

MORGAN STANLEY BANK ASIA LIMITED

Unaudited Quarterly Financial Disclosure Statement

As at 30 September 2022

MORGAN STANLEY BANK ASIA LIMITED

UNAUDITED QUARTERLY FINANCIAL DISCLOSURE STATEMENT As at 30 September 2022

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MORGAN STANLEY BANK ASIA LIMITED

UNAUDITED QUARTERLY FINANCIAL DISCLOSURE STATEMENT As at 30 September 2022

1. PILLAR 3 DISCLOSURE

Corporate information

Morgan Stanley Bank Asia Limited (“MSBAL”, or the “Company”) is a private limited company incorporated in Hong Kong, with a head office in Hong Kong and a branch in Singapore.

On 15 March 2022, 260,000,000 ordinary shares were issued by the Company to Morgan Stanley Hong Kong 1238 Limited (“MSHK1238”) for a cash consideration of US\$260,000,000 (the “capital injection”).

On 29 March 2022, the Company acquired all the ordinary shares of Morgan Stanley Bank International (China) Limited (“MSBIC”, or the “subsidiary”) from Morgan Stanley Bank International Limited (“MSBIL”) at a consideration of US\$262,347,618 (the “acquisition”). Post acquisition, MSBAL and its subsidiary together form the MSBAL Group (the “Group”).

Basis of preparation

The Pillar 3 information is prepared in accordance with the Banking (Disclosure) Rules. Upon completion of the acquisition of MSBIC, the Hong Kong Monetary Authority (“HKMA”) required the Company to calculate its capital adequacy ratio on a consolidated basis. According to the Banking (Disclosure) Rules, starting from the reporting period ended 31 March 2022, the financial information contained in this disclosure statement has been prepared on a consolidated basis (i.e. including the business of the subsidiary of the Company), unless otherwise indicated. For reporting periods on and before 31 December 2021 that were before the acquisition, the financial information includes the business of the Company only.

The capital adequacy ratios of the Company and the Group (where applicable) were calculated in accordance with Banking (Capital) Rules. The following approaches are used to calculate its capital charge for:

- (a) credit risk: Standardised (Credit Risk) Approach (“STC approach”);
- (b) counterparty credit risk: Standardised (Counterparty Credit Risk) Approach (“SA-CCR approach”);
- (c) operational risk: Basic Indicator Approach (“BIA approach”); and
- (d) market risk: Standardised (Market Risk) Approach (“STM approach”) ⁽¹⁾.

Note 1: Applicable to reporting periods on and after 31 March 2022.

For reporting periods ended on and before 31 December 2021, 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. Upon completion of the acquisition, the HKMA has revoked the exemption as the Group no longer meets the threshold and conditions required for the exemption under the Banking (Capital) Rules. As a result, starting from the reporting period ended 31 March 2022, market risk RWA is calculated for the Group.

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

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1. PILLAR 3 DISCLOSURE (CONTINUED)

a. Template KM1: Key Prudential Ratios

		The Group			The Company	
		As at 30 September 2022	As at 30 June 2022	As at 31 March 2022	As at 31 December 2021	As at 30 September 2021
		USD'000	USD'000	USD'000	USD'000	USD'000
	Regulatory capital (amount)					
1	Common Equity Tier 1 ("CET1")	1,459,364	1,430,636	1,409,697	1,133,128	1,098,634
2	Tier 1	1,459,364	1,430,636	1,409,697	1,133,128	1,098,634
3	Total capital	1,473,938	1,443,836	1,426,854	1,149,042	1,119,380
	RWA (amount)					
4	Total RWA ⁽¹⁾	2,165,505	2,038,196	2,391,293	2,149,094	2,543,315
	Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%)	67%	71%	59%	53%	43%
6	Tier 1 ratio (%)	67%	71%	59%	53%	43%
7	Total capital ratio (%) ⁽¹⁾	68%	71%	60%	53%	44%
	Additional CET1 buffer requirements (as a percentage of RWA)					
8	Capital conservation buffer requirement (%)	2.500%	2.500%	2.500%	2.500%	2.500%
9	Countercyclical capital buffer requirement (%)	0.416%	0.379%	0.393%	0.473%	0.481%
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 (%)	2.916%	2.879%	2.893%	2.973%	2.981%
12	CET1 available after meeting the AI's minimum capital requirements (%)	60%	63%	52%	45%	36%
	Basel III leverage ratio					
13	Total leverage ratio ("LR") exposure measure ⁽²⁾	7,784,942	9,236,779	10,572,757	9,875,839	10,631,640
14	LR (%) ⁽²⁾	19%	16%	13%	11%	10%
	Liquidity Maintenance Ratio ("LMR")					
17a	LMR (%) ⁽³⁾	67%	70%	69%	67%	66%
	Core Funding Ratio ("CFR")					
20a	CFR (%) ⁽³⁾	265%	295%	260%	235%	225%

Note 1: Decrease in capital adequacy ratios in the third quarter of 2022 is mainly due to an increase in RWA. Refer to template OV1 for details.

Note 2: Increase in leverage ratio in the third quarter of 2022 is mainly due to a decrease in on-balance sheet exposures. Refer to template LR2 for details.

Note 3: 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 and the Group are 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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UNAUDITED QUARTERLY FINANCIAL DISCLOSURE STATEMENT As at 30 September 2022

1. PILLAR 3 DISCLOSURE (CONTINUED)

b. Template OV1: Overview of RWA

		The Group		The Group
		RWA		Minimum capital requirements ⁽¹⁾
		As at 30 September 2022 USD'000	As at 30 June 2022 USD'000	As at 30 September 2022 USD'000
1	Credit risk for non-securitization exposures	1,129,009	1,007,639	90,321
2	Of which Standardised (Credit Risk) Approach ("STC approach")	1,129,009	1,007,639	90,321
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	36,971	48,352	2,958
7	Of which Standardised (Counterparty Credit Risk) ("SA-CCR") Approach	7,839	25,010	627
7a	Of which Current Exposure Method ("CEM")	-	-	-
8	Of which Internal Models (Counterparty Credit Risk) Approach ("IMM(CCR) approach")	-	-	-
9	Of which others	29,132	23,342	2,331
10	Credit Valuation Adjustment ("CVA") risk	6,054	10,795	484
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") (including Internal Assessment Approach ("IAA"))	-	-	-
19	Of which Securitization Standardised Approach ("SEC-SA")	-	-	-
19a	Of which Securitization Fall-Back Approach ("SEC-FBA")	-	-	-
20	Market risk	62,200	47,051	4,976
21	Of which Standardised (Market Risk) Approach ("STM approach")	62,200	47,051	4,976
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	922,591	896,565	73,807
24a	Sovereign concentration risk	9,847	30,340	788
25	Amounts below the thresholds for deduction (subject to 250% Risk-Weight ("RW"))	-	-	-
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	1,167	2,546	93
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	1,167	2,546	93
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	2,165,505	2,038,196	173,241

Note 1: 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".

Note 2: Increase in total RWA during the third quarter in 2022 was US\$127,309,000. The key driver was due to increase in RWA for credit risk for non-securitization exposures arising from loans and advances.

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UNAUDITED QUARTERLY FINANCIAL DISCLOSURE STATEMENT As at 30 September 2022

1. PILLAR 3 DISCLOSURE (CONTINUED)

c. Template LR2: Leverage Ratio

		The Group	
		As at 30 September 2022	As at 30 June 2022
		USD'000	USD'000
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and securities financing transactions (“SFTs”), but including collateral) ⁽¹⁾	4,472,736	6,215,144
2	Less: Asset amounts deducted in determining Tier 1 capital	(26,744)	(27,255)
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	4,445,992	6,187,889
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)	10,039	116,228
5	Add-on amounts for potential future exposure (“PFE”) associated with all derivative contracts	32,485	54,553
6	Gross-up for collateral provided in respect of derivative contracts 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-related derivative contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit-related derivative contracts	-	-
11	Total exposures arising from derivative contracts	42,524	170,781
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions ⁽¹⁾	3,290,579	2,877,258
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	Counterparty Credit Risk (“CCR”) exposure for SFT assets	6,338	1,617
15	Agent transaction exposures	-	-
16	Total exposures arising from SFTs	3,296,917	2,878,875
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	1,459,364	1,430,636
20a	Total exposures before adjustments for specific and collective provisions	7,785,433	9,237,545
20b	Adjustments for specific and collective provisions	(491)	(766)
21	Total exposures after adjustments for specific and collective provisions ⁽¹⁾	7,784,942	9,236,779
Leverage ratio			
22	Leverage ratio	19%	16%

Note 1: Decrease in total exposures in the third quarter of 2022 is mainly due to (a) a drop in cash and short-term deposits and investment securities (included as “on-balance sheet exposures”), partially offset by (b) an increase in loans and advances (included as “on-balance sheet exposures”) and an increase in secured financing (included as “Gross SFT assets”).

Increase in secured financing is mainly supported by a reduction in investment securities as part of the liquidity management activities of the Company.