

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

Unaudited Quarterly Financial Disclosure Statement

As at 30 September 2018

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

**UNAUDITED QUARTERLY FINANCIAL DISCLOSURE STATEMENT
As at 30 September 2018**

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MORGAN STANLEY ASIA INTERNATIONAL LIMITED

UNAUDITED QUARTERLY FINANCIAL DISCLOSURE STATEMENT As at 30 September 2018

1. PILLAR 3 DISCLOSURE

The following templates for Morgan Stanley Asia International Limited (the “Company”) show the standard disclosure templates specified by the Hong Kong Monetary Authority (“HKMA”) in relation to the Pillar 3 disclosure required under the Banking (Disclosure) Rules.

Other Pillar 3 templates or tables not disclosed below are either not applicable to the Company or have no reportable amount for the period.

a. Template KM1: Key Prudential Ratios

| | | As at 30 September 2018 | As at 30 June 2018 | As at 31 March 2018 | As at 31 December 2017 | As at 30 September 2017 |
|--|--|----------------------------------|-----------------------------|------------------------------|---------------------------------|----------------------------------|
| | | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| Regulatory capital (amount) | | | | | | |
| 1 | Common Equity Tier 1 (“CET1”) | 273,366 | 259,078 | 232,685 | 219,236 | 215,856 |
| 2 | Tier 1 | 273,366 | 259,078 | 232,685 | 219,236 | 215,856 |
| 3 | Total capital | 280,931 | 266,401 | 239,638 | 225,816 | 223,229 |
| Risk-weighted amount (“RWA”) (amount) | | | | | | |
| 4 | Total RWA | 1,047,309 | 1,021,646 | 987,955 | 954,272 | 1,024,216 |
| Risk-based regulatory capital ratios (as a percentage of RWA) | | | | | | |
| 5 | CET1 ratio (%) | 26% | 25% | 24% | 23% | 21% |
| 6 | Tier 1 ratio (%) | 26% | 25% | 24% | 23% | 21% |
| 7 | Total capital ratio (%) | 27% | 26% | 24% | 24% | 22% |
| Additional CET1 buffer requirements (as a percentage of RWA) | | | | | | |
| 8 | Capital conservation buffer requirement (%) | 1.875% | 1.875% | 1.875% | 1.250% | 1.250% |
| 9 | Countercyclical capital buffer requirement (%) | 0.772% | 0.806% | 0.747% | 0.528% | 0.465% |
| 10 | Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs) | 0% | 0% | 0% | 0% | 0% |
| 11 | Total Authorised Institution (“AI”)-specific CET1 buffer requirements (%) | 2.647% | 2.681% | 2.622% | 1.778% | 1.715% |
| 12 | CET1 available after meeting the AI’s minimum capital requirements (%) | 19% | 18% | 16% | 16% | 14% |
| Basel III leverage ratio | | | | | | |
| 13 | Total leverage ratio (“LR”) exposure measure | 3,867,740 | 4,071,075 | 4,423,128 | 4,049,844 | 4,705,903 |
| 14 | LR (%) | 7.07% | 6.36% | 5.26% | 5.41% | 4.59% |
| Liquidity Maintenance Ratio (“LMR”) | | | | | | |
| 17a | LMR (%) (Note b) | 60% | 52% | 53% | 52% | 61% |
| Core Funding Ratio (“CFR”) | | | | | | |
| 20a | CFR (%) (Note b) | 247% | 262% | 291% | N/A (Note a) | N/A (Note a) |

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

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

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1. PILLAR 3 DISCLOSURE (CONTINUED)

b. Template OV1: Overview of RWA

| | | RWA | | Minimum capital requirements |
|-----|---|------------------------------------|-------------------------------|------------------------------------|
| | | As at 30 September 2018 USD'000 | As at 30 June 2018 USD'000 | As at 30 September 2018 USD'000 |
| 1 | Credit risk for non-securitization exposures | 601,476 | 581,452 | 48,118 |
| 2 | Of which Standardised (Credit Risk) Approach ("STC approach") | 601,476 | 581,452 | 48,118 |
| 2a | Of which Basic Approach ("BSC approach") | - | - | - |
| 3 | Of which foundation Internal Ratings-Based ("IRB") Approach | - | - | - |
| 4 | Of which supervisory slotting criteria approach | - | - | - |
| 5 | Of which advanced IRB approach | - | - | - |
| 6 | Counterparty default risk and default fund contributions | 3,735 | 4,401 | 299 |
| 7 | Of which Standardised Approach for measuring Counterparty Credit Risk ("SA-CCR") | Not applicable | | |
| 7a | Of which Current Exposure Method ("CEM") | 3,735 | 4,401 | 299 |
| 8 | Of which Internal Models (Counterparty Credit Risk) Approach ("IMM(CCR) approach") | - | - | - |
| 9 | Of which others | - | - | - |
| 10 | Credit Valuation Adjustment ("CVA") risk | 1,698 | 2,001 | 136 |
| 11 | Equity positions in banking book under the simple risk-weight method and internal models method | - | - | - |
| 12 | Collective investment scheme ("CIS") exposures – Look-Through Approach ("LTA") | Not applicable | | |
| 13 | CIS exposures – Mandate-Based Approach ("MBA") | Not applicable | | |
| 14 | CIS exposures – Fall-Back Approach ("FBA") | Not applicable | | |
| 14a | CIS exposures – combination of approaches | Not applicable | | |
| 15 | Settlement risk | - | - | - |
| 16 | Securitization exposures in banking book | - | - | - |
| 17 | Of which Securitization Internal Ratings-Based Approach ("SEC-IRBA") | - | - | - |
| 18 | Of which Securitization External Ratings-Based Approach ("SEC-ERBA") | - | - | - |
| 19 | Of which Securitization Standardised Approach ("SEC-SA") | - | - | - |
| 19a | Of which Securitization Fall-Back Approach ("SEC-FBA") | - | - | - |
| 20 | Market risk | - | - | - |
| 21 | Of which Standardised (Market Risk) Approach ("STM approach") | - | - | - |
| 22 | Of which Internal Models Approach ("IMM approach") | - | - | - |
| 23 | Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect) | Not applicable | | |
| 24 | Operational risk | 450,454 | 442,898 | 36,036 |
| 25 | Amounts below the thresholds for deduction (subject to 250% Risk-Weight ("RW")) | - | - | - |
| 26 | Capital floor adjustment | - | - | - |
| 26a | Deduction to RWA | 10,054 | 9,106 | 804 |
| 26b | Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital | 10,054 | 9,106 | 804 |
| 26c | Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital | - | - | - |
| 27 | Total | 1,047,309 | 1,021,646 | 83,785 |

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1. PILLAR 3 DISCLOSURE (CONTINUED)

b. Template OV1: Overview of RWA (Continued)

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

- (a) credit risk: STC approach; and
- (b) operational risk: Basic Indicator Approach (“BIA approach”).

There was no RWA for market risk for the Company because the Company was exempted by the HKMA from the calculation of market risk.

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

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1. PILLAR 3 DISCLOSURE (CONTINUED)

c. Template LR2: Leverage Ratio

| | | As at 30 September 2018 | As at 30 June 2018 |
|--|--|-------------------------------|--------------------------|
| | | USD'000 | USD'000 |
| On-balance sheet exposures | | | |
| 1 | On-balance sheet exposures (excluding those arising from derivative contracts and securities financing transaction ("SFTs"), but including collateral) | 3,881,324 | 4,060,629 |
| 2 | Less: Asset amounts deducted in determining Tier 1 capital | (22,177) | (20,491) |
| 3 | Total on-balance sheet exposures (excluding derivative contracts and SFTs) | 3,859,147 | 4,040,138 |
| Exposures arising from derivative contracts | | | |
| 4 | Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting) | 1,239 | 19,237 |
| 5 | Add-on amounts for potential future exposure ("PFE") associated with all derivative contracts | 7,354 | 11,700 |
| 6 | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework | - | - |
| 7 | Less: Deductions of receivables assets for cash variation margin provided under derivative contracts | - | - |
| 8 | Less: Exempted Central Counterparty ("CCP") leg of client-cleared trade exposures | - | - |
| 9 | Adjusted effective notional amount of written credit derivative contracts | - | - |
| 10 | Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts | - | - |
| 11 | Total exposures arising from derivative contracts | 8,593 | 30,937 |
| Exposures arising from SFTs | | | |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions | - | - |
| 13 | Less: Netted amounts of cash payables and cash receivables of gross SFT assets | - | - |
| 14 | Counterparty Credit Risk ("CCR") exposure for SFT assets | - | - |
| 15 | Agent transaction exposures | - | - |
| 16 | Total exposures arising from SFTs | - | - |
| Other off-balance sheet exposures | | | |
| 17 | Off-balance sheet exposure at gross notional amount | - | - |
| 18 | Less: Adjustments for conversion to credit equivalent amounts | - | - |
| 19 | Off-balance sheet items | - | - |
| Capital and total exposures | | | |
| 20 | Tier 1 capital | 273,366 | 259,078 |
| 20a | Total exposures before adjustments for specific and collective provisions | 3,867,740 | 4,071,075 |
| 20b | Adjustments for specific and collective provisions | - | - |
| 21 | Total exposures after adjustments for specific and collective provisions | 3,867,740 | 4,071,075 |
| Leverage ratio | | | |
| 22 | Leverage ratio | 7.07% | 6.36% |

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