

**MORGAN STANLEY ASIA INTERNATIONAL LIMITED**

**Interim Financial Disclosure Statements**

**For the six months ended 30 June 2017**

**MORGAN STANLEY ASIA INTERNATIONAL LIMITED**

**INTERIM FINANCIAL DISCLOSURE STATEMENTS**

**For the six months ended 30 June 2017**

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# **MORGAN STANLEY ASIA INTERNATIONAL LIMITED**

## **INTERIM FINANCIAL DISCLOSURE STATEMENTS**

**For the six months ended 30 June 2017**

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 2017. 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, 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 2016 that is included in the unaudited interim financial disclosure statements for the six months ended 30 June 2017 as comparative information does not constitute the Company’s statutory annual financial statements for the year ended 31 December 2016 but is derived from the audited financial statements for the year ended 31 December 2016. Further information related to the audited financial statements for the year ended 31 December 2016 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 2016. 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 2017 was US\$12 million (period ended 30 June 2016: US\$1 million). The revenue of the Company is mainly contributed by fee and commission income relating to equities and fixed income market activities. The increase in the Company’s profit after tax is primarily due to the increase in the volume of transactions which has resulted in higher fees and commissions in the period.

Signed on behalf of the Board

Chui, Vincent Yik Chiu  
Director

14 September 2017

# MORGAN STANLEY ASIA INTERNATIONAL LIMITED

## UNAUDITED INCOME STATEMENT For the six months ended 30 June 2017

	Note	For the six months ended 30 June 2017 US\$'000	For the six months ended 30 June 2016 US\$'000
Interest income	1	12,259	10,093
Interest expense	1	(16,856)	(11,784)
<b>Net interest expense</b>		(4,597)	(1,691)
Fee and commission income	2	108,770	95,814
Net losses on financial instruments classified as held for trading		(74,562)	(112,555)
Net gains on available-for-sale financial assets		80,623	105,844
Other income		6,466	11,116
Other expenses	3	(102,227)	(96,830)
<b>PROFIT BEFORE INCOME TAX</b>		14,473	1,698
Income tax expense	4	(2,145)	(723)
<b>PROFIT FOR THE PERIOD</b>		12,328	975

The notes on pages 6 to 33 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 2017**

	<b>For the six months ended 30 June 2017 US\$'000</b>	<b>For the six months ended 30 June 2016 US\$'000</b>
<b>PROFIT FOR THE PERIOD</b>	12,328	975
<b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>		
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Available-for-sale reserve:		
Net change in fair value of available-for-sale financial assets	(160)	886
Net amount reclassified to income statement	240	(7)
<b>OTHER COMPREHENSIVE INCOME AFTER INCOME TAX FOR THE PERIOD</b>	<hr/> 80	<hr/> 879
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<hr/> <hr/> 12,408	<hr/> <hr/> 1,854

**MORGAN STANLEY ASIA INTERNATIONAL LIMITED**

**UNAUDITED STATEMENT OF CHANGES IN EQUITY**  
**For the six months ended 30 June 2017**

	Share capital US\$'000	Available- for-sale reserve US\$'000	Retained earnings US\$'000	Total equity US\$'000
<b>Balance at 1 January 2016</b>	170,000	(400)	36,105	205,705
<b>Profit for the year</b>	-	-	2,366	2,366
Other comprehensive loss	-	(21)	-	(21)
<b>Total comprehensive (loss)/ income</b>	-	(21)	2,366	2,345
<b>Transactions with owners:</b>				
- Share-based payments	-	-	147	147
<b>Balance at 31 December 2016</b>	170,000	(421)	38,618	208,197
<b>Profit for the period</b>	-	-	12,328	12,328
Other comprehensive income	-	80	-	80
<b>Total comprehensive income</b>	-	80	12,328	12,408
<b>Balance at 30 June 2017</b>	170,000	(341)	50,946	220,605

# MORGAN STANLEY ASIA INTERNATIONAL LIMITED

## UNAUDITED STATEMENT OF FINANCIAL POSITION As at 30 June 2017

		As at 30 June 2017 US\$'000	As at 31 December 2016 US\$'000
	Note		
<b>ASSETS</b>			
Loans and receivables:			
Cash and short-term deposits	5	301,317	267,416
Trade receivables		45,910	3,123
Loans and advances to customers	6	1,385,500	1,257,791
Other receivables		6,145	2,365
		<u>1,738,872</u>	<u>1,530,695</u>
Financial assets classified as held for trading	7	2,376	35,047
Available-for-sale financial assets	8	2,997,090	3,099,511
Current tax asset		4,634	3,310
Deferred tax assets		4,234	5,406
Prepayments		97	108
<b>TOTAL ASSETS</b>		<u><u>4,747,303</u></u>	<u><u>4,674,077</u></u>
<b>LIABILITIES</b>			
Financial liabilities at amortised cost:			
Deposits	9	4,443,098	4,330,912
Trade payables		522	45,424
Other payables		64,384	87,673
		<u>4,508,004</u>	<u>4,464,009</u>
Financial liabilities classified as held for trading	7	18,339	1,294
Accruals		355	577
<b>TOTAL LIABILITIES</b>		<u>4,526,698</u>	<u>4,465,880</u>
<b>EQUITY</b>			
Share capital		170,000	170,000
Available-for-sale reserves		(341)	(421)
Retained earnings		50,946	38,618
<b>Equity attributable to owner of the Company</b>		<u>220,605</u>	<u>208,197</u>
<b>TOTAL EQUITY</b>		<u>220,605</u>	<u>208,197</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u><u>4,747,303</u></u>	<u><u>4,674,077</u></u>

The notes on pages 6 to 33 form an integral part of the financial statements.

# MORGAN STANLEY ASIA INTERNATIONAL LIMITED

## NOTE TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2017

### 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 reported as 'Interest income' and foreign exchange differences reported in 'Other income'.

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

### 2. FEE AND COMMISSION INCOME

	<b>For the six months ended 30 June 2017 US\$'000</b>	<b>For the six months ended 30 June 2016 US\$'000</b>
Sales commissions and introductory brokerage fees	108,759	95,814
Other fees	11	-
	<u>108,770</u>	<u>95,814</u>

### 3. OTHER EXPENSES

	<b>For the six months ended 30 June 2017 US\$'000</b>	<b>For the six months ended 30 June 2016 US\$'000</b>
Staff costs	68,826	57,057
Management charges from other Morgan Stanley Group undertakings	27,150	34,037
Other expenses	6,251	5,736
	<u>102,227</u>	<u>96,830</u>

### 4. INCOME TAX EXPENSE

	<b>For the six months ended 30 June 2017 US\$'000</b>	<b>For the six months ended 30 June 2016 US\$'000</b>
<b>Current income tax</b>		
Hong Kong	999	1,475
Other jurisdictions	4	6
<b>Deferred tax expense/(benefit)</b>	<u>1,142</u>	<u>(758)</u>
	<u>2,145</u>	<u>723</u>



# MORGAN STANLEY ASIA INTERNATIONAL LIMITED

## NOTE TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2017

### 5. CASH AND SHORT-TERM DEPOSITS

Included in cash and short-term deposits as at 30 June 2017 is an aggregate sum of US\$13,215,000 (31 December 2016: US\$12,301,000) 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 2017 (31 December 2016: Nil).

### 6. LOANS AND ADVANCES TO CUSTOMERS

	As at 30 June 2017 US\$'000	As at 31 December 2016 US\$'000
Loans and advances to customers	1,385,500	1,257,791

There were no impaired loan and advances, collective and specific provisions, as at 30 June 2017 (31 December 2016: Nil).

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

	Notional Amount US\$'000	As at 30 June 2017 Fair Value		Risk- weighted amount US\$'000
		Assets US\$'000	Liabilities US\$'000	
Derivatives				
Exchange rate swap contracts	2,140,226	2,021	18,339	4,281
Interest rate swap contracts	1,500,000	355	-	-
	<u>3,640,226</u>	<u>2,376</u>	<u>18,339</u>	<u>4,281</u>
	Notional Amount US\$'000	As at 31 December 2016 Fair Value		Risk- weighted amount US\$'000
Derivatives		Assets US\$'000	Liabilities US\$'000	
Exchange rate swap contracts	1,911,651	34,773	1,290	5,403
Interest rate swap contracts	2,150,000	274	4	93
	<u>4,061,651</u>	<u>35,047</u>	<u>1,294</u>	<u>5,496</u>

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 2016: Nil). The risk-weighted amount has taken into account the effect of valid bilateral netting agreement.

# MORGAN STANLEY ASIA INTERNATIONAL LIMITED

## NOTE TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2017

### 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<b>As at 30 June 2017 US\$'000</b>	<b>As at 31 December 2016 US\$'000</b>
Government debt securities:		
Singapore government treasury bills	1,359,962	1,501,304
US treasury bills and securities	1,637,128	1,598,207
	<u>2,997,090</u>	<u>3,099,511</u>

### 9. DEPOSITS

	<b>As at 30 June 2017 US\$'000</b>	<b>As at 31 December 2016 US\$'000</b>
Deposits of banks		
Current account balances	7,262	14,227
Deposits of non-bank customers		
Current account balances	2,649,524	2,323,846
Term deposits	484,064	949,333
Deposits of other Morgan Stanley Group undertakings	1,302,248	1,043,506
	<u>4,443,098</u>	<u>4,330,912</u>

### 10. OFF-BALANCE SHEET EXPOSURE OTHER THAN DERIVATIVE TRANSACTIONS

There were no off-balance sheet exposures other than derivative transactions for the period ended 30 June 2017 (31 December 2016: Nil).

### 11. CAPITAL ADEQUACY RATIO

	<b>As at 30 June 2017</b>	<b>As at 31 December 2016</b>
Common Equity Tier 1 ("CET1") capital ratio	23%	23%
Tier 1 capital ratio	23%	23%
Total capital ratio	24%	24%

# MORGAN STANLEY ASIA INTERNATIONAL LIMITED

## NOTE TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2017

### 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 2017 and 31 December 2016 are analysed as follows:

	<b>As at 30 June 2017 US\$'000</b>	<b>As at 31 December 2016 US\$'000</b>
CET1 capital instruments		
Paid up ordinary share capital	170,000	170,000
Retained earnings	50,946	38,618
Available-for-sale reserves	(341)	(421)
	<hr/>	<hr/>
CET1 capital before deductions	220,605	208,197
Deductions:		
Deferred tax assets net of deferred tax liabilities	(4,234)	(5,406)
Regulatory reserve for general banking risks <sup>(1)</sup>	(6,928)	(6,289)
Valuation adjustments	(186)	(91)
	<hr/>	<hr/>
CET1 capital after deductions	209,257	196,411
Additional tier 1 capital	-	-
Tier 2 capital		
Regulatory reserve for general banking risks <sup>(1)</sup>	6,269	5,299
	<hr/>	<hr/>
Total capital	<hr/> <hr/>	<hr/> <hr/>

(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/asia-pacific/hong-kong/>

# MORGAN STANLEY ASIA INTERNATIONAL LIMITED

## NOTE TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2017

### 12. CAPITAL DISCLOSURES

#### (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
<b>CET1 capital: instruments and reserves</b>			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	170,000	(1)
2	Retained earnings	50,946	(2)
3	Disclosed reserves	(341)	(3)
4	<i>Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)</i>	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	<b>CET1 capital before regulatory deductions</b>	220,605	
<b>CET1 capital: regulatory deductions</b>			
7	Valuation adjustments	186	
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	4,234	(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	6,928	
26c	Securitization exposures specified in a notice given by the Monetary Authority	0	

# MORGAN STANLEY ASIA INTERNATIONAL LIMITED

## NOTE TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2017

### 12. CAPITAL DISCLOSURES (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	<b>Total regulatory deductions to CET1 capital</b>	11,348	
29	<b>CET1 capital</b>	209,257	
<b>AT1 capital: Instruments</b>			
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	<i>Capital instruments subject to phase out arrangements from AT1 capital</i>	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	<i>of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements</i>	0	
36	<b>AT1 capital before regulatory deductions</b>	0	
<b>AT1 capital: regulatory deductions</b>			
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	<b>Total regulatory deductions to AT1 capital</b>	0	
44	<b>AT1 capital</b>	0	
45	<b>Tier 1 capital (Tier 1 = CET1 + AT1)</b>	209,257	
<b>Tier 2 capital: instruments and provisions</b>			
46	Qualifying Tier 2 capital instruments plus any related share premium	0	
47	<i>Capital instruments subject to phase out arrangements from Tier 2 capital</i>	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	<i>of which: capital instruments issued by subsidiaries subject to phase out arrangements</i>	0	
50	Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	6,269	
51	<b>Tier 2 capital before regulatory deductions</b>	<b>6,269</b>	

# MORGAN STANLEY ASIA INTERNATIONAL LIMITED

## NOTE TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2017

### 12. CAPITAL DISCLOSURES (CONTINUED)

#### (a) Capital Disclosures Template (continued)

(in thousands of US dollars)			Cross reference to Balance Sheet
<b>Tier 2 capital: regulatory deductions</b>			
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	<b>Total regulatory deductions to Tier 2 capital</b>	<b>0</b>	
58	<b>Tier 2 capital</b>	<b>6,269</b>	
59	<b>Total capital (Total capital = Tier 1 + Tier 2)</b>	<b>215,526</b>	
60	<b>Total risk weighted assets</b>	<b>898,241</b>	
<b>Capital ratios (as a percentage of risk weighted assets)</b>			
61	CET1 capital ratio	23%	
62	Tier 1 capital ratio	23%	
63	Total capital ratio	24%	
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)	6.113%	
65	<i>of which: capital conservation buffer requirement</i>	1.250%	
66	<i>of which: bank specific countercyclical buffer requirement</i>	0.363%	
67	<i>of which: G-SIB or D-SIB buffer requirements</i>	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	16%	
<b>National minima (if different from Basel 3 minimum)</b>			
69	National CET1 minimum ratio	Not applicable	
70	National Tier 1 minimum ratio	Not applicable	
71	National Total capital minimum ratio	Not applicable	
<b>Amounts below the thresholds for deduction (before risk weighting)</b>			
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	

# MORGAN STANLEY ASIA INTERNATIONAL LIMITED

## NOTE TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2017

### 12. CAPITAL DISCLOSURES (CONTINUED)

#### (a) Capital Disclosures Template (continued)

(in thousands of US dollars)			Cross reference to Balance Sheet
<b>Applicable caps on the inclusion of provisions in Tier 2 capital</b>			
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	
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)</b>			
80	<i>Current cap on CET1 capital instruments subject to phase out arrangements</i>	Not applicable	
81	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	Not applicable	
82	<i>Current cap on AT1 capital instruments subject to phase out arrangements</i>	0	
83	<i>Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)</i>	0	
84	<i>Current cap on Tier 2 capital instruments subject to phase out arrangements</i>	0	
85	<i>Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)</i>	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.

# MORGAN STANLEY ASIA INTERNATIONAL LIMITED

## NOTE TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2017

### 12. CAPITAL DISCLOSURES (CONTINUED)

#### (a) Capital Disclosures Template (continued)

##### Notes to the template

Row No.	Description	Hong Kong basis	Basel III basis
	<b>Other intangible assets (net of associated deferred tax liability)</b>	0	0
#9	<p><u>Explanation</u></p> <p>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.</p>		
	<b>Deferred tax assets net of deferred tax liabilities</b>	4,234	4,234
#10	<p><u>Explanation</u></p> <p>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.</p> <p>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.</p>		
	<b>Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)</b>	0	0
#18	<p><u>Explanation</u></p> <p>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.</p> <p>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.</p>		



# MORGAN STANLEY ASIA INTERNATIONAL LIMITED

## NOTE TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2017

### 12. CAPITAL DISCLOSURES (CONTINUED)

#### (a) Capital Disclosures Template (continued)

##### Notes to the template

Row No.	Description	Hong Kong basis	Basel III basis
#19	<b>Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)</b>	0	0
	<p><u>Explanation</u> 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.</p> <p>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.</p>		
#39	<b>Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)</b>	0	0
	<p><u>Explanation</u> 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.</p>		
#54	<b>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)</b>	0	0
	<p><u>Explanation</u> 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.</p>		
<p>Remarks: The amount of 10% / 15% thresholds mentioned above is calculated based on the amount of CET1 capital determined under the Banking (Capital) Rules.</p>			

##### Abbreviations:

CET1: Common Equity Tier 1  
AT1: Additional Tier 1

# MORGAN STANLEY ASIA INTERNATIONAL LIMITED

## NOTE TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2017

### 12. CAPITAL DISCLOSURES (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 2017	US\$'000	US\$'000	
<b>ASSETS</b>			
Cash and short-term deposits	301,317	301,317	
Trade receivables	45,910	45,910	
Loans and advances to customers	1,385,500	1,385,500	
Other receivables	6,145	6,145	
Financial assets classified as held for trading	2,376	2,376	
Available-for-sale financial assets	2,997,090	2,997,090	
Current tax asset	4,634	4,634	
Deferred tax assets	4,234	4,234	(4)
Prepayments	97	97	
<b>TOTAL ASSETS</b>	<b>4,747,303</b>	<b>4,747,303</b>	
<b>LIABILITIES</b>			
Deposits	4,443,098	4,443,098	
Trade payables	522	522	
Other payables	64,384	64,384	
Financial liabilities classified as held for trading	18,339	18,339	
Accruals	355	355	
<b>TOTAL LIABILITIES</b>	<b>4,526,698</b>	<b>4,526,698</b>	
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	170,000	170,000	(1)
Available-for-sales reserves	(341)	(341)	(3)
Retained earnings	50,946	50,946	(2)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>220,605</b>	<b>220,605</b>	
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>4,747,303</b>	<b>4,747,303</b>	

# MORGAN STANLEY ASIA INTERNATIONAL LIMITED

## NOTE TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2017

### 12. CAPITAL DISCLOSURES (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
	<i>Regulatory treatment</i>	
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	<ul style="list-style-type: none"> <li>• 1 share issued on May 19, 2014</li> <li>• 13,000,000 shares issued on July 11, 2014</li> <li>• 156,999,998 shares issued on January 13, 2015</li> <li>• 1 share issued on February 9, 2015</li> </ul>
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	<i>Coupons / dividends</i>	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	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

# MORGAN STANLEY ASIA INTERNATIONAL LIMITED

## NOTE TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2017

### 12. CAPITAL DISCLOSURES (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:

#### As at 30 June 2017:

	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	1.25%	126,852		
2	Mainland China	0%	72,378		
3	Australia	0%	41		
4	Cayman Islands	0%	6,512		
5	Chinese Taipei	0%	84,328		
6	Indonesia	0%	31,609		
7	Malaysia	0%	1,722		
8	Mauritius	0%	2		
9	Philippines	0%	6,573		
10	Singapore	0%	56,619		
11	Switzerland	0%	23		
12	Thailand	0%	31,841		
13	United Kingdom	0%	17,749		
14	United States	0%	739		
	Total		<b>436,988</b>	<b>0.363%</b>	<b>1,586</b>

**MORGAN STANLEY ASIA INTERNATIONAL LIMITED**

**NOTE TO THE UNAUDITED FINANCIAL INFORMATION**  
**For the six months ended 30 June 2017**

**13. COUNTERCYCLICAL CAPITAL BUFFER (“CCyB”) RATIO (CONTINUED)**

**As at 31 December 2016:**

	<b>Jurisdiction</b>	<b>Applicable Jurisdictional CCyB (“JCCyB”) ratio in effect</b>	<b>Total RWA used in computation of CCyB ratio of AI US\$’000</b>	<b>CCyB ratio of AI</b>	<b>CcyB amount of AI US\$’000</b>
1	Hong Kong	0.625%	128,336		
2	Mainland China	0%	72,688		
3	Australia	0%	91		
4	Cayman Islands	0%	11,315		
5	Chinese Taipei	0%	69,106		
6	Indonesia	0%	18,343		
7	Jersey	0%	1,007		
8	Malaysia	0%	1,584		
9	Philippines	0%	15,821		
10	Singapore	0%	32,813		
11	Thailand	0%	15,357		
12	United Kingdom	0%	590		
13	United States	0%	229		
	<b>Total</b>		<b>367,280</b>	<b>0.218%</b>	<b>802</b>

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.

**14. CAPITAL CONSERVATION BUFFER RATIO**

Under section 3M of the Banking (Capital) Rules, the capital conservation buffer ratio is 1.25% for 2017 (31 December 2016: 0.625%).

# MORGAN STANLEY ASIA INTERNATIONAL LIMITED

## NOTE TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2017

### 15. LEVERAGE RATIO DISCLOSURE

	As at 30 June 2017	As at 31 December 2016
Leverage ratio	4.41%	4.20%

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

The increase in leverage ratio during the period is mainly due to an increase in Tier 1 capital attributed to the profit retained for the period ended 30 June 2017.

<b>Summary Comparison Table</b>		
	<b>Item</b>	<b>Leverage ratio framework US\$'000</b>
1	Total consolidated assets as per published financial statements	4,747,303
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	6,541
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	(11,348)
<b>8</b>	<b>Leverage ratio exposure</b>	<b>4,742,496</b>

**MORGAN STANLEY ASIA INTERNATIONAL LIMITED**

**NOTE TO THE UNAUDITED FINANCIAL INFORMATION**  
**For the six months ended 30 June 2017**

**15. LEVERAGE RATIO DISCLOSURE (CONTINUED)**

<b>Leverage Ratio Common Disclosure Template</b>		
	<b>Item</b>	<b>Leverage ratio framework US\$'000</b>
<b>On-balance sheet exposures</b>		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	4,744,927
2	Less: Asset amounts deducted in determining Basel III Tier 1 capital (reported as negative amounts)	(11,348)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	4,733,579
<b>Derivative exposures</b>		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	355
5	Add-on amounts for PFE associated with all derivatives transactions	8,562
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)	8,917
<b>Securities financing transaction exposures</b>		
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)	-
<b>Other off-balance sheet exposures</b>		
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)	-
<b>Capital and total exposures</b>		
20	Tier 1 capital	209,257
21	Total exposures (sum of lines 3, 11, 16 and 19)	4,742,496
<b>Leverage ratio</b>		
22	<b>Basel III leverage ratio</b>	<b>4.41%</b>

# MORGAN STANLEY ASIA INTERNATIONAL LIMITED

## NOTE TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2017

### 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.

	Bank	Official sector	Non-bank private sector		Total
			Non-bank financial institutions	Non-financial private sector	
As at 30 June 2017	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Developed countries	244,096	1,637,128	36,690	6,177	1,924,091
United States	153,174	1,637,128	3,450	-	1,793,752
Offshore centres	58,047	-	29,982	872,467	960,496
Hong Kong	34,287	-	4,478	615,879	654,644
Developing Asia-Pacific	-	-	-	467,554	467,554

	Bank	Official sector	Non-bank private sector		Total
			Non-bank financial institutions	Non-financial private sector	
As at 31 December 2016	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Developed countries	210,784	1,598,207	3,710	3,981	1,816,682
United States	79,424	1,598,207	406	-	1,678,037
Offshore centres	75,952	-	66,855	655,989	798,796
Hong Kong	25,201	-	42,654	496,619	564,474
Developing Asia-Pacific	-	-	670	526,363	527,033

### 17. LOAN AND ADVANCES – SECTOR INFORMATION

	As at 30 June 2017 US\$'000	As at 31 December 2016 US\$'000
<b>Sector classification</b>		
<b>Loans and advances for use in Hong Kong</b>		
Industrial, commercial and financial:		
- Others	474,179	443,866
Individuals		
- Others	145,134	94,515
<b>Loans and advances for use outside Hong Kong</b>	<u>766,187</u>	<u>719,410</u>
<b>Total</b>	<u><u>1,385,500</u></u>	<u><u>1,257,791</u></u>

The total loans were fully secured by collateral as at 30 June 2017 (31 December 2016: fully secured).



# MORGAN STANLEY ASIA INTERNATIONAL LIMITED

## NOTE TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2017

### 17. LOAN AND ADVANCES – SECTOR INFORMATION (CONTINUED)

	As at 30 June 2017 US\$'000	As at 31 December 2016 US\$'000
<b>Geographical Areas</b>		
Hong Kong	619,313	538,381
Mainland China	120,949	218,384
Taiwan	160,632	142,080
Others	484,606	358,946
<b>Total</b>	<u>1,385,500</u>	<u>1,257,791</u>

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

### 18. OVERDUE AND RESCHEDULED ASSETS

There were no impaired, overdue or rescheduled assets as at 30 June 2017 and 31 December 2016.

### 19. MAINLAND ACTIVITIES

There were no mainland exposures on the Hong Kong office of the Company as at 30 June 2017 and 31 December 2016.

### 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:

	SGD HK\$'000	USD HK\$'000
<u>As at 30 June 2017</u>		
Spot assets	10,998,478	29,871,238
Spot liabilities	(2,559,719)	(35,375,687)
Forward purchases	-	11,275,506
Forward sales	(8,449,065)	(5,715,060)
Net (short)/ long position	<u>(10,306)</u>	<u>55,997</u>
<u>As at 31 December 2016</u>		
Spot assets	11,933,955	27,704,572
Spot liabilities	(2,276,940)	(34,817,690)
Forward purchases	267,955	11,313,046
Forward sales	(9,941,119)	(4,149,444)
Net (short)/ long position	<u>(16,149)</u>	<u>50,484</u>

The Company has no option and structural positions in any particular foreign currency as at 30 June 2017 (31 December 2016: Nil).

# MORGAN STANLEY ASIA INTERNATIONAL LIMITED

## NOTE TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2017

### 21. LIQUIDITY

	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Average liquidity maintenance ratio for the period	<u>59%</u>	<u>58%</u>

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 risk

Liquidity 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 risk encompasses the Company's ability (or perceived ability) to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten the Company's viability as a going concern. Liquidity risk also encompasses the associated funding risks triggered by market or idiosyncratic stress events that may negatively affect the Company's liquidity and may impact its ability to raise new funding. Generally, the Company incurs liquidity risk as a result of its trading, lending, investing and client facilitation activities.

The Morgan Stanley Group's Liquidity Risk Management Framework is critical to helping ensure that the Company maintains sufficient liquidity reserves and durable funding sources to meet its daily obligations and to withstand unanticipated stress events. The Liquidity Risk Department is a distinct area in Risk Management responsible for the oversight and monitoring of liquidity and funding risk. The Liquidity Risk Department is independent of the business units and reports to the Chief Risk Officer. The Liquidity Risk Department ensures transparency of material liquidity risks, compliance with established risk limits and escalation of risk concentrations to appropriate senior management. To execute these responsibilities, the Liquidity Risk Department establishes limits in line with the Morgan Stanley Group's risk appetite, identifies and analyses emerging liquidity risks to ensure such risks are appropriately mitigated, monitors and reports risk exposures against metrics and limits, and reviews the methodologies and assumptions underpinning the Morgan Stanley Group's Liquidity Stress Tests to ensure sufficient liquidity and funding under a range of adverse scenarios. The liquidity risks identified by these processes are summarised in reports produced by the Liquidity Risk Department that are circulated to and discussed with senior management, as appropriate.

The Treasury Department and applicable business units have primary responsibility for evaluating, monitoring and controlling the liquidity risks arising from the Morgan Stanley Group's business activities, and maintain processes and controls to manage the key risks inherent in their respective areas. The Liquidity Risk Department 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.

The Company's liquidity 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 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.

# MORGAN STANLEY ASIA INTERNATIONAL LIMITED

## NOTE TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2017

### 21. LIQUIDITY (CONTINUED)

#### Liquidity risk (continued)

The following principles guide the Company's 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 Test should anticipate, and account for, periods of limited access to funding.

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

#### *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 inflows and outflows across multiple scenarios and a range of time horizons. These scenarios contain various combinations of idiosyncratic and systemic stress events of different severity and duration.

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.

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 2017 and 30 June 2016, the Company maintained sufficient liquidity to meet current and contingent funding obligations as modelled in its Liquidity Stress Tests.

# MORGAN STANLEY ASIA INTERNATIONAL LIMITED

## NOTE TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2017

### 21. LIQUIDITY (CONTINUED)

#### Liquidity risk (continued)

##### *Liquidity Reserve*

The Company maintains sufficient liquidity reserves (“Liquidity Reserve”) to meet regulatory requirements, 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; regulatory requirements; and collateral requirements. In addition, the Company’s Liquidity Reserve includes 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

##### *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 (by product, by investor and by region) 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 liquidity 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.

### 22. PILLAR 3 DISCLOSURE

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: BIA approach.

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

Increase in total RWA during the second quarter in 2017 was US\$50,869,000. The key driver of the increase was due to increase in RWA for credit risk for non-securitization exposures arising from loans and advances to customers.

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

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**NOTE TO THE UNAUDITED FINANCIAL INFORMATION**  
**For the six months ended 30 June 2017**

**22. PILLAR 3 DISCLOSURE (CONTINUED)**

**a. Template OV1: Overview of risk-weighted amount (“RWA”)**

		RWA		Minimum capital requirements
		As at 30 June 2017 USD'000	As at 31 March 2017 USD'000	As at 30 June 2017 USD'000
1	Credit risk for non-securitization exposures	497,243	426,418	39,779
2	Of which Standardized (Credit Risk) Approach (“STC approach”)	497,243	426,418	39,779
2a	Of which Basic Approach (“BSC approach”)	-	-	-
3	Of which Internal Ratings-Based Approach (“IRB approach”)	-	-	-
4	Counterparty credit risk	6,225	5,707	498
5	Of which Current Exposure Method (“CEM”)	4,281	3,923	342
6	Of which Internal Models (Counterparty Credit Risk) Approach (“IMM(CCR) approach”)	-	-	-
7	Equity exposures in banking book under the market-based approach	-	-	-
8	CIS exposures – Look-Through Approach (“LTA”)	-	-	-
9	CIS exposures – Mandate-Based Approach (“MBA”)	-	-	-
10	CIS exposures – Fall-Back Approach (“FBA”)	-	-	-
11	Settlement risk	-	-	-
12	Securitization exposures in banking book	-	-	-
13	Of which Internal Ratings-Based (Securitization) Approach (“IRB(S) approach”) – ratings-based method	-	-	-
14	Of which IRB(S) approach – supervisory formula method	-	-	-
15	Of which Standardized (Securitization) Approach (“STC(S) approach”)	-	-	-
16	Market risk	-	-	-
17	Of which Standardized (Market Risk) Approach (“STM approach”)	-	-	-
18	Of which Internal Models Approach (“IMM approach”)	-	-	-
19	Operational risk	395,432	416,170	31,635
20	Of which Basic Indicator Approach (“BIA approach”)	395,432	416,170	31,635
21	Of which Standardized (Operational Risk) Approach (“STO approach”)	-	-	-
21a	Of which Alternative Standardized Approach (“ASA approach”)	-	-	-
22	Of which Advanced Measurement Approach (“AMA approach”)	N/A	N/A	N/A
23	Amounts below the thresholds for deduction (subject to 250% Risk-Weight (“RW”))	-	-	-
24	Capital floor adjustment	-	-	-
24a	Deduction to RWA	659	923	53
24b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	659	923	53
24c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	-	-	-
25	<b>Total</b>	<b>898,241</b>	<b>847,372</b>	<b>71,859</b>

N/A: Not applicable in the case of Hong Kong

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

## MORGAN STANLEY ASIA INTERNATIONAL LIMITED

### NOTE TO THE UNAUDITED FINANCIAL INFORMATION For the six months ended 30 June 2017

#### 22. PILLAR 3 DISCLOSURE (CONTINUED)

##### b. Template CR1: Credit quality of exposures

		Gross carrying amounts of		Allowances / impairments	Net values
		Defaulted exposures	Non-defaulted exposures		
		USD'000	USD'000	USD'000	USD'000
1	Loans	-	1,387,687	-	1,387,687
2	Debt securities	-	2,997,090	-	2,997,090
3	Off-balance sheet exposures	-	-	-	-
4	<b>Total at 30 June 2017</b>	-	<b>4,384,777</b>	-	<b>4,384,777</b>

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

There is no defaulted loans and debt securities as at 30 June 2017 and there is no movement between defaulted and non- defaulted exposures from 1 January 2017 to 30 June 2017.

##### c. Template CR3: Overview of recognized credit risk mitigation

		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognized collateral	Exposures secured by recognized guarantees	Exposures secured by recognized credit derivative contracts
		USD'000	USD'000	USD'000	USD'000	USD'000
1	Loans	419,169	968,518	968,518	-	-
2	Debt securities	2,997,090	-	-	-	-
3	<b>Total at 30 June 2017</b>	<b>3,416,259</b>	<b>968,518</b>	<b>968,518</b>	-	-
4	Of which defaulted	-	-	-	-	-

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

All exposures arising from loans are fully secured by collateral as at 30 June 2017. Unsecured exposures disclosed in the above table are either because the relevant collateral is not considered as recognized collateral, or the carrying amount of such recognized collateral is subject to standard supervisory haircut in accordance with the Banking (Capital) Rules.

**MORGAN STANLEY ASIA INTERNATIONAL LIMITED**

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

**d. Template CR4: Credit risk exposures and effects of recognized credit risk mitigation – for STC approach**

		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Exposure classes		USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
1	Sovereign exposures	3,014,938	-	3,014,938	-	-	-
2	PSE exposures	-	-	-	-	-	-
2a	Of which: domestic PSEs	-	-	-	-	-	-
2b	Of which: foreign PSEs	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-
4	Bank exposures	300,914	-	300,914	-	60,255	20%
5	Securities firm exposures	38,573	-	35,753	-	17,877	50%
6	Corporate exposures	1,112,948	-	338,308	-	338,308	100%
7	CIS exposures	-	-	-	-	-	-
8	Cash items	-	-	-	-	-	-
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-
10	Regulatory retail exposures	-	-	-	-	-	-
11	Residential mortgage loans	-	-	-	-	-	-
12	Other exposures which are not past due exposures	273,704	-	80,803	-	80,803	100%
13	Past due exposures	-	-	-	-	-	-
14	Significant exposures to commercial entities	-	-	-	-	-	-
15	<b>Total at 30 June 2017</b>	<b>4,741,077</b>	<b>-</b>	<b>3,770,716</b>	<b>-</b>	<b>497,243</b>	<b>13%</b>

**MORGAN STANLEY ASIA INTERNATIONAL LIMITED**

**NOTE TO THE UNAUDITED FINANCIAL INFORMATION  
For the six months ended 30 June 2017**

**22. PILLAR 3 DISCLOSURE (CONTINUED)**

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

	Risk Weight												
Exposure class		0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)	
1	Sovereign exposures	3,014,938	-	-	-	-	-	-	-	-	-	3,014,938	
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-	
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-	
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-	
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-	
4	Bank exposures	-	-	300,674	-	240	-	-	-	-	-	300,914	
5	Securities firm exposures	-	-	-	-	35,753	-	-	-	-	-	35,753	
6	Corporate exposures	-	-	-	-	-	-	338,308	-	-	-	338,308	
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-	
8	Cash items	-	-	-	-	-	-	-	-	-	-	-	
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-	-	-	-	-	-	
10	Regulatory retail exposures	-	-	-	-	-	-	-	-	-	-	-	
11	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-	
12	Other exposures which are not past due exposures	-	-	-	-	-	-	80,803	-	-	-	80,803	
13	Past due exposures	-	-	-	-	-	-	-	-	-	-	-	
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-	
<b>15</b>	<b>Total at 30 June 2017</b>	<b>3,014,938</b>	<b>-</b>	<b>300,674</b>	<b>-</b>	<b>35,993</b>	<b>-</b>	<b>419,111</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,770,716</b>	



**MORGAN STANLEY ASIA INTERNATIONAL LIMITED**

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**22. PILLAR 3 DISCLOSURE (CONTINUED)**

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

		<b>Replacement cost (RC)</b>	<b>PFE</b>	<b>Effective EPE</b>	<b>Alpha (<math>\alpha</math>) used for computing default risk exposure</b>	<b>Default risk exposure after CRM</b>	<b>RWA</b>
		<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
1	CEM	355	8,562		1	8,562	4,281
2	IMM (CCR) approach			-	-	-	-
3	Simple Approach (for SFTs)					-	-
4	Comprehensive Approach (for SFTs)					-	-
5	Value-at-risk ("VaR") (for SFTs)					-	-
6	<b>Total at 30 June 2017</b>						<b>4,281</b>

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

		<b>Exposure at default ("EAD") post CRM</b>	<b>RWA</b>
		<b>USD'000</b>	<b>USD'000</b>
	Netting sets for which CVA capital charge is calculated by the advanced CVA method	-	-
1	(i) VaR (after application of multiplication factor if applicable)		-
2	(ii) Stressed VaR (after application of multiplication factor if applicable)		-
3	Netting sets for which CVA capital charge is calculated by the standardized CVA method	8,562	1,944
4	<b>Total at 30 June 2017</b>	<b>8,562</b>	<b>1,944</b>

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

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

	Exposure class	Risk Weight											Total default risk exposure after CRM
		0%	10%	20%	35%	50%	75%	100%	150%	250%	Others		
		USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	USD '000	
1	Sovereign exposures	-	-	-	-	-	-	-	-	-	-	-	
2	PSE exposures	-	-	-	-	-	-	-	-	-	-	-	
2a	Of which: domestic PSEs	-	-	-	-	-	-	-	-	-	-	-	
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-	
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-	
4	Bank exposures	-	-	-	-	8,562	-	-	-	-	-	8,562	
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-	
6	Corporate exposures	-	-	-	-	-	-	-	-	-	-	-	
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-	
8	Regulatory retail exposures	-	-	-	-	-	-	-	-	-	-	-	
9	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-	
10	Other exposures which are not past due exposures	-	-	-	-	-	-	-	-	-	-	-	
11	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-	
12	<b>Total at 30 June 2017</b>	-	-	-	-	<b>8,562</b>	-	-	-	-	-	<b>8,562</b>	

**MORGAN STANLEY ASIA INTERNATIONAL LIMITED**

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

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

	Derivative contracts				SFTs	
	Fair value of recognized collateral received		Fair value of posted collateral		Fair value of recognized collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash - domestic currency	-	522	-	11,786	-	-
<b>Total at 30 June 2017</b>	<b>-</b>	<b>522</b>	<b>-</b>	<b>11,786</b>	<b>-</b>	<b>-</b>

Domestic currency refers to the reporting currency of the Company.