)	Control mechanisms for rating systems at the different stages of model development, controls and changes, which shall include information on:	Section 10: Credit Risk - "10.2 Credit Risk Capital Requirements - Internal Ratings Based Approach"
452(c)(i)	Relationship between the risk management function and the internal audit function;	
452(c)(ii)	Rating system review;	
452(c)(iii)	Procedure to ensure the independence of the function in charge of reviewing the models from the functions responsible for the development of the models	
452(c)(iv)	Procedure to ensure the accountability of the functions in charge of developing and reviewing the models;	
452(d)	Role of the functions involved in the development, approval and subsequent changes of the credit risk models;	Section 10: Credit Risk - "10.2 Credit Risk Capital Requirements - Internal Ratings Based Approach"
452(e)	Scope and main content of the reporting related to credit risk models;	
452(f)	Description of the internal ratings process by exposure class, including the number of key models used with respect to each portfolio and a brief discussion of the main differences between the models within the same portfolio, covering:	
452(f)(i)	Definitions, methods and data for estimation and validation of PD, which shall include information on how PDs are estimated for low default portfolios, whether there are regulatory floors and the drivers for differences observed between PD and actual default rates at least for the last three periods;	
452(f)(ii)	Where applicable, definitions, methods and data for estimation and validation of LGD, such as methods to calculate downturn LGD, how LGDs are estimated for low default portfolio and the time lapse between the default event and the closure of the exposure	
452(f)(iii)	Where applicable, definitions, methods and data for estimation and validation of conversion factors, including assumptions employed in the derivation of those variables;	
452(g)	Following information in relation to each exposure class, as applicable:	Section 23: Appendix V: Additional Credit and Counterparty Credit Risk Tables - Table 64: IRB approach – Credit risk exposures by exposure class and PD range (UK CR6)
452(g)(i)	Gross on-balance-sheet exposure;	
452(g)(ii)	Off-balance-sheet exposure values prior to the relevant conversion factor;	
452(g)(iii)	Exposure after applying the relevant conversion factor and credit risk mitigation;	
452(g)(iv)	Any model, parameter or input relevant for understanding of the risk weighting and the resulting risk exposure amounts disclosed across a sufficient number of obligor grades (including default) to allow for a meaningful differentiation of credit risk;	
452(g)(v)	Separately for those exposure classes in relation to which institutions have received permission to use own LGDs and conversion factors for the calculation of risk-weighted exposure amounts, and for exposures for which the institutions do not use such estimates, the values referred to in points (i) to (iv) subject to that permission;	
452(h)	Back testing of PD per exposure class	Section 23: Appendix V: Additional Credit and Counterparty Credit Risk Tables - Table 65: IRB approach – Back-testing of PD per exposure class (fixed PD scale) (UK CR9) Table 66: IRB approach – Back-testing of PD per exposure class (only for PD estimates according to point (f) of Article 180(1) CRR) (UK CR9.1)

Article 453: Use of Credit Risk Mitigation techniques		
453(a)	Policies and processes for on and off-balance sheet netting;	Section 10: Credit Risk - “10.3 Credit Risk Mitigation” - Netting
453(b)	Policies and processes for eligible collateral evaluation and management;	Section 10: Credit Risk - “10.3 Credit Risk Mitigation” “Collateral”
453(c)	Description of the main types of collateral used to mitigate credit risk;	
453(d)	Types of guarantor and credit derivative counterparty and their creditworthiness	Section 10: Credit Risk - “10.3 Credit Risk Mitigation”
453(e)	Information about market or credit risk concentrations within the credit risk mitigation;	
453(f)	Total exposure value not covered and covered by eligible credit protection after applying volatility adjustments, separately for loans and debt securities and including a breakdown of defaulted exposures;	Section 23: Appendix V: Additional Credit and Counterparty Credit Risk Tables - Table 59: CRM techniques overview: Disclosure of the use of credit risk mitigation techniques (UK CR3)
453(g)	Corresponding conversion factor and the credit risk mitigation associated with the exposure and the incidence of credit risk mitigation techniques with and without substitution effect;	Section 23: Appendix V: Additional Credit and Counterparty Credit Risk Tables - Table 60: Standardised approach – Credit risk exposure and CRM effects (UK CR4) Table 65: IRB approach – Disclosure of the extent of the use of CRM techniques (UK CR7-A)
453(h)	On and off-balance sheet exposure value by exposure class before and after the application of conversion factors and any associated credit risk mitigation;	Section 23: Appendix V: Additional Credit and Counterparty Credit Risk Tables - Table 60: Standardised approach – Credit risk exposure and CRM effects (UK CR4)
453(i)	Risk- weighted exposure amount and the ratio between that risk-weighted exposure amount and the exposure value after applying the corresponding conversion factor and the credit risk mitigation associated with the exposure, separately for each ex	
453(j)	Risk-weighted exposure amounts before and after recognition of the credit risk mitigation impact of credit derivatives;	Section 23: Appendix V: Additional Credit and Counterparty Credit Risk Tables - Table 63: IRB approach – Effect on the RWEAs of credit derivatives used as CRM techniques (UK CR7)
Article 454: Use of the Advanced Measurement Approach to Operational Risk		
454	For institutions using the Advanced Measurement Approaches set out in Articles 321 to 324 for calculating operational risk capital requirements, a description of the use of insurances and other risk transfer mechanisms to mitigate operational risk.	Not Applicable
Article 455: Use of Internal Market Risk Models		
455(a)(i)	Characteristics of the market risk models.	Section 12: Market Risk - "12.2 Value at Risk: VaR Methodology, Assumptions and Limitations"
455(a)(ii)	Methodologies used to measure incremental default and migration risk.	Section 12: Market Risk - "12.4 Incremental Risk Charge", "12.5 Comprehensive Risk Measure"
455(a)(iii)	Descriptions of stress tests applied to the portfolios.	Section 12: Market Risk - "12.7 Stress Testing"
455(a)(iv)	Methodology for backtesting and validating the models.	Section 12: Market Risk - “12.2 – Value at Risk”
455(b)	Scope of permission for use of the models.	Section 12: Market Risk
455(c)	Policies and processes to determine which exposures are to be included in the Trading Book, and to comply with prudential valuation requirements.	Section 12: Market Risk - "12.1 Positions included in the Trading Book" Section 16: Valuation Risk
455(d)(i)	The highest, the lowest and the mean of: the daily VaR measures over the reporting period and as per the period end.	Section 12: Market Risk - "12.6 Market Risk Capital Requirements" Table 35: IMA values for trading portfolios (UK MR3)
455(d)(ii)	The highest, the lowest and the mean of: the stressed VaR measures over the reporting period and as per the period end.	
455(d)(iii)	The highest, the lowest and the mean of: the risk numbers for incremental default and migration risk and for the specific risk of the correlation trading portfolio over the reporting period and as per the period-end.	
455(e)	Elements of the own funds requirement.	Section 12: Market Risk - Table 33: Market risk under the internal Model Approach (IMA) (UK MR2-A)
455(f)	Weighted average liquidity horizon of portfolios covered by models.	Section 12: Market Risk - "12.4 Incremental Risk Charge"
455(g)	Comparison of end-of-day VaR measures compared with one-day changes in portfolio’s value.	Section 12: Market Risk - Figure 4/5: Comparison of VaR Estimates with Gains/Losses (UK MR4)

26. Appendix VIII: Abbreviations

Term	Definition
AIRB	Advanced IRB
ACPR	Autorité de Contrôle Prudentiel et de Résolution
ASF	Available Stable Funding
AT1	Additional Tier 1
AVAs	Additional Valuation Adjustments
Basel Accords	Standard for international banking prudential regulation in a series of accords
BCBS	Basel Committee on Banking Supervision
BIA	Basic Indicator Approach
Bn	Billions
BoE	Bank of England
CASS	Client Assets Sourcebook
CCF	Credit Conversion Factor
CCPs	Central Counterparties
CCR	Counterparty Credit Risk
CCyB	Countercyclical Capital Buffer
CET1	Common Equity Tier 1
CFTC	Commodity Futures Trading Commission
CLF	Credit Limits Framework
CMDS Committee	Compensation, Management Development and Succession Committee
CQS	Credit Quality Step
CRD	Capital Requirements Directive
CRM	Credit Risk Mitigation techniques
CRMD	Credit Risk Management Department
CRMe	Comprehensive Risk Measure
CRR	Capital Requirements Regulation
CSLL	Climate Stress Loss Limit
CTP	Correlation Trading Portfolio
CVA	Credit Valuation Adjustments
DQ	Data Quality
EAD	Exposures at Default
EBA	European Banking Authority
ECAI	External Credit Assessment Institutions
ECB	European Central Bank
ECL	Expected Credit Losses
EEA	European Economic Area
EEPE	Effective Expected Positive Exposure
EMEA	Europe, Middle East and Africa
EMEA ALCO	EMEA Asset and Liability Committee
EMEA CFO	EMEA Chief Finance Officer
EMEA CRO	EMEA Chief Risk Officer
EMEA GC	EMEA General Counsel
EMEA HR	EMEA Human Resources
EMEA NFRC	EMEA Non-Financial Risk Committee
EOC	EMEA Operating Committee
ERC	EMEA Risk Committee
EROC	EMEA Remuneration Oversight Committee
ESG	Environmental, Social and Governance
EU	European Union
EUR	Euro
EVE	Economic Value of Equity
EWI	Early Warning Indicator
FIRB	Foundation IRB
FACT	Frequent, Accurate, Complete and Timely
FCA	Financial Conduct Authority
FCP	Funded Credit Protection
Fitch	Fitch Ratings

Term	Definition
FRS 101	Financial Reporting Standard 101
FX	Foreign Exchange
G-SII	Global Systemically Important Institution
GBP	GBP Sterling Pounds
Global CHRO	Morgan Stanley Group’s Chief Human Resources Officer
Global CRO	Morgan Stanley Group’s Chief Risk Officer
HGB	German Commercial Code
HQLA	High-Quality Liquid Assets
IAD	Internal Audit Department
ICAAP	Internal Capital Adequacy Assessment Process
IED	Institutional Equity Division
IFD	Investment Firm Directive
IFPR	Investment Firms Prudential Regime
IFR	Investment Firm Regulation
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
ILST	Internal Liquidity Stress Test
IMA	Internal Model Approach
IMAP	Investment Management Alignment Plan
IMM	Internal Model Method
IRB	Internal Ratings Based
IRC	Incremental Risk Charge
IRRBB	Interest Rate Risk in the Banking Book
KPIs	Key Performance indicators
L-SREP	Liquidity Supervisory Review Process
LCR	Liquidity Coverage Ratio
LDP	Low Default Portfolio
LGD	Loss-Given Default
LRD	Liquidity Risk Department
LREQ	Leverage Ratio Requirements
MCR	Minimum Capital Requirement
MiFID	Markets in Financial Instruments Directive
MIFIDPRU	Prudential Sourcebook for MiFID Investment Firms
MM	Millions
Moody's	Moody’s Investor Service
MRD	Market Risk Department
MREL	Minimum Requirement for own funds and Eligible Liabilities
MRM	Model Risk Management
MRTs	Material Risk Takers
MSBIL	Morgan Stanley Bank International Limited
MSCIP	Morgan Stanley Compensation Incentive Plan
MSEHSE Group	Morgan Stanley Europe Holding SE Group
MSESE	Morgan Stanley Europe SE
MSESE Consol	Morgan Stanley Europe SE ("MSESE" together with its subsidiaries)
MSF	Morgan Stanley France S.A, Paris, France
MSFH I	Morgan Stanley France Holdings I S.A.S, Paris, France
MSFH II	Morgan Stanley France Holdings II S.A.S, Paris, France
MSI	Morgan Stanley International Limited
MSI Group	(“MSI”) together with its subsidiaries
MSIM	Morgan Stanley Investment Management Limited
MSIP	Morgan Stanley & Co. International plc
NII	Net Interest Income
NSFR	Net Stable Funding Ratio
O-SII	Other systematically Important Institution
ORD	Operational Risk Department
OTC	Over The Counter
PD	Probability of Default
PFE	Potential Future Exposure
PRA	Prudential Regulation Authority
PRA Rulebook	PRA Rulebook including the onshored EU CRR
PV01	Present Value to a 1 basis point move of the underlying interest rate

Term	Defintion
PVRM	Position Valuation and Risk Models
PWM	Private Wealth Management
QCCPs	Qualifying Central Counterparties
QRM	Quantitative Risk Management
RAS	Risk Appetite Statement
RBA	Role Based Allowance
RC	Replacement cost
RCSAs	Risk Control Self-Assessment
RNIV	Risks Not in VaR
RSF	Required Stable Funding
RST	Reverse Stress Tests
RWAs	Risk Weighted Exposure Amounts
S&P	Standard and Poor’s rating agency
SA	Standardised Approach
SA-CCR	Standardised Approach for Counterparty Credit Risk
SBSD	Securities Based Swap Dealer
SEC	Securities and Exchange Commission
SEC-ERBA	Securitisation External Ratings Based Approach
SEC-IRBA	Securitisation Internal Ratings Based Approach
SEC-SA	Securitisation Standardised Approach
SFTs	Securities Financing Transactions
SICR	Significant Increase in Credit Risk
SPOE	Single Point of Entry
SREP	Supervisory Review and Evaluation Process
SRT	Significant Risk Transfer
STAR	Significant Transaction Analytical Review Process
STS	Simple, Transparent and Standardised
SVaR	Stressed Value at Risk
T1	Tier 1
T2	Tier 2
TCR	Total Capital Requirement
TLAC	Total Loss Absorbing Capacity
TOFR	Total Own Funds Requirements
TOR	Top Operational Risks
UK	United Kingdom
UK CRD V	UK regulators’ transposition of the Capital Requirements Directive
USD	U.S. Dollars
VaR	Value at Risk
VC	Valuation Control