MORGAN STANLEY ASIA INTERNATIONAL LIMITED

Interim Financial Disclosure Statements

For the six months ended 30 June 2016

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

INTERIM FINANCIAL DISCLOSURE STATEMENTS
For the six months ended 30 June 2016

CONTENTS	**PAGE**

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

INTERIM FINANCIAL DISCLOSURE STATEMENTS
For the six months ended 30 June 2016

The directors of Morgan Stanley Asia International Limited ("the Company") hereby announce the unaudited interim financial disclosure statements of the Company for the period ended 30 June 2016. The interim financial disclosure statements are prepared under the Banking (Disclosure) Rules pursuant to Section 60A of the Hong Kong Banking Ordinance.

PRINCIPAL ACTIVITIES

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

The principal activities of the Company are to engage in the business of banking including deposit taking and lending. It also acts as introducing broker for other subsidiaries of the Morgan Stanley group of companies in connection with the provision of general investment, securities and futures dealing, and custody services, as well as discretionary management.

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

REQUIREMENT IN CONNECTION WITH PUBLICATION OF FINANCIAL STATEMENTS

The financial information relating to the year ended 31 December 2015 that is included in the unaudited interim financial disclosure statements for the six months ended 30 June 2016 as comparative information does not constitute the Company's statutory annual financial statements for the year ended 31 December 2015 but is derived from the audited financial statements for the year ended 31 December 2015. Further information related to the audited financial statements for the year ended 31 December 2015 required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

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

The Company's auditor has reported on the audited financial statements for the year ended 31 December 2015. The auditor's report was unqualified; did not include a reference to any matter to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

INTERIM RESULTS

The half-yearly unaudited profit after tax for the period ended 30 June 2016 was US$1 million (period ended 30 June 2015: US$26 million). The Company commenced business on 9 February 2015 and its revenue is mainly contributed by fees and commission income relating to equities and fixed income market activities. The reduction in the Company's profit after tax is primarily due to the decrease in the volume of transactions which has resulted in lower fees and commissions in the period.

Signed on behalf of the Board

Chui, Vincent Yik Chiu
Director

25 August 2016

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

UNAUDITED INCOME STATEMENT
For the six months ended 30 June 2016

	Note	For the six months ended 30 June 2016 US$'000	For the six months ended 30 June 2015 US$'000
Interest income	1	10,093	7,889
Interest expense	1	(11,784)	(7,453)
Net interest (expense)/income		(1,691)	436
Fee and commission income	2	95,814	112,648
Net losses on financial instruments classified as held for trading		(112,555)	(28,679)
Net gains on available-for-sale financial assets		105,844	27,127
Other income		11,116	4,066
Other expenses	3	(96,830)	(84,193)
PROFIT BEFORE INCOME TAX		1,698	31,405
Income tax expense	4	(723)	(4,948)
PROFIT FOR THE PERIOD		975	26,457

The notes on pages 6 to 25 form an integral part of the financial statements.

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

UNAUDITED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2016

	For the six months ended 30 June 2016 US$'000	For the six months ended 30 June 2015 US$'000
PROFIT FOR THE PERIOD	975	26,457
OTHER COMPREHENSIVE INCOME, NET OF TAX		
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale reserve:		
Net change in fair value of available-for-sale financial assets	886	804
Net amount reclassified to income statement	(7)	-
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX FOR THE PERIOD	879	804
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	1,854	27,261

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

UNAUDITED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2016

	Share capital US$'000	Available-for-sale reserve US$'000	Retained earnings US$'000	Total equity US$'000
Balance at 1 January 2015	13,000	-	(20)	12,980
Profit for the year	-	-	35,743	35,743
Other comprehensive loss	-	(400)	-	(400)
Total comprehensive income	-	(400)	35,743	35,343
Transactions with owners:				
- Issue of capital	157,000	-	-	157,000
- Share-based payments	-	-	382	382
Balance at 31 December 2015	170,000	(400)	36,105	205,705
Profit for the period	-	-	975	975
Other comprehensive income	-	879	-	879
Total comprehensive income	-	879	975	1,854
Balance at 30 June 2016	170,000	479	37,080	207,559

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

UNAUDITED STATEMENT OF FINANCIAL POSITION
As at 30 June 2016

	Note	As at 30 June 2016 US$'000	As at 31 December 2015 US$'000
ASSETS			
Loans and receivables:			
Cash and short-term deposits	5	663,791	798,943
Loans and advances to customers	6	1,042,609	1,031,953
Trade receivables		10,765	553
Other receivables		1,996	1,914
		1,719,161	1,833,363
Financial assets classified as held for trading	7	1,689	9,558
Available-for-sale financial assets	8	3,503,151	4,031,391
Deferred tax assets		2,597	1,868
Prepayments		99	111
TOTAL ASSETS		5,226,697	5,876,291
LIABILITIES			
Financial liabilities at amortised cost:			
Deposits	9	4,755,977	5,439,241
Trade payables		185,975	150,770
Other payables		52,677	63,403
		4,994,629	5,653,414
Financial liabilities classified as held for trading	7	14,081	7,863
Current tax liabilities		10,052	8,619
Accruals		376	690
TOTAL LIABILITIES		5,019,138	5,670,586
EQUITY			
Share capital		170,000	170,000
Available-for-sale reserves		479	(400)
Retained earnings		37,080	36,105
Equity attributable to owner of the Company		207,559	205,705
TOTAL EQUITY		207,559	205,705
TOTAL LIABILITIES AND EQUITY		5,226,697	5,876,291

The notes on pages 6 to 25 form an integral part of the financial statements.

NOTE TO THE UNAUDITED FINANCIAL INFORMATION
For the six months ended 30 June 2016

1. INTEREST INCOME AND INTEREST EXPENSE

'Interest income' and 'Interest expense' represent total interest income and total interest expense for financial assets and financial liabilities that are not carried at fair value.

No other gains or losses have been recognised in respect of loans and receivables other than as disclosed as 'Interest income' and foreign exchange differences disclosed in 'Other income'.

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

During the period, there was no interest income recognised on impaired financial assets (for the six months ended 30 June 2015: Nil).

2. FEE AND COMMISSION INCOME

During the period, no fee income and fee expense have arisen from financial assets or financial liabilities that are not measured at fair value through profit or loss (for the six months ended 30 June 2015: Nil).

No fee income and fee expense on trust and other fiduciary activities where the Company holds or invests on behalf of its customers (for the six months ended 30 June 2015: Nil).

3. OTHER EXPENSES

	For the six months ended 30 June 2016 US$'000	**For the six months ended 30 June 2015 US$'000**
Staff costs	57,057	51,442
Management charges from other Morgan Stanley Group undertakings	34,037	29,631
Other expenses	5,736	3,120
	96,830	84,193

4. INCOME TAX EXPENSE

	For the six months ended 30 June 2016 US$'000	**For the six months ended 30 June 2015 US$'000**
Current income tax		
Hong Kong	1,475	5,775
Other jurisdictions	6	407
Deferred tax benefit	(758)	(1,234)
	723	4,948

NOTE TO THE UNAUDITED FINANCIAL INFORMATION
For the six months ended 30 June 2016

5. CASH AND SHORT-TERM DEPOSITS

Included in cash and short-term deposits as at 30 June 2016 is an aggregate sum of US$7,265,000 (31 December 2015: US$10,513,000) which is placement with Monetary Authority of Singapore. There were no placements with banks with residual contract maturity more than one month as at 30 June 2016 (31 December 2015: Nil).

6. LOANS AND ADVANCES TO CUSTOMERS

	As at 30 June 2016 US$'000	As at 31 December 2015 US$'000
Loans and advances to customers	1,042,609	1,031,953

There were no impaired loan and advances, collective and specific provisions, as at 30 June 2016 (31 December 2015: Nil).

7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES CLASSIFIED AS HELD FOR TRADING

		As at 30 June 2016 Fair Value		
	Notional Amount US$'000	Assets US$'000	Liabilities US$'000	Risk-weighted amount US$'000
Derivatives				
Exchange rate swap contracts	3,146,509	1,689	13,700	6,293
Interest rate swap contracts	2,000,000	-	381	-
	5,146,509	1,689	14,081	6,293

		As at 31 December 2015 Fair Value		
	Notional Amount US$'000	Assets US$'000	Liabilities US$'000	Risk-weighted amount US$'000
Derivatives				
Exchange rate swap contracts	2,874,841	9,036	7,197	8,793
Interest rate swap contracts	3,300,000	522	666	-
	6,174,841	9,558	7,863	8,793

The notional amounts of these instruments indicate the volume of outstanding transactions and do not represent amounts at risk.

The above derivative assets and liabilities are computed at a transaction level and shown on a gross basis with no offsetting presentation due to bilateral netting agreements (31 December 2015: Nil). The risk-weighted amount has taken into account the effect of valid bilateral netting agreement.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 30 June 2016 US$'000	As at 31 December 2015 US$'000
Government debt securities:		
Singapore government treasury bills	1,851,705	1,927,296
US treasury bills and securities	1,651,446	2,104,095
	3,503,151	4,031,391

9. DEPOSITS

	As at 30 June 2016 US$'000	As at 31 December 2015 US$'000
Deposits of bank customer		
Current account balances	2,114	6,854
Deposits of non-bank customers		
Current account balances	3,337,532	3,799,197
Term deposits	1,265,389	1,287,227
Deposits of other Morgan Stanley Group undertakings	150,942	345,963
	4,755,977	5,439,241

10. OFF BALANCE SHEET EXPOSURE OTHER THAN DERIVATIVE TRANSACTIONS

There were no off-balance sheet exposures other than derivative exposure for the period ended 30 June 2016 (31 December 2015: Nil).

11. CAPITAL ADEQUACY RATIO

	As at 30 June 2016	As at 31 December 2015
Common Equity Tier 1 (“CET1”) capital ratio	26%	24%
Tier 1 capital ratio	26%	24%
Total capital ratio	27%	24%

NOTE TO THE UNAUDITED FINANCIAL INFORMATION
For the six months ended 30 June 2016

11. CAPITAL ADEQUACY RATIO (CONTINUED)

Component of capital base

Total capital after deductions used in the calculation of capital adequacy ratio as at 30 June 2016 and 31 December 2015 are analysed as follows:

	As at 30 June 2016 US$'000	As at 31 December 2015 US$'000
CET1 capital instruments		
Paid up ordinary share capital	170,000	170,000
Retained earnings	37,080	36,105
Available-for-sale reserves	479	(400)
CET1 capital before deductions	207,559	205,705
Deductions:		
Deferred tax assets net of deferred tax liabilities	(2,597)	(1,868)
Regulatory reserve for general banking risks[1]	(5,213)	(5,160)
Valuation adjustments	(157)	(222)
CET1 capital after deductions	199,592	198,455
Additional tier 1 capital	-	-
Tier 2 capital		
Regulatory reserve for general banking risks[1]	4,827	5,160
Total capital	204,419	203,615

(1) The Company has earmarked part of its retained earnings for maintaining its regulatory reserve for general banking risks to satisfy the provisions of the Banking Ordinance for prudential supervision purposes.

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

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

NOTE TO THE UNAUDITED FINANCIAL INFORMATION
For the six months ended 30 June 2016

12. CAPITAL DISCLOSURES TEMPLATE

(a) Capital Disclosures Template

The following table shows the capital disclosures template specified by the HKMA in relation to the elements of the Company's regulatory capital.

(in thousands of US dollars)			Cross reference to Balance Sheet
	CET1 capital: instruments and reserves		
1	Directly issued qualifying CET1 capital instruments plus any related share premium	170,000	(1)
2	Retained earnings	37,080	(2)
3	Disclosed reserves	479	(3)
4	*Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)*	Not applicable	
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	0	
6	**CET1 capital before regulatory deductions**	207,559	
	CET1 capital: regulatory deductions		
7	Valuation adjustments	157	
8	Goodwill (net of associated deferred tax liability)	0	
#9	Other intangible assets (net of associated deferred tax liability)	0	
#10	Deferred tax assets net of deferred tax liabilities	2,597	(4)
11	Cash flow hedge reserve	0	
12	Excess of total EL amount over total eligible provisions under the IRB approach	0	
13	Gain-on-sale arising from securitization transactions	0	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	0	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	0	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	0	
17	Reciprocal cross-holdings in CET1 capital instruments	0	
#18	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0	
#19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0	
20	Mortgage servicing rights (amount above 10% threshold)	Not applicable	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable	
22	Amount exceeding the 15% threshold	Not applicable	
23	of which: significant investments in the common stock of financial sector entities	Not applicable	
24	of which: mortgage servicing rights	Not applicable	
25	of which: deferred tax assets arising from temporary differences	Not applicable	
26	National specific regulatory adjustments applied to CET1 capital	0	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	0	
26b	Regulatory reserve for general banking risks	5,213	
26c	Securitization exposures specified in a notice given by the Monetary Authority	0	

12. CAPITAL DISCLOSURES TEMPLATE (CONTINUED)

(a) Capital Disclosures Template (continued)

(in thousands of US dollars)			Cross reference to Balance Sheet
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	0	
26e	Capital shortfall of regulated non-bank subsidiaries	0	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	0	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	0	
28	**Total regulatory deductions to CET1 capital**	7,967	
29	**CET1 capital**	199,592	
	AT1 capital: Instruments		
30	Qualifying AT1 capital instruments plus any related share premium	0	
31	of which: classified as equity under applicable accounting standards	0	
32	of which: classified as liabilities under applicable accounting standards	0	
33	*Capital instruments subject to phase out arrangements from AT1 capital*	0	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	0	
35	*of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements*	0	
36	**AT1 capital before regulatory deductions**	0	
	AT1 capital: regulatory deductions		
37	Investments in own AT1 capital instruments	0	
38	Reciprocal cross-holdings in AT1 capital instruments	0	
#39	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0	
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0	
41	National specific regulatory adjustments applied to AT1 capital	0	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	0	
43	**Total regulatory deductions to AT1 capital**	0	
44	**AT1 capital**	0	
45	**Tier 1 capital (Tier 1 = CET1 + AT1)**	199,592	
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	0	
47	*Capital instruments subject to phase out arrangements from Tier 2 capital*	0	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	0	
49	*of which: capital instruments issued by subsidiaries subject to phase out arrangements*	0	
50	Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	4,827	
51	**Tier 2 capital before regulatory deductions**	4,827	

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

NOTE TO THE UNAUDITED FINANCIAL INFORMATION
For the six months ended 30 June 2016

12. CAPITAL DISCLOSURES TEMPLATE (CONTINUED)

(a) Capital Disclosures Template (continued)

(in thousands of US dollars)			Cross reference to Balance Sheet
	Tier 2 capital: regulatory deductions		
52	Investments in own Tier 2 capital instruments	0	
53	Reciprocal cross-holdings in Tier 2 capital instruments	0	
#54	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0	
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0	
56	National specific regulatory adjustments applied to Tier 2 capital	0	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	0	
57	**Total regulatory deductions to Tier 2 capital**	0	
58	**Tier 2 capital**	4,827	
59	**Total capital (Total capital = Tier 1 + Tier 2)**	204,419	
60	**Total risk weighted assets**	762,437	
	Capital ratios (as a percentage of risk weighted assets)		
61	CET1 capital ratio	26%	
62	Tier 1 capital ratio	26%	
63	Total capital ratio	27%	
64	Institution specific buffer requirement (minimum CET1 capital requirement as specified in s.3B of the BCR plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB or D-SIB requirements)	5.368%	
65	*of which: capital conservation buffer requirement*	0.625%	
66	*of which: bank specific countercyclical buffer requirement*	0.243%	
67	*of which: G-SIB or D-SIB buffer requirements*	0%	
68	CET1 capital surplus over the minimum CET1 requirement and any CET1 capital used to meet the Tier 1 and Total capital requirement under s.3B of the BCR	14.178%	
	National minima (if different from Basel 3 minimum)		
69	National CET1 minimum ratio	Not applicable	
70	National Tier 1 minimum ratio	Not applicable	
71	National Total capital minimum ratio	Not applicable	
	Amounts below the thresholds for deduction (before risk weighting)		
72	Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0	
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0	
74	Mortgage servicing rights (net of related tax liability)	Not applicable	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	Not applicable	

12. CAPITAL DISCLOSURES TEMPLATE (CONTINUED)

(a) Capital Disclosures Template (continued)

	(in thousands of US dollars)		Cross reference to Balance Sheet
	Applicable caps on the inclusion of provisions in Tier 2 capital		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the basic approach and the standardized (credit risk) approach (prior to application of cap)	0	
77	Cap on inclusion of provisions in Tier 2 under the basic approach and the standardized (credit risk) approach	0	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	0	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach	0	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	*Current cap on CET1 capital instruments subject to phase out arrangements*	Not applicable	
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	Not applicable	
82	*Current cap on AT1 capital instruments subject to phase out arrangements*	0	
83	*Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)*	0	
84	*Current cap on Tier 2 capital instruments subject to phase out arrangements*	0	
85	*Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)*	0	

Footnote:

# Indicates elements where a more conservative definition has been applied in the BCR relative to that set out in the Basel III capital standards.

12. CAPITAL DISCLOSURES TEMPLATE (CONTINUED)

(a) Capital Disclosures Template (continued)

Notes to the template

Row No.	Description	Hong Kong basis	Basel III basis
#9	**Other intangible assets (net of associated deferred tax liability)**	0	0
	Explanation As set out in paragraph 87 of the Basel III text issued by the Basel Committee (December 2010), mortgage servicing rights (MSRs) may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to follow the accounting treatment of including MSRs as part of intangible assets reported in the AI's financial statements and to deduct MSRs in full from CET1 capital. Therefore, the amount to be deducted as reported in row 9 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 9 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of MSRs to be deducted to the extent not in excess of the 10% threshold set for MSRs and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.		
#10	**Deferred tax assets net of deferred tax liabilities**	2,597	2,597
	Explanation As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs that rely on future profitability of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 10 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities and other credit exposures to connected companies) under Basel III.		
#18	**Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)**	0	0
	Explanation For the purpose of determining the total amount of insignificant capital investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the Monetary Authority that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business. Therefore, the amount to be deducted as reported in row 18 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 18 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.		

12. CAPITAL DISCLOSURES TEMPLATE (CONTINUED)

(a) Capital Disclosures Template (continued)

Notes to the template

Row No.	Description	Hong Kong basis	Basel III basis
#19	**Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)**	0	0
	Explanation For the purpose of determining the total amount of significant capital investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the Monetary Authority that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business. Therefore, the amount to be deducted as reported in row 19 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 19 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.		
#39	**Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)**	0	0
	Explanation The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant capital investments in AT1 capital instruments may be smaller. Therefore, the amount to be deducted as reported in row 39 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 39 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.		
#54	**Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)**	0	0
	Explanation The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant capital investments in Tier 2 capital instruments may be smaller. Therefore, the amount to be deducted as reported in row 54 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 54 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.		
Remarks: The amount of 10% / 15% thresholds mentioned above is calculated based on the amount of CET1 capital determined under the Banking (Capital) Rules.			

Abbreviations:

CET1: Common Equity Tier 1
AT1: Additional Tier 1

NOTE TO THE UNAUDITED FINANCIAL INFORMATION
For the six months ended 30 June 2016

12. CAPITAL DISCLOSURES TEMPLATE (CONTINUED)

(b) Balance Sheet Reconciliation

The following table shows a reconciliation of amounts shown in the balance sheet of the Company to the capital components of regulatory capital:

	Balance sheet as in published financial statements	**Under regulatory scope of consolidation**	**Cross reference to Definition of Capital Components**
At 30 June 2016	**US$'000**	**US$'000**	**US$'000**
ASSETS			
Cash and short-term deposits	663,791	663,791	
Loans and advances to customers	1,042,609	1,042,609	
Trade receivables	10,765	10,765	
Other receivables	1,996	1,996	
Financial assets classified as held for trading	1,689	1,689	
Available-for-sale financial assets	3,503,151	3,503,151	
Deferred tax assets	2,597	2,597	(4)
Prepayments	99	99	
TOTAL ASSETS	**5,226,697**	**5,226,697**	
LIABILITIES			
Deposits	4,755,977	4,755,977	
Trade payables	185,975	185,975	
Other payables	52,677	52,677	
Financial liabilities classified as held for trading	14,081	14,081	
Current tax liabilities	10,052	10,052	
Accruals	376	376	
TOTAL LIABILITIES	**5,019,138**	**5,019,138**	
SHAREHOLDERS' EQUITY			
Share capital	170,000	170,000	(1)
Available-for-sales reserves	479	479	(3)
Retained earnings	37,080	37,080	(2)
TOTAL SHAREHOLDERS' EQUITY	**207,559**	**207,559**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**5,226,697**	**5,226,697**	

NOTE TO THE UNAUDITED FINANCIAL INFORMATION
For the six months ended 30 June 2016

12. CAPITAL DISCLOSURES TEMPLATE (CONTINUED)

(c) Main Features of Capital Instruments

The following table shows the main features of outstanding capital instruments issued:

1	Issuer	Morgan Stanley Asia International Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	Not applicable
3	Governing law(s) of the instrument	Hong Kong Law
	Regulatory treatment	
4	Transitional Basel III rules#	Not applicable
5	Post-transitional Basel III rules+	Common Equity Tier 1
6	Eligible at solo*/group/group & solo	Solo
7	Instrument type (type to be specified by each jurisdiction)	Ordinary shares
8	Amount recognized in regulatory capital (Currency in million, as of most recent reporting date)	US$170 million
9	Par value instrument	Not applicable
10	Accounting classification	Shareholders' equity
11	Original date of issuance	• 1 share issued on May 19, 2014 • 13,000,000 shares issued on July 11, 2014 • 156,999,998 shares issued on January 13, 2015 • 1 share issued on February 9, 2015
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	No
31	If write-down, write-down trigger(s)	Not applicable

12. CAPITAL DISCLOSURES TEMPLATE (CONTINUED)

(c) Main Features of Capital Instruments (continued)

32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable

Footnote:
Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules.
+ Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules.
* Included solo-consolidated

13. COUNTERCYCLICAL CAPITAL BUFFER ("CCyB") RATIO

The geographical breakdown of risk-weighted amounts ("RWA") in relation to private sector credit exposures is as follows:

	Jurisdiction	Applicable Jurisdictional CCyB ("JCCyB") ratio in effect	Total RWA used in computation of CCyB ratio of AI US$'000	CCyB ratio of AI	CcyB amount of AI US$'000
1	Hong Kong	0.625%	96,214		
2	Mainland China	0%	49,062		
3	Australia	0%	96		
4	Chinese Taipei	0%	47,098		
5	Indonesia	0%	1,830		
6	Malaysia	0%	974		
7	Philippines	0%	10,625		
8	Singapore	0%	16,509		
9	Switzerland	0%	4,506		
10	Thailand	0%	17,995		
11	United Kingdom	0%	2,186		
12	United States	0%	333		
	Total		**247,428**	**0.243%**	**601**

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

There is no information disclosed relating to the CCyB ratio pursuant to section 24B of the Banking (Disclosure) Rules for the year ended 31 December 2015 since the applicable JCCyB ratios for Hong Kong and for jurisdictions outside Hong Kong are at 0% before 1 January 2016.

14. CAPITAL CONSERVATION BUFFER RATIO

Under section 3M of the Banking (Capital) Rules, the capital conservation buffer ratio is 0.625% for 2016 (2015: 0%).

NOTE TO THE UNAUDITED FINANCIAL INFORMATION
For the six months ended 30 June 2016

15. LEVERAGE RATIO DISCLOSURE TEMPLATE

	As at 30 June 2016	As at 31 December 2015
Leverage ratio	3.82%	3.38%

The increase in leverage ratio is due to decrease in total on-balance sheet exposures which is driven by decrease in customer deposits.

The leverage position is calculated according to the leverage ratio template submitted to the HKMA.

Summary Comparison Table

	Item	Leverage ratio framework US$'000
1	Total consolidated assets as per published financial statements	5,226,697
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	10,897
5	Adjustments for securities financing transactions (i.e. repos and similar secured lending)	-
6	Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	-
7	Other adjustments	(7,967)
8	**Leverage ratio exposure**	**5,229,627**

NOTE TO THE UNAUDITED FINANCIAL INFORMATION
For the six months ended 30 June 2016

15. LEVERAGE RATIO DISCLOSURE TEMPLATE (CONTINUED)

Leverage Ratio Common Disclosure Template		
	Item	**Leverage ratio framework US$'000**
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	5,225,008
2	Less: Asset amounts deducted in determining Basel III Tier 1 capital (reported as negative amounts)	(7,967)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	5,217,041
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with all derivatives transactions	12,586
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions (reported as negative amounts)	-
8	Less: Exempted CCP leg of client-cleared trade exposures (reported as negative amounts)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivatives (reported as negative amounts)	-
11	Total derivative exposures (sum of lines 4 to 10)	12,586
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets (reported as negative amounts)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	-
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	-
18	Less: Adjustments for conversion to credit equivalent amounts (reported as negative amounts)	-
19	Off-balance sheet items (sum of lines 17 and 18)	-
	Capital and total exposures	
20	Tier 1 capital	199,592
21	Total exposures (sum of lines 3, 11, 16 and 19)	5,229,627
	Leverage ratio	
22	**Basel III leverage ratio**	**3.82%**

NOTE TO THE UNAUDITED FINANCIAL INFORMATION
For the six months ended 30 June 2016

16. INTERNATIONAL CLAIMS

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

			Non-bank private sector		
	Bank	**Official sector**	**Non-bank financial institutions**	**Non-financial private sector**	**Total**
As at 30 June 2016	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Developed countries	506,868	1,651,446	5,329	11,878	2,175,521
United States	214,960	1,651,446	541	-	1,866,947
Offshore centres	153,307	-	44,117	513,316	710,740
Hong Kong	38,536	-	34,238	431,385	504,159
Developing Asia-Pacific	-	-	2,817	463,702	466,519

			Non-bank private sector		
	Bank	**Official sector**	**Non-bank financial institutions**	**Non-financial private sector**	**Total**
As at 31 December 2015	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Developed countries	715,900	2,104,095	858	11,233	2,832,086
United States	107,457	2,104,095	756	-	2,212,308
Offshore centres	79,019	-	37,992	456,721	573,732
Hong Kong	35,716	-	30,556	402,382	468,654
Developing Asia-Pacific	-	-	1,934	519,281	521,215

17. LOAN AND ADVANCES – SECTOR INFORMATION

	As at 30 June 2016 US$'000	**As at 31 December 2015 US$'000**
Sector classification		
Loans and advances for use in Hong Kong		
Industrial, commercial and financial:		
- Others	372,842	345,930
Individuals		
- Others	92,067	86,346
Loans and advances for use outside Hong Kong	577,700	599,677
Total	1,042,609	1,031,953

The total loans were fully secured by collateral as at 30 June 2016 (31 December 2015: fully secured).

17. LOAN AND ADVANCES – SECTOR INFORMATION (CONTINUED)

	As at 30 June 2016 US$'000	As at 31 December 2015 US$'000
Geographical Areas		
Hong Kong	464,909	432,276
Mainland China	192,461	214,851
Taiwan	134,199	144,528
Others	251,040	240,298
Total	1,042,609	1,031,953

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

18. OVERDUE AND RESCHEDULED ASSETS

There were no impaired, overdue or rescheduled assets as at 30 June 2016 and 31 December 2015.

19. MAINLAND ACTIVITIES

There were no mainland exposures on the Hong Kong office of the Company as at 30 June 2016 and 31 December 2015.

20. CURRENCY RISK

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

As at 30 June 2016	SGD HK$'000	USD HK$'000
Spot assets	14,665,260	21,491,971
Spot liabilities	(2,168,582)	(30,506,578)
Forward purchases	862,984	16,824,114
Forward sales	(13,370,492)	(7,766,017)
Net (short)/ long position	(10,830)	43,490

As at 31 December 2015	SGD HK$'000	USD HK$'000
Spot assets	15,190,282	28,378,991
Spot liabilities	(2,080,798)	(37,049,729)
Forward purchases	1,093,764	16,160,422
Forward sales	(14,218,935)	(7,419,766)
Net (short)/ long position	(15,687)	69,918

The Company has no option and structural positions in any particular foreign currency as at 30 June 2016 (31 December 2015: Nil).

21. LIQUIDITY

	For the six months ended 30 June 2016	For the period from 9 February 2015 (date of business commencement) to 30 June 2015
Average liquidity maintenance ratio for the period	58%	71%

The average liquidity maintenance ratio is calculated as the arithmetic mean of each calendar month's average liquidity maintenance ratio. The liquidity maintenance ratio is computed in accordance with Banking (Liquidity) Rules.

Liquidity and funding risk

Liquidity and funding risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity and funding risk also encompasses the Company's ability to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern.

The Company's liquidity and funding risk management policies and procedures are consistent with those of the Morgan Stanley Group. The Board of Directors of the Company is ultimately responsible for establishing the liquidity risk tolerance and ensuring the Company's liquidity risk is appropriately managed. In addition to the internal liquidity risk management framework, the Company is locally subject to the liquidity regulations prescribed by the HKMA. The Company has daily monitoring and reporting processes in place to ensure compliance with its regulatory requirements.

The primary goal of the Company's liquidity risk and funding management framework is to ensure that the Company has access to adequate funding across a wide range of market conditions. The framework is designed to enable the Company to fulfil its financial obligations and support the execution of the Company's business strategies.

The following principles guide the Company's liquidity and funding 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
- Contingency Funding Plan ("CFP") should anticipate, and account for, periods of limited access to funding.

The core components of the Company's liquidity and funding risk management framework, are the CFP, Liquidity Stress Tests and the Liquidity Reserve (as defined below), which support the Company's target liquidity profile.

21. LIQUIDITY (CONTINUED)

Liquidity and funding risk (continued)

Contingency Funding Plan

CFP describes the data and information flows, limits, targets, operating environment indicators, escalation procedures, roles and responsibilities, and available mitigating actions in the event of a liquidity stress. The CFP also sets forth the principal elements of the liquidity stress testing which identifies stress events of different severity and duration, assesses current funding sources and uses and establishes a plan for monitoring and managing a potential liquidity stress event.

Liquidity Stress Tests

The Company uses Liquidity Stress Tests to model liquidity outflows across multiple scenarios over a range of time horizons. These scenarios contain various combinations of idiosyncratic and systemic stress events.

The assumptions underpinning the Liquidity Stress Tests include, but are not limited to, the following:

- withdrawal of customer deposits;
- no government support;
- no access to equity and unsecured debt markets;
- repayment of all unsecured debt maturing within the stress horizon;
- additional collateral that would be required by trading counterparties, certain exchanges and clearing organisations related to credit rating downgrades;
- drawdowns on unfunded commitments provided to customers; and
- limited access to the foreign exchange swap markets

The Liquidity Stress Tests are produced for the Company, to capture specific cash requirements and cash availability. The Liquidity Stress Tests assume that a legal entity will use its own liquidity first to fund its obligations before drawing liquidity from its ultimate parent undertaking, Morgan Stanley. Morgan Stanley will support its subsidiaries and will not have access to subsidiaries' liquidity reserve that are subject to any regulatory, legal or tax constraints. In addition to the assumptions underpinning the Liquidity Stress Tests, the Company takes into consideration the settlement risk related to intra-day settlement and clearing of securities and financing activities.

At 30 June 2016, the Company maintained sufficient liquidity to meet current and contingent funding obligations as modelled in its Liquidity Stress Tests.

Liquidity Reserve

The Company maintains sufficient liquidity reserves ("Liquidity Reserve") to cover daily funding needs and to meet strategic liquidity targets sized by the CFP and Liquidity Stress Tests. The size of the Liquidity Reserve is actively managed by the Company. The following components are considered in sizing the Liquidity Reserve; unsecured debt maturity profile, balance sheet size and composition, funding needs in a stressed environment inclusive of contingent cash outflows and collateral requirements. Additionally, the Company's Liquidity Reserve includes an additional reserve, which is primarily a discretionary surplus based on the Company's risk tolerance and is subject to change dependent on market and firm-specific events.

The Company holds its own Liquidity Reserve which is composed of diversified cash and cash equivalents and unencumbered highly liquid securities.

Eligible unencumbered highly liquid securities include primarily non-US government securities in addition to US government securities and other highly liquid investment grade securities.

21. LIQUIDITY (CONTINUED)

Liquidity and funding risk (continued)

Funding Management

The Company manages its funding in a manner that reduces the risk of disruption to the Company's operations. The Company pursues a strategy of diversification of secured and unsecured funding sources and attempts to ensure that the tenor of the Company's liabilities equals or exceeds the expected holding period of the assets being financed.

The Company funds itself through diverse sources. These sources may include equity capital, long-term debt and deposits.

Balance sheet management

In managing both the Morgan Stanley Group's and the Company's funding risk the composition and size of the entire balance sheet, not just financial liabilities, is monitored and evaluated. A substantial portion of the Morgan Stanley Group's total assets consists of liquid marketable securities and short-term receivables arising principally from its Institutional Securities business segment's sales and trading activities. The liquid nature of these assets provides the Morgan Stanley Group and the Company with flexibility in managing the size of its balance sheet.