Morgan Stanley International Group Limited

Pillar 3 Regulatory Disclosures Report

For the Quarterly Period Ended June 30, 2017

Table of Contents

Tables

1. Morgan Stanley International Limited Group

The principal activity of Morgan Stanley International Limited ("MSI") together with its subsidiaries (the "MSI Group") is the provision of financial services to corporations, governments, financial institutions and individuals. There have not been any significant changes in the principal activities during the period.

In accordance with Articles 431(1), 432(2) and 433 of the Capital Requirements Regulation ("CRR") and per European Banking Authority ("EBA") guidelines on materiality, proprietary, confidentiality and frequency of disclosures, the MSI Group Pillar 3 disclosure is published on a quarterly basis in line with the requirements. This is in addition to the annual MSI Group disclosure which is located at http://www.morganstanley.com/about-us-ir/pillar-uk.

This disclosure is made on a consolidated basis, rather than on an individual basis for each regulated entity, as permissible by the CRR. The basis of consolidation for prudential purposes is the same as consolidation for financial statement purposes. The MSI Group completes its prudential consolidation in compliance with the CRR Part One, Title II Chapter 2, with all entities fully consolidated. The MSI Group's Pillar 3 Disclosures are not required to be, and have not been, audited by the Company's independent registered public accounting firm. This document does not constitute a set of financial statements and does not represent any form of forward looking statement.

The MSI Group has policies and procedures in place to assess the appropriateness of its Pillar 3 disclosures, including their verification. The firm has a comprehensive governance framework in place which includes Board approved policies and defined senior management risk oversight and escalation process. Further details of this can be found in the annual MSI Group Pillar 3 disclosure.

The most significant subsidiary of the MSI Group is Morgan Stanley & Co. International plc ("MSIP"), the results of which are material to the MSI Group. The risk profile of MSIP is materially the same as the MSI Group and risk management policies and procedures are applied consistently. This disclosure comprehensively conveys the risk profile of the MSI Group and MSIP.

On 12 May 2017, the FCA approved a request to de-authorise Morgan Stanley and Co. Limited ("MSCL"). This had no impact on the risk profile of the MSI Group.

Parent Relationship

The MSI Group's ultimate parent undertaking and controlling entity is Morgan Stanley, a Delaware corporation, which together with its consolidated subsidiaries, form the Morgan Stanley Group. Morgan Stanley is a Financial Holding Company as defined by the Bank Holding Company Act of 1956, as amended, and is subject to regulation by The Board of Governors of the Federal Reserve System.

The MSI Group is a wholly owned subgroup of the Morgan Stanley Group. Whilst the MSI Group is a material sub-group, the information disclosed in this document is not necessarily indicative of the Morgan Stanley Group as a whole, nor is it comprehensively representative of the Morgan Stanley Group's activity in any particular region. Investors, stakeholders, creditors or other users seeking information on capital adequacy, risk exposure and risk management policies should consult the public disclosures of Morgan Stanley Group.

Details of the latest Morgan Stanley Group Pillar 3 disclosure can be accessed at http://www.morganstanley.com/about-us-ir/pillar-us/content/msdotcom/en/about-us-ir/pillar-us. Morgan Stanley is listed on the New York Stock Exchange and is required, by the US Securities and Exchange Commission, to file public disclosures, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. These disclosures can be found at http://www.morganstanley.com/pub/content/msdotcom/en/about-us-ir/sec-filings.html.

2. Capital Summary

The Basel Capital Accord provides a global regulatory framework for capital and liquidity. This was revised in 2010 following the financial crisis through a number of reforms collectively known as Basel III. The revised Basel Capital Accord has been implemented in the European Union via the Capital Requirements Directive ("CRD") and the CRR (collectively known as "CRDIV"). The framework consists of three "pillars":

- Pillar 1 - Minimum capital requirements: defines rules for the calculation of credit, market and operational risk;
- Pillar 2 - Supervisory review process: including a requirement for firms to undertake an Internal Capital Adequacy Assessment Process ("ICAAP");
- Pillar 3 - Market discipline: requires expanded disclosures to allow investors and other market participants to understand capital adequacy, particular risk exposures and risk management processes of individual firms.

This document represents the MSI Group semi-annual public Pillar 3 qualitative and quantitative disclosures required by CRDIV, as at 30 June 2017.

The Pillar 3 disclosures are based on Pillar 1 capital requirements. The MSI Group is required to maintain a minimum ratio of Capital Resources, known as "Own Funds", to Risk Weighted Assets ("RWAs").

The Firm's Own Funds consist of the following:

- Common Equity Tier 1 ("CET1"), broadly defined as Issued Share Capital plus retained earnings.
- Additional Tier 1.
- Tier 1 Capital is CET1 capital plus Additional Tier 1 Capital.
- Tier 2 Capital is supplementary capital, which includes subordinated debt.

RWAs are a measure of firm assets and off balance sheet exposures with a weighting applied to reflect the riskiness of these exposures. The calculation of the minimum ratio is set for each level of Own Funds divided by RWAs. Table 1 summarises this information.

Table 1: Capital Summary

	MSI GROUP[1] $MM	MSIP[2] $MM
CET1 Capital before Regulatory Adjustments	18,582	15,352
Regulatory Adjustments	(1,711)	(1,370)
CET1 Capital	**16,871**	**13,982**
Additional Tier 1 Capital	1,300	1,300
Tier 1 Capital	**18,171**	**15,282**
Tier 2 Capital before Regulatory Adjustments	6,946	7,000
Tier 2 Capital	**6,946**	**7,000**
Total Own Funds	**25,117**	**22,282**
RWAs	139,061	136,782
CET1 Ratio	12.1%	10.2%
Tier 1 Capital Ratio	13.1%	11.2%
Total Capital Ratio	18.1%	16.3%
Leverage Exposure	**433,103**	**429,634**
Leverage Ratio	4.2%	3.6%

1. MSI Groups Own Funds as at 31 March 2017 were $25,291MM, with CET1, Tier 1 and Total Capital Ratios of 13.1%. 14.1% and 19.4% respectively.
2. MSIP's Own Funds as at 31 March 2017 were $21,430MM with CET1, Tier 1 and Total Capital Ratios of 10.5%. 11.5% and 16.8% respectively.
3. MSI Groups Leverage Exposure as at 31 March 2017 were $418,617MM, with a Leverage Ratio of 4.4%
4. MSIP's Leverage Exposure as at 31 March 2017 were $417,133MM, with a Leverage Ratio of 3.5%

Events after the Reporting Period

On 25 September 2017, MSIP approved the issuance of an additional 1,000,000,000 of $1 ordinary shares to the Company's immediate parent undertaking for total consideration of $1,000,000,000.

On 29 September, the PRA granted both MSI Group and MSIP permission to include the interim profits for the period beginning 01 January 2017 and ending on 30 June 2017 in Common Equity Tier 1 capital.

Additional Capital Buffers

The capital requirements have been supplemented with the following additional buffers to ensure the firm has sufficient capital to meet the minimum requirements.

Countercyclical Capital Buffer ("CCyB")

CCYB was introduced to ensure that excess growth in specific countries is accounted for and increases the minimum capital ratios by between 0% and 2.5% and must be met with CET1 Capital. The below table provides details of the applicable CCYB rates as at 30 June 2017.

Table 2: CCYB

COUNTRY	CCYB RATE %	EFFECTIVE FROM	IMPACT ON CAPITAL RATIO %
Czech Republic	0.50%	1-Jan 2017	0.00%
Hong Kong	1.25%	1-Jan 2017	0.02%
Iceland	1.00%	1-Mar 2017	0.00%
Norway	1.50%	30-Jun 2016	0.00%
Sweden	2.00%	19-Mar 2017	0.01%
Total			**0.03%**

Following the UK electorate vote to leave the European Union in June 2016, the Bank of England Financial Policy Committee (FPC) announced the CCyB rate for the UK would be maintained at 0% until at least June 2017. On 27 June 2017, the FPC increased the UK CCyB rate to 0.5%, with binding effect from 27 June 2018. Additionally, the FPC expects to increase the CCyB rate to 1% at its meeting to be held November 2017, with binding effect a year from that date. Were a rate of 0.5% to have been in place at 30 June 2017, the indicative increase to the minimum capital ratio would have been 0.14%

Capital Conservation Buffer ("CCB")

CCB requires banks to build up a capital buffer that can be utilised to absorb losses during period of stress, whilst remaining compliant with minimum requirements and must be met with CET1 capital. The phased increase to supplement the minimum capital ratios was introduced from 1 January 2016 at 0.625% of RWAs, with further increments of 0.625% per year, until it reaches 2.5% of RWAs on 1 January 2019. As at 30 June 2017 the CCB is 1.25%.

Capital Management

The MSI Group views capital as an important source of financial strength. It actively manages and monitors its capital in line with established policies and procedures and in compliance with local regulatory requirements.

The MSI Group conducts an Individual Capital Adequacy Assessment Process ("ICAAP") at least annually in order to meet its obligations under CRDIV. The PRA reviews the MSI Group ICAAP through its Supervisory Review Process ("SREP") and sets an Individual Capital Guidance ("ICG") which establishes the minimum level of regulatory capital for the MSI Group. In addition, the PRA requires a buffer which is available to support the MSI Group in a stressed market environment.

MSI Group capital is managed to ensure risk and leverage based requirements assessed through the ICAAP and SREP are met. Internal capital ratio minima are set to ensure the MSI Group and its subsidiaries have sufficient capital to meet their regulatory requirements at all times.

Capital Resources ratios for MSI Group and MSIP have decreased over the period from 31 March 2017 to 30 June 2017 mainly driven by an increase in RWA. Both MSI Group and MSIP remain well capitalised and in compliance with the PRA capital requirements as defined by the CRR.

There are no current or foreseen material, practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities among the MSI Group and its subsidiary undertakings.

Future Capital Framework - European Financial Regulation Reform

In November 2016, the European Commission published a comprehensive regulatory reform package which aims to continue the reforms that the EU implemented in the wake of the financial crisis. The proposals seek to amend the existing prudential regime (CRR and CRDIV), the Bank Recovery and Resolution Directive and the Single Resolution Mechanism.

These proposals are currently subject to further discussion and negotiation among European policy-makers and it is not possible to anticipate their final content. Based on current estimates, the proposals are expected to be introduced in the EU in 2019 at the earliest, with Member States implementing the new rules in 2020-21.

In light of these developments, there remains uncertainty as to the rules which may apply to the MSI Group post 2019.

UK Referendum

On 23 June 2016, the UK electorate voted to leave the EU. On 29 March 2017, the UK formally invoked Article 50 of the Lisbon Treaty, which triggered a two-year period, subject to extension, during which the UK government is expected to negotiate its withdrawal agreement with the EU. It is difficult to predict the future of the UK's relationship with the EU, which uncertainty may increase the volatility in the global financial markets in the short- and medium-term. Absent any extension, the UK is expected to leave the EU in early 2019. The terms and conditions of the anticipated withdrawal from the EU, and which of the several alternative models of relationship that the UK might ultimately negotiate with the EU, remain uncertain. However, the UK government has stated that the UK will leave the EU single market and will seek a phased period of implementation for the new relationship that may cover the legal and regulatory framework applicable to financial institutions with significant operations in Europe, such as Morgan Stanley. Potential effects of the UK exit from the EU and potential mitigation actions may vary considerably depending on the timing of withdrawal and the nature of any transition or successor arrangements. Any future limitations on providing financial services into the EU from our UK operations could require us to make potentially significant changes to our operations in the UK and Europe and our legal structure there, which could have an adverse effect on our business and financial results.

Forward Looking Disclosure Framework

IFRS 9

The MSI Group will adopt IFRS 9 Financial Instruments standard (including the requirements relating to impairment) on 1 January, 2018, via its application of FRS 101. The impact is not expected to be material to the MSI Group.

Revised Pillar 3 Requirements

European Union (EU) institutions are facing stronger market pressure to move towards a more harmonized presentation of institutions Pillar 3 disclosures. Through introducing more specific guidance and formats for disclosures through the use of tables and templates, the guidelines represent a significant step towards enhancing the consistency and comparability of institutions' regulatory disclosures in accordance with Part Eight of the CRR. These guidelines supplement existing disclosure requirements in the CRR regarding the general requirements for disclosures, risk management, scope of application, capital requirements, credit risk, counterparty credit risk (CCR), and market risk and came into effect from 1 January 2017, and will be introduced from the 2017 MSI Group annual disclosure.

3. Capital Requirements

The MSI Group calculates Pillar 1 capital requirements as 8% of RWAs in accordance with CRDIV. As at 30 June 2017, the MSI Group and MSIP had the following capital requirements as detailed in Table 3.

Table 3: Capital Requirements

	MSI GROUP		MSIP	
	RWA[1] $MM	CAPITAL REQUIREMENT $MM	RWA[2] $MM	CAPITAL REQUIREMENT $MM
Credit and Counterparty Credit Risk	51,554	4,124	50,131	4,010
Market Risk	57,196	4,576	54,267	4,341
Operational Risk	10,350	828	6,722	538
Credit Valuation Adjustment	9,582	767	9,229	738
Large Exposures in the Trading Book	10,351	828	16,404	1,312
Settlement and Delivery Risk	28	2	29	2
Total	**139,061**	**11,125**	**136,782**	**10,941**

1. MSI Groups RWA's as at 31 March 2017 were $130,547MM.
2. MSIP RWA's as at 31 March 2017 were $127,314MM.

Credit and Counterparty Credit Risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations. Credit and Counterparty Credit capital requirements are derived from RWAs, determined using approved internal modelling approaches – the Foundation Internal Ratings Based approach ("IRB") for credit risk and the Internal Models Method ("IMM") for counterparty risk – as well as the Standardised Approach ("SA"). For further discussion, see section 4 Credit Risk.

Market Risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio. For further discussion, see section 5 Market Risk.

Operational Risk refers to the risk of loss or damage to Morgan Stanley's reputation, resulting from inadequate or failed processes, people and systems or from external events. This definition includes legal risk, but excludes strategic risk. Capital requirements for operational risk are currently calculated under the Basic Indicator Approach.

Credit Valuation Adjustment ("CVA") is the capital requirement that covers the risk of mark-to-market losses on the counterparty risk of Over-the-Counter ("OTC") derivatives. It is calculated using a combination of an advanced approach based on using internal modelling approaches and a standardised approach.

Large Exposures is the capital requirement that covers the risk due to concentrated exposures to a single counterparty or group of connected counterparties.

In determining its overall capital requirement, the Firm classifies its exposures as either “Non-Trading Book” or “Trading Book.” Non-Trading Book positions, which may be accounted for at amortized cost, lower of cost or market, fair value or under the equity method, are subject to credit risk capital requirements. Trading Book positions represent positions that the Firm holds as part of its market-making and underwriting businesses. These positions, which reflect assets or liabilities that are accounted for at fair value, and certain Non-Trading Book positions which are subject to both credit risk and market risk charges as well as positions included in Value-at-Risk (“VaR”), are subject to market risk capital requirements. Some Trading Book positions, such as derivatives, are also subject to counterparty credit risk capital requirements. Trading Book and Non-Trading Book definitions used in this document refer to the regulatory view and may differ from the accounting definitions.

4. Credit Risk

Credit and Counterparty Credit Risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations. The MSI Group primarily incurs credit risk exposure to Corporates, Institutions, Central Governments and Central Banks through its Institutional Securities business segment. In order to help protect the MSI Group from losses resulting from its business activities, the Credit Risk Management (“CRM”) function establishes practices to evaluate monitor and control credit risk exposure at the transaction, obligor and portfolio levels. CRM analyses material lending and derivative transactions and ensures that the creditworthiness of the MSI Group’s counterparties and borrowers is reviewed regularly and that credit exposure is actively monitored and managed.

Counterparty and Credit Risk Capital Requirements

The regulatory framework distinguishes between Credit Risk and Counterparty Credit Risk capital requirements. The Credit Risk capital component reflects the capital requirements attributable to the risk of loss arising from a borrower failing to meet its obligations and relates to investments made in the Non-Trading Book such as loans and other securities that the MSI Group holds until maturity with no intention to trade. Counterparty credit exposure arises from the risk that counterparties are unable to meet their payment obligations under contracts for traded products including OTC derivatives, securities financing transactions and margin lending. The distinction between Credit Risk and Counterparty Credit Risk exposures is due to the bilateral nature of the risk for Counterparty Credit Risk exposures.

RWAs are determined using the IRB Approach which reflects MSI Group’s internal estimate of a borrower or counterparty’s creditworthiness. For exposures not covered by the IRB approach, the standardised approach is applied. The standardised approach uses supervisory risk weights which are a function of the exposure class and, where applicable and available, the rating by an External Credit Assessment Institution (“ECAI”) of the borrower or counterparty.

Table 4 shows the Credit Risk and Counterparty Credit Risk for the MSI Group as at 30 June 2017, for each exposure class, as per the classifications set out in the CRR.

Table 4: Credit Risk and Counterparty Credit Risk Exposure at Default ("EAD"), RWAs and Capital Requirements[1]

	EAD[2] $MM	RWAs $MM	CAPITAL REQUIREMENTS $MM
IRB			
Central Governments or Central Banks	15,879	1,426	114
Corporates	50,195	27,344	2,188
Equity	736	2,191	175
Institutions	60,995	13,801	1,104
Securitisation	289	156	12
Total (IRB)	**128,094**	**44,918**	**3,593**
Standardised			
Central Governments Or Central Banks	231	72	6
Corporates	11,887	4,549	364
Institutions	8,153	997	80
Multilateral Development Banks	3	2	-
International Organisations	1	-	-
Public Sector Entities	34	34	3
Regional Government Or Local Authorities	631	13	1
Securitisation	281	79	6
Units Or Shares In CIUs	141	176	14
Total (Standardised)	**21,362**	**5,922**	**474**
Total (CCP Default Fund)	**874**	**714**	**57**
Total	**150,330**	**51,554**	**4,124**

1. Exposure classes where the MSI Group has no exposure are not shown in the table.
2. Exposures mainly arise from MSIP.

Internal Ratings Based Approach

The MSI Group has permission to use the IRB approach for the calculation of credit and counterparty credit risk capital requirements. The permission covers all material portfolios and is applicable to exposures to Central Governments, Central Banks, Institutions and Corporates.

The MSI Group leverages the IRB process for internal risk management processes. Internal ratings are used in the sizing of credit limits and also influence the terms under which credit exposures are undertaken, including collateral and documentation.

Rating Process

CRM expresses the creditworthiness of each counterparty by assigning it a rating. The rating scale includes 18 segments on a scale from AAA to D, with a single category for defaulted counterparties.

Counterparty ratings correspond to a Probability of Default ("PD"), a "through-the-cycle" measure that reflects credit quality expectation over a medium-term horizon. Each rating is linked to an exposure limit. To monitor the credit risk of the portfolio, the MSI Group uses quantitative models to estimate various risk parameters related to each counterparty and/or facility. CRM rates counterparties based on analysis of qualitative and quantitative factors relevant to credit standing in that industry or sector. The rating process typically includes analysis of the counterparty's financial statements, evaluation of its market position, strategy, management, legal and environmental issues, and consideration of industry dynamics affecting its performance. CRM considers security prices and other financial data reflecting a market view of the counterparty, and carry out due diligence with the counterparty's management, as needed.

CRM assigns counterparty ratings at the highest level in the counterparty's corporate structure. A subsidiary's rating may vary based on a variety of factors considered and documented during the rating process.

MSI Group wholesale exposures fall into the following exposure classes: Central Governments or Central Banks, Corporates and Institutions. The Central Governments or Central Banks exposure class mainly includes traded products, lending and treasury exposures to Sovereign Governments, Central Banks, Government Guaranteed Entities, Government Guaranteed Banks and Supranationals.

The Sovereign ratings process, used for Central Governments or Central Banks, applies a methodology based on quantitative and qualitative factors which incorporate consideration of the financial systems, legal and regulatory risks (e.g. macro-prudential supervision) as well as the reputational risk of extending credit in the country. The methodology is supplemented by expert judgment to reflect CRM's assessment of the future ability and willingness of sovereign governments to service debt obligations in full and on time, if material risk factors are not adequately represented in the methodology.

The Corporates exposure class mainly includes traded products and lending to wholesale counterparties not covered under the Central Governments or Central Banks and Institutions exposure classes. The ratings process for Corporates has different methodologies depending on the industry to which the counterparty belongs. The general characteristics employed include quantitative factors such as leverage, interest coverage, cash flow and company size, as well as qualitative factors such as industry and business risk, market position, liquidity/funding, event risk, management and corporate governance. Tailored methodologies are applied for certain specialist sectors such as broker-dealers, insurance and funds.

The Institutions exposure class mainly includes traded products, lending and treasury exposures to banks. The ratings process for Institutions applies a methodology that is based on a range of risk factors including capital adequacy, asset quality, earnings, funding and management. The regulatory environment and implicit government support is incorporated where applicable and permitted. The approach to rating Institutions can vary depending on whether the bank is domiciled in a developed or emerging market.

Ratings for Special Purpose Vehicles ("SPV") reflect CRM's assessment of the risk that the SPV will default. The rating therefore incorporates the MSI Group relative position in the counterparty's payment structure as well as the default risk associated with the underlying assets. Ratings are often "tranche specific" (e.g. the AAA rated senior tranche or the BBB subordinated tranche).

Rating Philosophy and PD Estimation

The MSI Group internal rating process and philosophy are similar to Standard and Poor's ("S&P"). For credit risk capital and risk management purposes, CRM maps internal ratings to S&P ratings and then applies S&P's extensive default history to determine the PD. Minor adjustments are made for specific items, such as preserving the monotonic relationship among rating grade PDs and maintaining the regulatory floor of 0.03% for counterparties which are not Central Governments or Central Banks.

The present method of using S&P's extensive default history reflects a long-run view. The 2016 PDs are long-run averages of one-year default rates and are grounded on historical experience and empirical evidence. They are based on S&P's annual corporate default rates from 1981 to 2014. This historical period covers at least three major credit downturn periods (1990-91, 2001-02 and 2007-09).

The MSI Group confirms through an internal validation process that the PD values it uses are prudent when compared to actual Morgan Stanley Group default experience.

Table 5 shows a breakdown of the IRB related exposure amounts for the MSI Group as at 30 June 2017 for the Central Governments or Central Banks, Corporates and Institutions exposure classes.

Table 5: IRB EAD by Exposure Type & PD Banding[1]

	TOTAL GROSS EXPOSURE[2] $MM	EXPOSURE VALUE AFTER CREDIT RISK MITIGATION[3,4] $MM	OUTSTANDING LOANS $MM	EXPOSURE VALUE OF UNDRAWN COMMITMENTS $MM	EXPOSURE WEIGHTED AVERAGE RISK WEIGHT	EXPOSURE WEIGHTED AVERAGE PD
Central Governments or Central Banks						
0.00% - 0.08%	19,049	13,566	-	1	7%	0.02%
0.09% - 0.17%	2,128	2,072	-	-	12%	0.09%
0.21% - 0.40%	78	64	-	-	43%	0.29%
0.51% - 1.65%	153	153	-	-	118%	0.71%
1.92% - 100%	56	24	1	-	190%	8.60%
Total	21,464	15,879	1	1		
Corporates						
0.00% - 0.08%	23,528	14,383	-	962	16%	0.04%
0.09% - 0.17%	30,915	18,131	120	2,276	42%	0.11%
0.21% - 0.40%	9,594	5,060	-	83	54%	0.29%
0.51% - 1.65%	10,066	7,422	198	147	86%	0.83%
1.92% - 100%	8,611	5,199	297	269	166%	11.76%
Total	82,714	50,195	615	3,737		
Institutions						
0.00% - 0.08%	56,217	40,120	44	1,211	15%	0.06%
0.09% - 0.17%	25,881	17,899	-	196	28%	0.10%
0.21% - 0.40%	6,431	1,322	-	2	54%	0.29%
0.51% - 1.65%	3,003	1,468	-	-	97%	0.80%
1.92% - 100%	409	186	-	-	169%	6.00%
Total	91,941	60,995	44	1,409		

1. The table does not include the IRB Equities and IRB Securitisation exposure classes, as these exposures are treated through the IRB simple risk weight approach (CRR Article 155.2), and the IRB ratings based method (CRR Article 261), respectively.
2. Total Gross Exposure column heading is the credit exposure after the application of netting benefits but before the application of financial collateral.
3. Exposure value after Credit Risk Mitigation is equivalent to EAD.
4. Mainly arise from exposures on MSIP.

5. Market Risk

Market Risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio. The Market Risk capital requirements of the MSI Group comprise of capital associated with the Internal Modelling Approaches (“IMA”) approved by the PRA and those associated with the Standardised Approach.

The MSI Group manages the market risk associated with its trading activities at both a division and an individual product level, and includes consideration of market risk at the legal entity level.

Sound market risk management is an integral part of the Morgan Stanley Group culture. The MSI Group is responsible for ensuring that market risk exposures are well managed and monitored. The Market Risk Department (“MRD”) is responsible for ensuring transparency of material market risks, monitors compliance with established limits, and escalates risk concentrations to appropriate senior management.

To execute these responsibilities, MRD monitors the market risk against limits on aggregate risk exposures, performs a variety of risk analyses including monitoring VaR and stress testing analyses, routinely reports risk summaries, and maintains the VaR and scenario analysis methodologies. The material risks identified by these processes are summarised and reported to senior management.

The market risk management policies and procedures for the MSI Group are consistent with those of the Morgan Stanley Group and include escalation to the MSI Group's Board of Directors and appropriate management personnel.

Table 6: Market Risk Capital Requirements and RWAs

	RWAs $MM	CAPITAL REQUIREMENTS $MM
Internal Model	46,320	3,706
Standardised	10,876	870
Total Market Risk	**57,196**	**4,576**

6. Leverage

The Basel III framework introduced a simple, transparent, non-risk based leverage ratio to act as a credible supplementary measure to the risk-based capital requirements. The leverage ratio is expressed as a percentage and calculated as Tier 1 capital divided by total exposure. The total exposure measure is the sum of the exposure values of all assets and off-balance sheet items not already deducted from Tier 1 capital.

Although there is no current binding leverage requirement under CRDIV, the MSI Group manages its risk of excessive leverage through the application of Business Unit leverage exposure limits and leverage ratio early warning trigger levels. Limits are calibrated in line with legal entity capacity and ensure that leverage exposure remains within the MSI Board's risk appetite. MSI Group and MSIP's leverage exposures are calculated monthly and weekly, respectively, and reported to EMEA ALCO who monitor this, as well as maturity mismatches and Asset Encumbrance metrics, to ensure that any excessive risk is highlighted, assessed and mitigated appropriately.

The disclosures in the tables below have been made in accordance with the EU Delegated Act and are disclosed on a fully phased in basis.

Table 7: Reconciliation of Accounting Assets & Leverage Ratio Exposures

	MSI GROUP $MM	MSIP $MM
Total assets as per balance sheet	443,619	436,729
Adjustments for derivative financial instruments	(24,913)	(23,570)
Adjustments for securities financing transactions "SFTs"	25,480	26,072
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	6,959	6,107
(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	-	(771)
Other adjustments	(18,042)	(14,933)
Total leverage ratio exposure	**433,103**	**429,634**

Table 8: Split of On Balance Sheet Exposures (excluding derivatives, SFTs and exempted exposures)

	MSI GROUP $MM	MSIP $MM
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**191,411**	**181,442**
Trading Book exposures	165,324	154,420
Non-Trading Book exposures, of which:	26,087	27,022
Exposures treated as sovereigns	4,604	4,442
Institutions	13,560	14,089
Corporate	6,268	7,709
Exposures in default	216	41
Other exposures(e.g.equity, securitisations, and other non-credit obligation assets)	1,439	741

Table 9: Leverage Ratio Common Disclosure

	MSI GROUP $MM	MSIP $MM
On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	191,411	181,442
(Asset amounts deducted in determining Tier 1 capital)	(1,963)	(1,427)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**189,448**	**180,015**
Derivative exposures		
Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	20,388	19,962
Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	116,538	116,682
Gross-up for derivatives collateral provided where deducted from the balance sheet pursuant to the applicable accounting framework	1,132	1,132
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(19,785)	(19,424)
(Exempted CCP leg of client-cleared trade exposures)	(9,639)	(9,639)
Adjusted effective notional amount of written credit derivatives	270,492	270,489
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(261,304)	(260,854)
Total derivative exposures	**117,822**	**118,349**
Securities financing transaction exposures		
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	148,508	153,682
(Netted amounts of cash payables and cash receivables of gross SFT assets)	(41,638)	(39,990)
Counterparty credit risk exposure for SFT assets	12,004	12,242
Total securities financing transaction exposures	**118,874**	**125,934**
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	21,348	19,646
(Adjustments for conversion to credit equivalent amounts)	(14,389)	(13,539)
Total Other off-balance sheet exposures	**6,959**	**6,107**
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	(771)
Capital and total exposure measure		
Tier 1 capital	**18,170**	**15,282**
Total leverage ratio exposures	**433,103**	**429,634**
Leverage ratio	**4.2%**	**3.6%**
Choice on transitional arrangements for the definition of the capital measure	**Fully Phased In**	**Fully Phased In**

7. Appendix I: Capital Instruments Template

Table 10: Capital Instruments Template

REPORTED IN USD UNLESS OTHERWISE STATED

DESCRIPTION	COMMON EQUITY TIER 1		ADDITIONAL TIER 1	SUBORDINATED DEBT			
	A	B	C	D	E	F	G
Issuer	Morgan Stanley International Limited	Morgan Stanley International Limited	Morgan Stanley International Limited	Morgan Stanley International Limited	Morgan Stanley & Co. International plc	Morgan Stanley International Limited	Morgan Stanley International Limited
Unique Identifier (e.g. CUSIP, ISIN, or Bloomberg identifier for private placement)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Governing law(s) of the instrument	Companies Act 2006	Companies Act 2006	English Law	English Law	English Law	English Law	English Law
Transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Additional Tier 1	Tier 2	Tier 2 [21.5% ineligible]	Tier 2	Tier 2
Post-transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Additional Tier 1	Tier 2	Tier 2	Tier 2	Tier 2
Eligible at solo/(sub-) consolidated/solo&(sub-) consolidated	(Sub-) Consolidated	(Sub-) Consolidated	(Sub-) Consolidated	(Sub-) Consolidated	Solo and (Sub-) Consolidated	(Sub-) Consolidated	(Sub-) Consolidated
Instrument type	Ordinary Shares	Ordinary Shares	Perpetual Unsecured Fixed Rate Securities	Long-term subordinated multicurrency loan facility	Long-term subordinated loan facility	Long-term subordinated multicurrency loan facility	Long-term subordinated multicurrency loan facility
Amount recognised in regulatory capital ($MM)	USD 1,615MM	USD 0MM	USD 1,300MM	USD 5,000MM	USD 1,570MM [The amount of Sub-debt issued by subsidiaries that is given recognition in Tier 2 Capital is determined in accordance with articles 87 and 480 of the CRR]	USD 51MM	USD 325MM

DESCRIPTION	COMMON EQUITY TIER 1		ADDITIONAL TIER 1	SUBORDINATED DEBT			
	A	B	C	D	E	F	G
Nominal amount of instrument	Currency of issuance and reporting currency; USD 1,615,167,000	Currency of issuance: GBP 2 Reporting currency: USD 3	Currency of issuance and reporting currency; USD 1,300,000,000	Currency of issuance and reporting currency; USD 5,000,000,000	Currency of issuance and reporting currency; USD 2,000,000,000	Currency of issuance and reporting currency: USD 51,000,000	Currency of issuance: GBP 250,000,000 Reporting currency: USD 325,375,000
Issue Price	USD 1,615,180,159	GBP 2	USD 1,300,000,000	USD 5,000,000,000	USD 2,000,000,000	USD 51,000,000	GBP 250,000,000
Redemption Price	N/A	N/A	USD 1,300,000,000	USD 5,000,000,000	USD 2,000,000,000	USD 51,000,000	GBP 250,000,000
Accounting Classification	Shareholders' Equity	Shareholders' Equity	Shareholders' Equity	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
Original date of issuance	13/11/1998	18/06/1998	15/12/2014	08/02/2017	31/10/2005	21/12/2015	21/12/2015
Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated	Dated	Dated	Dated
Original maturity date	No maturity	No maturity	No maturity	21/12/2025	31/10/2025	21/12/2025	21/12/2025
Issuer call subject to prior supervisory approval	N/A	N/A	Yes	N/A	N/A	N/A	N/A
Option call date, contingent call dates and redemption amount	N/A	N/A	Issuer call option date is 5 years after the issue date (15-Dec 2019), after which the issuer has the option to redeem in whole or in part. In the event of a taxation event; can be redeemed at the option of the Issuer in whole, but not in part. In the event of a Capital Disqualification event the issuer can redeem in whole. The redemption price is equal to the outstanding principal amount being redeemed	N/A	N/A	N/A	N/A
Subsequent call dates, if applicable	N/A	N/A	The option to redeem of the Issuer continues on any date after the initial call option date	N/A	N/A	N/A	N/A

DESCRIPTION	COMMON EQUITY TIER 1		ADDITIONAL TIER 1	SUBORDINATED DEBT			
	A	B	C	D	E	F	G
Fixed or floating dividend / coupon	Floating	Floating	Fixed Rate	Floating	Floating	Floating	Floating
Coupon rate and any related index	N/A	N/A	9% (2)	OBFR + 2.300%	3mth USD LIBOR + 1.475%	OBFR + 2.086%	SONIA + 2.121%
Existence of a dividend stopper	No	No	No	No	No	No	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully Discretionary	Fully Discretionary	Fully Discretionary	Mandatory	Mandatory	Mandatory	Mandatory
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully Discretionary	Fully Discretionary	Fully Discretionary	Mandatory	Mandatory	Mandatory	Mandatory
Existence of step up or other incentive to redeem	No	No	No	No	No	No	No
Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Cumulative	Cumulative	Cumulative	Cumulative
Convertible or non-convertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible
If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A	N/A	N/A
If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A	N/A	N/A
If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A	N/A	N/A
If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A	N/A	N/A
If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A	N/A	N/A

DESCRIPTION	COMMON EQUITY TIER 1		ADDITIONAL TIER 1	SUBORDINATED DEBT			
	A	B	C	D	E	F	G
Write-down features	No	No	Yes	No	No	No	No
If write-down, write-down trigger(s)	N/A	N/A	Common Equity Tier 1 Capital Ratio of MSI Group falls below 7.00%	N/A	N/A	N/A	N/A
If write-down, full or partial	N/A	N/A	Always full	N/A	N/A	N/A	N/A
If write-down, permanent or temporary	N/A	N/A	Permanent	N/A	N/A	N/A	N/A
If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Perpetual Unsecured Fixed Rate Securities [column C]	Perpetual Unsecured Fixed Rate Securities [column C]	Long-term sub-ordinated loan facility [columns D,E,F,G]	Other liabilities	Other liabilities	Other liabilities	Other liabilities
Non-compliant transitioned features	No	No	No	No	No	No	No
If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Further notes

Note 1: all capital instruments issued by the MSI Group are issued within Morgan Stanley and are not marketable instruments

Note 2: Initial rate of interest of 8.75% applied up to and including 31-Jan'15

Note 3: In Q1 2017, UK Group issued a new $5bn subordinated debt instrument and redeemed $5.9bn of a partially ineligible subordinated debt instrument, which resulted in a Tier 2 capital increase.

8. Appendix II: Own Funds Transitional Template

Table 11: MSI Group Own Funds Transitional Template

	TRANSITIONAL RULES $MM	FULLY LOADED POSITION $MM
Capital instruments and the related share premium accounts	1,615	1,615
Paid up capital instruments	1,615	1,615
Share premium	-	-
Retained earnings	10,118	10,118
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	6,849	6,849
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**18,582**	**18,582**
Additional value adjustments (negative amount)	(1,187)	(1,187)
Intangible assets (net of related tax liability) (negative amount)	(495)	(495)
Negative amounts resulting from the calculation of expected loss amounts	(281)	(281)
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	252	252
Total regulatory adjustments to Common equity Tier 1 (CET1)	**(1,711)**	**(1,711)**
Common Equity Tier 1 (CET1) capital	**16,871**	**16,871**
Capital instruments and the related share premium accounts	1,300	1,300
Additional Tier 1 (AT1) capital	**1,300**	**1,300**
Tier 1 capital (T1 = CET1 + AT1)	**18,171**	**18,171**
Capital instruments and the related share premium accounts	5,376	5,376
Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	1,462	1,462
Of which: Instruments issued by subsidiaries subject to phase out	108	-
Tier 2 (T2) capital before regulatory adjustments	**6,946**	**6,838**
Tier 2 (T2) capital	**6,946**	**6,838**
Total capital (TC = T1 + T2)	**25,117**	**25,009**
Total risk weighted assets	**139,061**	**139,061**
Common Equity Tier 1 (as a percentage of risk exposure amount)	12.1%	12.1%
Tier 1 (as a percentage of risk exposure amount)	13.1%	13.1%
Total capital (as a percentage of risk exposure amount)	18.1%	18.0%
Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	1.28%	2.53%
Of which: Capital conservation buffer requirement	1.25%	2.50%
Of which: Counter cyclical buffer requirement	0.03%	0.03%
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	7.1%	7.1%
Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	199	199
Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	-
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	194	194

Table 12: MSIP Own Funds Transitional Template

	TRANSITIONAL RULES $MM	FULLY LOADED POSITION $MM
Capital instruments and the related share premium accounts	11,978	11,978
Paid up capital instruments	11,465	11,465
Share premium	513	513
Retained earnings	2,156	2,156
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	1,218	1,218
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**15,352**	**15,352**
Additional value adjustments (negative amount)	(1,163)	(1,163)
Intangible assets (net of related tax liability) (negative amount)	(2)	(2)
Negative amounts resulting from the calculation of expected loss amounts	(262)	(262)
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	57	57
Total regulatory adjustments to Common equity Tier 1 (CET1)	**(1,370)**	**(1,370)**
Common Equity Tier 1 (CET1) capital	**13,982**	**13,982**
Capital instruments and the related share premium accounts	**1,300**	**1,300**
Additional Tier 1 (AT1) capital	**1,300**	**1,300**
Tier 1 capital (T1 = CET1 + AT1)	**15,282**	**15,282**
Capital instruments and the related share premium accounts	7,000	7,000
Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties		
Of which: Instruments issued by subsidiaries subject to phase out		
Tier 2 (T2) capital before regulatory adjustments	**7,000**	**7,000**
Tier 2 (T2) capital	**7,000**	**7,000**
Total capital (TC = T1 + T2)	**22,282**	**22,282**
Total risk weighted assets	**136,782**	**136,782**
Common Equity Tier 1 (as a percentage of risk exposure amount)	10.2%	10.2%
Tier 1 (as a percentage of risk exposure amount)	11.2%	11.2%
Total capital (as a percentage of risk exposure amount)	16.3%	16.3%
Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	1.27%	2.52%
Of which: Capital conservation buffer requirement	1.25%	2.50%
Of which: Counter cyclical buffer requirement	0.02%	0.02%
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	5.2%	5.2%
Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	223	223
Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	523	523
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	80	80

9. Appendix III: Reconciliation of Balance Sheet Total Equity to Regulatory Capital

The tables below present a reconciliation between balance sheet own funds and regulatory own funds, per the requirements set out in The Commission Implementing Regulation (EU) No 1423/2013. The balance sheet data below is unaudited.

Table 13: MSI Group Reconciliation of Balance Sheet Total Equity to Regulatory Capital

	$MM	CET1 CAPITAL $MM	AT1 CAPITAL $MM	TIER 2 CAPITAL $MM
Equity Instruments	2,915	1,615	1,300	-
Other reserves	7,461	7,461	-	-
Other Comprehensive Income	(612)	(612)	-	-
Retained Earnings	11,631	11,631	-	-
Non-controlling interest	78	78	-	-
Balance sheet total equity	**21,473**	**20,173**	**1,300**	**-**
Add:				
Tier 2 instruments classified as other liabilities	**8,196**			**8,196**
Less:				
Qualifying own funds subordinated debt instruments not included in consolidated T2 capital	(1,250)	-	-	(1,250)
Part of interim or year-end profit not eligible	(1,513)	(1,513)	-	-
Non-controlling interest (amount not allowed in consolidated CET1)	(78)	(78)	-	-
Additional value adjustments (negative amount)	(1,187)	(1,187)	-	-
Negative amounts resulting from the calculation of expected loss amounts	(281)	(281)	-	-
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	252	252	-	-
Intangible assets (net of related tax liability) (negative amount)	(495)	(495)	-	-
Total Own Funds (Transitional Rules)	**25,117**	**16,871**	**1,300**	**6,946**
Less:				
Qualifying own funds subordinated debt instruments issued by subsidiaries subject to phase out	(108)	-	-	(108)
Total Own Funds (Fully Loaded Position)	**25,009**	**16,871**	**1,300**	**6,838**

Table 14: MSIP Reconciliation of Balance Sheet Total Equity to Regulatory Capital

	$MM	CET1 CAPITAL $MM	AT1 CAPITAL $MM	TIER 2 CAPITAL $MM
Equity Instruments	12,765	11,465	1,300	-
Share Premium	513	513		
Other reserves	1,402	1,402	-	-
Other Comprehensive Income	(184)	(184)	-	-
Retained Earnings	2,856	2,856	-	-
Balance sheet total equity	**17,352**	**16,052**	**1,300**	**-**
Add:				
Tier 2 instruments classified as other liabilities	**7,000**			**7,000**
Less:				
Part of interim or year-end profit not eligible	(700)	(700)	-	-
Additional value adjustments (negative amount)	(1,163)	(1,163)	-	-
Negative amounts resulting from the calculation of expected loss amounts	(262)	(262)	-	-
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	57	57	-	-
Intangible assets (net of related tax liability) (negative amount)	(2)	(2)	-	-
Total Own Funds (Fully Loaded Position and Transitional Rules)	**22,282**	**13,982**	**1,300**	**7,000**