

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

Unaudited Quarterly Financial Disclosure Statement

As at 31 March 2019

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

UNAUDITED QUARTERLY FINANCIAL DISCLOSURE STATEMENT
As at 31 March 2019

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MORGAN STANLEY ASIA INTERNATIONAL LIMITED

UNAUDITED QUARTERLY FINANCIAL DISCLOSURE STATEMENT As at 31 March 2019

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 either are not applicable to the Company or have no reportable amount for the period.

On 22 March 2019, 500,000,000 ordinary shares were issued by the Company to Morgan Stanley Hong Kong 1238 Limited for a cash consideration of US\$500,000,000 (“Capital Injection”).

a. Template KM1: Key Prudential Ratios

		As at 31 March 2019	As at 31 December 2018	As at 30 September 2018	As at 30 June 2018	As at 31 March 2018
		USD'000	USD'000	USD'000	USD'000	USD'000
Regulatory capital (amount)						
1	Common Equity Tier 1 (“CET1”)	808,927 ⁽²⁾	287,225	273,366	259,078	232,685
2	Tier 1	808,927 ⁽²⁾	287,225	273,366	259,078	232,685
3	Total capital	819,045 ⁽²⁾	295,717	280,931	266,401	239,638
Risk-weighted amount (“RWA”) (amount)						
4	Total RWA	1,295,339	1,135,987	1,047,309	1,021,646	987,955
Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	62% ⁽²⁾	25%	26%	25%	24%
6	Tier 1 ratio (%)	62% ⁽²⁾	25%	26%	25%	24%
7	Total capital ratio (%)	63% ⁽²⁾	26%	27%	26%	24%
Additional CET1 buffer requirements (as a percentage of RWA)						
8	Capital conservation buffer requirement (%)	2.500%	1.875%	1.875%	1.875%	1.875%
9	Countercyclical capital buffer requirement (%)	1.072%	0.935%	0.772%	0.806%	0.747%
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 (%)	3.572%	2.810%	2.647%	2.681%	2.622%
12	CET1 available after meeting the AI’s minimum capital requirements (%)	55% ⁽²⁾	18%	19%	18%	16%
Basel III leverage ratio						
13	Total leverage ratio (“LR”) exposure measure	4,517,029	3,443,511	3,867,740	4,071,075	4,423,128
14	LR (%)	17.91% ⁽²⁾	8.34%	7.07%	6.36%	5.26%
Liquidity Maintenance Ratio (“LMR”)						
17a	LMR (%) ⁽¹⁾	55%	61%	60%	52%	53%
Core Funding Ratio (“CFR”)						
20a	CFR (%) ⁽¹⁾	239%	240%	247%	262%	291%

Note 1: 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.

Note 2: The increase during the first quarter in 2019 is mainly due to an increase in Tier 1 capital after the Capital Injection.

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1. PILLAR 3 DISCLOSURE (CONTINUED)

b. Template OV1: Overview of RWA

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: Standardised (Credit Risk) Approach (“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)
b. Template OV1: Overview of RWA (Continued)

		RWA		Minimum capital requirements
		As at 31 March 2019	As at 31 December 2018	As at 31 March 2019
		USD'000	USD'000	USD'000
1	Credit risk for non-securitization exposures	799,867	677,941	63,989
2	Of which STC approach	799,867	677,941	63,989
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	9,528	1,393	763
7	Of which Standardised Approach for measuring Counterparty Credit Risk ("SA-CCR")	Not applicable		
7a	Of which Current Exposure Method ("CEM")	4,809	1,393	385
8	Of which Internal Models (Counterparty Credit Risk) Approach ("IMM(CCR) approach")	-	-	-
9	Of which others	4,719	-	378
10	Credit Valuation Adjustment ("CVA") risk	2,186	634	175
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	-	-	-
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	491,655	465,109	39,332
24a	Sovereign concentration risk	Not applicable		
25	Amounts below the thresholds for deduction (subject to 250% Risk-Weight ("RW"))	-	-	-
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	7,897	9,090	632
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	7,897	9,090	632
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	1,295,339	1,135,987	103,627

Increase in total RWA during the first quarter in 2019 was US\$159,352,000. The key driver was increase in RWA for credit risk for non-securitization exposures arising from increase in loans and advances to customers after the Capital Injection.

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1. PILLAR 3 DISCLOSURE (CONTINUED)

c. Template LR2: Leverage Ratio

		As at 31 March 2019	As at 31 December 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)	3,411,996	3,462,405
2	Less: Asset amounts deducted in determining Tier 1 capital	(20,459)	(21,680)
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	3,391,537	3,440,725
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)	612	-
5	Add-on amounts for potential future exposure ("PFE") associated with all derivative contracts	10,071	2,786
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	10,683	2,786
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	1,109,295	-
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	Counterparty Credit Risk ("CCR") exposure for SFT assets	5,514	-
15	Agent transaction exposures	-	-
16	Total exposures arising from SFTs	1,114,809	-
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	808,927	287,225
20a	Total exposures before adjustments for specific and collective provisions	4,517,029	3,443,511
20b	Adjustments for specific and collective provisions	-	-
21	Total exposures after adjustments for specific and collective provisions	4,517,029	3,443,511
Leverage ratio			
22	Leverage ratio	17.91%	8.34%

The increase in leverage ratio during the first quarter in 2019 is mainly due to an increase in Tier 1 capital after Capital Injection.