Morgan Stanley International Limited Group

Pillar 3 Quarterly Disclosure Report as at 31 March 2018

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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 MSI Group's principal activities during the first quarter of 2018.

As at 31 March 2018, the following entities within the MSI Group were authorised by the Prudential Regulation Authority ("PRA") and regulated by the PRA and Financial Conduct Authority ("FCA"):

- Morgan Stanley & Co. International plc ("MSIP")
- Morgan Stanley Bank International Limited ("MSBIL")

As at 31 March 2018, the following entities within the MSI Group were authorised and regulated by the FCA:

- Morgan Stanley Investment Management Limited ("MSIM")
- Morgan Stanley Investment Management (ACD) Limited ("MSIM ACD")

Together these entities form the MSIM sub-consolidated group ("MSIM Group"). For further information in relation to the MSIM Group, please refer to the annual MSI Group disclosure which is located at http://www.morganstanley.com/about-us-ir/pillar-uk.

Basis of Consolidation

The MSI Group completes its prudential consolidation in compliance with Capital Requirements Regulation ("CRR") Part One, Title II Chapter 2, with all entities fully consolidated. The basis of consolidation for prudential purposes is the same as consolidation for accounting purposes. These disclosures are prepared for the MSI Group, rather than on an individual basis for each regulated entity, as permissible by CRD IV. The most significant subsidiary of the MSI Group is MSIP, the results of which are material to the MSI Group, key disclosures are provided for MSIP. 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.

Table 1: MSI Group Key Metrics[1]

	Q1'18 $MM	Q4'17 $MM
Common Equity Tier 1 Capital ("CET1")[2]	18,132	18,215
Additional Tier 1 Capital ("AT1")	1,300	1,300
Tier 1 Capital	19,432	19,515
Tier 2 Capital	6,777	6,863
Total Own Funds	26,209	26,378
Risk Weighted Assets ("RWAs")	138,129	136,754
CET1 Ratio	13.1%	13.3%
Tier 1 Capital Ratio	14.1%	14.3%
Total Capital Ratio	19.0%	19.3%
Leverage Exposure	453,156	454,529
Leverage Ratio[3]	4.3%	4.3%
Liquidity Coverage Ratio ("LCR")	192%	172%

1. Under PRA supervision, the MSI Group is required to maintain a minimum ratio of Own Funds to RWAs. As at 31 March 2018, the MSI Group is in compliance with the PRA capital requirements as defined by the CRR.
2. Adjustments to CET1 due to prudential filters as at 31 March 2018 $1,288MM, as at 31 December 2017 $1,138MM.
3. Leverage is disclosed on a fully phased-in basis and made in accordance with the EU Delegated Act.

Table 2: MSIP Key Metrics[1]

	Q1'18 $MM	Q4'17 $MM
Common Equity Tier 1 Capital ("CET1")[2]	15,585	15,671
Additional Tier 1 Capital ("AT1")	1,300	1,300
Tier 1 Capital	16,885	16,971
Tier 2 Capital	7,000	7,000
Total Own Funds	23,885	23,971
Risk Weighted Assets ("RWAs")	132,357	132,723
CET1 Ratio	11.8%	11.8%
Tier 1 Capital Ratio	12.8%	12.8%
Total Capital Ratio	18.0%	18.1%
Leverage Exposure	449,407	448,598
Leverage Ratio[2]	3.8%	3.8%

1. As at 31 March 2018, MSIP is in compliance with the PRA capital requirements as defined by the CRR.
2. Adjustments to CET1 due to prudential filters as at 31 March 2018 $1,258MM, as at 31 December 2017 $1,114MM.
3. Leverage is disclosed on a fully phased-in basis and made in accordance with the EU Delegated Act.

Morgan Stanley Group

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 and oversight of 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, liquidity, 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. Details of the latest Morgan Stanley Group LCR disclosure can be accessed at https://www.morganstanley.com/about-us-ir/lcr-disclosures-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.

2. Regulatory Frameworks

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 ("EU") via the Capital Requirements Directive ("CRD") and the CRR (collectively known as "CRD IV"). These new requirements took effect from 1 January 2014.

The framework consists of three "pillars":

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

Pillar 3 Disclosure

MSI Group Pillar 3 disclosures are prepared in accordance with the requirements of Part Eight of the CRR. For certain disclosures, the requirements of Part Eight of the CRR are further detailed through the European Banking Authority ("EBA") Regulatory Technical Standards ("RTS") and Implementing Technical Standards ("ITS") which included the introduction of a number of common templates. Where applicable to MSI Group, these templates are used within these disclosures.

The MSI Group has policies and procedures in place to assess the appropriateness of its Pillar 3 disclosure. One or more members of the management body are required to confirm that the disclosure has been prepared in accordance with internal control processes agreed upon at the management body level. The MSI Group's Pillar 3 disclosure is not required to be, and has not been, audited by the MSI Group's auditor. The MSI Group's Pillar 3 disclosure as at 31 March 2018 is based on its current understanding of CRD IV and related legislation, which may be subject to change as the MSI Group receives additional clarification and implementation guidance from regulators relating to CRD IV and as the interpretation of the final rules evolves over time.

This document represents the MSI Group quarterly Pillar 3 qualitative and quantitative disclosures required by CRD IV, as at 31 March 2018.

3. 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 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 sets a buffer if required in addition to the Basel Combined Buffers, which is available to support the MSI Group in a stressed market environment.

The Countercyclical Capital Buffer ("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. These exposures are not currently material for the MSI Group or MSIP, with the buffer adding 0.05% to the minimum capital ratio.

The Capital Conservation Buffer ("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 31 March 2018, the CCB is 1.875%.

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.

On 24 May 2018, MSIP repaid $2Bn of subordinated debt maturing in 2025 issued to Morgan Stanley International Finance SA ("MSIF").

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.

4. Leverage

The Basel III framework introduced a simple, transparent, non-risk based leverage ratio to act as a supplementary measure to the risk-based capital requirements. The Basel Committee is of the view that a simple leverage ratio framework is critical and complementary to the risk-based capital framework and that a credible leverage ratio ensures broad and adequate capture of both the on and off-balance sheet sources of banks' leverage.

Although there is no current binding leverage requirement under CRD IV, 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 the EMEA Asset and Liability Committee ("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 MSI Group leverage ratio is consistent with the 31 December 2017 level at 4.3%, with a decrease in the leverage exposure offset by a decrease in Tier 1 Capital.

5. Capital Requirements and RWAs

Table 3 and Table 4 summarise RWAs and minimum capital requirements ("MCR") for MSI Group and MSIP by risk type.

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") and Mark to Market Method ("MTMM") for exposures not covered by internal models.

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.

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.

Operational risk refers to the risk of loss, or of damage to the MSI Group’s reputation, resulting from inadequate or failed processes, people and systems or from external events (e.g. fraud, theft, legal and compliance risks, cyber-attacks or damage to physical assets). Capital requirements for operational risk are currently calculated under the Basic Indicator Approach (“BIA”).

Table 3: Overview of RWAs – MSI Group (EU OV1-A)

	RWAs Q1'18 $MM	RWAs Q4'17 $MM	MCR[1] Q1'18 $MM
Credit risk (excluding Counterparty Credit Risk) (“CCR”)	**11,366**	**10,694**	**909**
Of which standardised approach	4,267	4,297	341
Of which foundation IRB (FIRB) approach	4,587	3,905	367
Of which advanced IRB (AIRB) approach	-	-	-
Of which equity IRB under the simple risk-weighted approach or the IMA	2,512	2,492	201
CCR	**50,363**	**52,027**	**4,029**
Of which mark to market	10,335	11,865	827
Of which original exposure	-	-	-
Of which standardised approach[2]	841	1,296	67
Of which internal model method (“IMM”)	17,763	15,437	1,421
Of which Financial collateral comprehensive method (for SFTs)	11,485	11,888	919
Of which risk exposure amount for contributions to the default fund of a CCP	809	819	65
Of which CVA	9,130	10,722	730
Settlement risk	**242**	**111**	**19**
Securitisation exposures in banking book (after cap)	**253**	**287**	**20**
Of which IRB	165	196	13
Of which IRB supervisory formula approach (SFA)	-	-	-
Of which internal assessment approach (IAA)	-	-	-
Of which standardised approach	88	91	7
Market risk	**59,573**	**57,252**	**4,766**
Of which standardised approach	14,834	14,000	1,187
Of which IMA	44,739	43,252	3,579
Large exposures	**6,315**	**6,366**	**505**
Operational risk	**10,017**	**10,017**	**801**
Of which basic indicator approach	10,017	10,017	801
Of which standardised approach	-	-	-
Of which advanced measurement approach	-	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
Floor adjustment	-	-	-
Total	**138,129**	**136,754**	**11,049**

1. MSI Group and MSIP calculate Pillar 1 MCR as 8% of RWAs in accordance with CRD IV.
2. Represents derivative trades related settlement risk.

There has been a modest increase in RWAs during Q1 2018, primarily driven by an increase in counterparty credit risk and market risk internal modelled exposures due to business and market volumes, offset by a decrease due to mark to market and CVA following a drop in regulatory add-on.

Table 4: Overview of RWAs – MSIP (EU OV1-A)

	RWAs Q1'18 $MM	RWAs Q4'17 $MM	MCR Q1'18 $MM
Credit risk (excluding CCR)	**10,452**	**9,549**	**837**
Of which standardised approach	3,111	3,126	249
Of which foundation IRB (FIRB) approach	3,620	2,769	290
Of which advanced IRB (AIRB) approach	-	-	-
Of which equity IRB under the simple risk-weighted approach or the IMA	3,721	3,654	298
CCR	**49,783**	**51,627**	**3,982**
Of which mark to market	9,955	11,533	796
Of which original exposure	-	-	-
Of which standardised approach[1]	841	1,424	67
Of which internal model method (IMM)	17,541	15,208	1,403
Of which Financial collateral comprehensive method (for SFTs)	11,774	12,202	942
Of which risk exposure amount for contributions to the default fund of a CCP	761	773	61
Of which CVA	8,911	10,487	713
Settlement risk	**242**	**111**	**19**
Securitisation exposures in banking book (after cap)	**253**	**287**	**20**
Of which IRB	165	196	13
Of which IRB supervisory formula approach (SFA)	-	-	-
Of which internal assessment approach (IAA)	-	-	-
Of which standardised approach	88	91	7
Market risk	**55,965**	**54,042**	**4,477**
Of which standardised approach	11,226	10,790	898
Of which IMA	44,739	43,252	3,579
Large exposures	**7,952**	**9,397**	**636**
Operational risk	**7,710**	**7,710**	**617**
Of which basic indicator approach	7,710	7,710	617
Of which standardised approach	-	-	-
Of which advanced measurement approach	-	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
Floor adjustment	-	-	-
Total	**132,357**	**132,723**	**10,588**

1. Represents derivative trades related settlement risk.

RWA flow statements

Table 5 summarises the key drivers of RWAs and MCR for MSI Group and MSIP's credit risk exposures under the IRB approach.

Table 5: RWA Flow Statements of Credit Risk Exposures under the IRB Approach (EU CR8)

	MSI Group		MSIP	
	RWAs $MM	MCR $MM	RWAs $MM	MCR $MM
RWAs at the end of the previous reporting period[1]	**3,905**	**312**	**2,769**	**222**
Asset size	745	60	891	71
Asset quality	(63)	(5)	(40)	(3)
Model updates	-	-	-	-
Methodology and policy	-	-	-	-
Acquisitions and disposals	-	-	-	-
Foreign exchange movements	-	-	-	-
Other	-	-	-	-
RWAs at the end of the reporting period	**4,587**	**367**	**3,620**	**290**

1. Previous reporting period was Q4'17.

The increase in credit risk exposures during Q1 2018 was primarily driven by additional cash placements and loans.

Table 6 summarises the key drivers of RWAs and MCR for MSI Group and MSIP's counterparty credit risk exposures under the IMM Model.

Table 6: RWA Flow Statements of CCR Exposures under the IMM (EU CCR7)

	MSI Group		MSIP	
	RWAs $MM	MCR $MM	RWAs $MM	MCR $MM
RWAs at the end of the previous reporting period[1]	**15,437**	**1,235**	**15,208**	**1,217**
Asset size	2,333	186	2,341	187
Credit quality of counterparties	(254)	(20)	(256)	(21)
Model updates (IMM only)	247	20	247	20
Methodology and policy (IMM only)	-	-	-	-
Acquisitions and disposals	-	-	-	-
Foreign exchange movements	-	-	-	-
Other	-	-	-	-
RWAs at the end of the reporting period	**17,763**	**1,421**	**17,540**	**1,403**

1. Previous reporting period was Q4'17.

The increase in RWA during Q1 2018 was mainly caused by an increase in business volume and market movements. An internal model enhancement also contributed to the increase.

Table 7 summarises the key drivers of RWAs MCR for MSI Groups and MSIP's market risk exposures under IMA Model.

Table 7: RWA Flow Statements of Market Risk Exposures under the IMA (EU MR2-B)

	VAR $MM	Stressed VAR $MM	IRC $MM	Comprehensive Risk Measure $MM	Other[4] $MM	RWAs $MM	MCR $MM
RWAs at previous quarter end[1]	**5,136**	**14,554**	**6,307**	**20**	**17,235**	**43,252**	**3,460**
Regulatory adjustment[2]	(3,991)	(11,106)	(1,341)	(1)	-	(16,439)	(1,315)
RWAs at end of day previous quarter end[3]	1,145	3,448	4,966	19	17,235	26,813	2,145
Movement in risk levels	64	2,794	471	-	504	3,833	307
Model updates/changes	-	-	-	-	-	-	-
Methodology and policy	-	-	-	-	-	-	-
Acquisitions and disposals	-	-	-	-	-	-	-
Foreign exchange movements	-	-	-	-	-	-	-
Other	50	8	(18)	-	-	39	3
RWAs at end of day current quarter end[3]	1,259	6,250	5,419	19	17,739	30,685	2,455
Regulatory adjustment[2]	3,873	9,433	747	-	-	14,054	1,124
RWAs at end of reporting period	**5,132**	**15,683**	**6,166**	**19**	**17,739**	**44,739**	**3,579**

1. Previous reporting period was Q4'17
2. Regulatory adjustment accounts for the difference between the RWA calculated based on the end-of-day position, compared with the RWA calculated based on the 60-day average position in the case of VaR/Stressed VaR, and 12-week average position in the case of IRC.
3. Other (flow driver) represents low impact data and implementation changes including time series updates and periodic parameter updates to the respective models
4. Other (risk measure) is mainly Risks not in VaR

Over the quarter to 31st March 2018, the primary driver of end of day Market Risk RWA movements has been changes in risk levels associated with Stressed VaR ("SVaR"), as a result of higher interest rates and FX risk. End of day RWA movements from changes in risk levels for Incremental Risk Charge ("IRC") and Other – Risks not in VaR were less material, and a result of positions in the equities business.

6. Liquidity Coverage Ratio

The MSI Group's LCR Disclosure as at 31 March 2018 and is based on current understanding of the rules set out in the delegated act ("DA") adopted in October 2014 and related legislation.

On 31 March 2018, the MSI Group was in excess of the fully phased-in LCR required minimum of 100% (Pillar 1) as specified by the total net cash outflows amount included in Table 8. The firm is subject to Pillar 2 requirements, assessed by the PRA, for risks not covered in the LCR (Pillar 1). Pillar 2 amounts are not disclosed.

The LCR quantitative disclosures, shown in Table 8 below, reflect the average of the prior 12 month-end values, for each quarter end period. The figures reported in the "Total Weighted Value" column reflect the prescribed, industry-wide rules and haircuts applicable to the LCR to determine the Firm's eligible High Quality Liquid Assets ("HQLA") and cash in/outflow amounts.

Table 8: Liquidity Coverage Ratio

	Q1'18 $MM	Q4'17 $MM
Number of data points used in the calculation of averages	12	12
	Total weighted adjusted value (12 month average)	
Liquidity Buffer	39,442	38,339
Total net cash outflows	20,492	22,324
Liquidity Coverage Ratio	192%	172%

7. Regulatory Development

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 CRD IV), impacting the risk-based capital, liquidity, leverage and large exposures regimes (known as "CRD5" and "CRR2"), the Bank Recovery and Resolution Directive ("BRRD") and the Single Resolution Mechanism ("SRM"). They include amendments relating to revised standards that the Basel Committee had issued as part of its Basel III reform package prior to November 2016.

The key amendments to the CRR include a binding leverage ratio, new standards on the Total Loss-Absorbing Capacity ("TLAC"), also known as the Minimum Requirements for own funds and Eligible Liabilities ("MREL"), a binding net stable funding ratio ("NSFR"), a new standardised approach for the calculation of counterparty credit exposures for derivatives and new standardised and advanced calculation approaches for market risk requirements.

These legislative proposals continue to be discussed and negotiated, therefore it is not possible to anticipate their final content or time of application.

On 12 December 2017, the EU legislators adopted new legislation for securitisations. The framework for simple, transparent and standardised ("STS") regulation consolidates existing European legislation governing EU securitisations and introduces rules for issuing STS transactions. The regulation applies to all EU securitisations, regardless of who invests and whether the transaction is public or private. The Securitisation Prudential Regulation replaces the provisions of the CRR relating to the regulatory capital treatment of securitisation exposures held by EU credit institutions and investment firms. Both regulations will apply from 1 January 2019. Legacy securitisations outstanding on 1 January 2019 will be subject to existing CRR rules, for a transitional period of one year.

Finalising Basel III Reforms

On 7 December 2017, the Basel Committee released the final part of its Basel III reform package (sometimes referred to as "Basel IV"). The key amendments provide updates to the standardised measures for calculating capital requirements for credit risk, CVA and operational risk and include a RWA floor, calculated as 72.5% of total standardised RWAs. These proposals will need to be transposed into national/EU law, however the timing of this is still uncertain at this stage.

Transitional arrangements for recognising the impact from the adoption of IFRS 9 on capital resources

On 1 January 2018, the MSI Group adopted the remaining provisions of IFRS 9 Financial Instruments Standard, including the provisions related to expected credit loss impairment. The impact of the implementation of the expected credit loss impairment approach on retained earnings as at 1 January 2018 is not material to the MSI Group. As a result, the impact to the MSI Group's Tier 1 capital as at 1 January 2018 is not material to the MSI Group.

The MSI Group is not making use of the transitional arrangements introduced by Regulation (EU) 2017/2395 relating to the effects of unexpected credit losses for mitigating the impact of the introduction of IFRS 9 on own funds and the treatment of certain large exposures.

From 1 January 2018, its regulatory capital calculations are performed on the basis of including the new expected credit loss provisions in full.

UK Referendum

On 23 June 2016, the United Kingdom ("UK") electorate voted to leave the EU. On 29 March 2017, the UK invoked Article 50 of the Lisbon Treaty, which triggered a two-year period, subject to extension (which would need the unanimous approval of the EU Member States), during which the UK government is expected to negotiate its withdrawal agreement with the EU. Absent any extension, the UK is expected to leave the EU in March 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. Since any transition or implementation periods and the eventual successor arrangements require agreement of both the UK and the EU, there is a risk that these arrangements may not be agreed by March 2019.

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. 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, implementation or successor arrangements. The MSI Group is taking steps to make changes to European operations in an effort to ensure that it can continue to provide cross-border banking and investment services in EU Member States without the need for separate regulatory authorisations in each member state. These changes must be approved by the relevant regulatory authorities and therefore it is currently unclear what the final post-Brexit structure of European operations will be. Depending on the extent to which the MSI Group may be required to make material changes to European operations beyond those currently planned, results of the MSI Group's operations and business prospects could be negatively affected.

8. Appendix I: Abbreviations

Term	Definition
AT1	Additional Tier 1 Capital
BIA	Basic Indicator Approach
BRRD	Bank Recovery and Resolution Directive
CCB	Capital Conservation Buffer
CCR	Counterparty Credit Risk
CCyB	Countercyclical Capital Buffer
CET1	Common Equity Tier 1 Capital
CRD	Capital Requirements Directive
CRD IV	Capital Requirements Directive — EU implementation of Basel III
CRR	Capital Requirements Regulation
CVA	Credit Valuation Adjustment
DA	Delegated Act
EBA	European Banking Authority
EMEA ALCO	EMEA Asset and Liability Committee
EU	European Union
FCA	Financial Conduct Authority
HQLA	High Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
ICG	Individual Capital Guidance
IFRS	International Financial Reporting Standards
IRB	Foundation Internal Ratings Based Approach
IRC	Incremental Risk Charge
IMA	Internal Modelling Approach
IMM	Internal Models Method
ITS	Implementing Technical Standards
LCR	Liquidity Coverage Ratio
MCR	Minimum Capital Requirements
MREL	Minimum Requirements for Own Funds and Eligible Liabilities
MSBIL	Morgan Stanley Bank International Limited
MSI	Morgan Stanley International Limited
MSIF	Morgan Stanley International Finance SA
MSI Group	Morgan Stanley International Limited (and its subsidiaries)
MSIM	Morgan Stanley Investment Management Limited
MSIM ACD	Morgan Stanley Investment Management (ACD) Limited
MSIM Group	Morgan Stanley Investment Management Sub-Consolidation Group
MSIP	Morgan Stanley & Co. International plc
MTMM	Mark to Market Method
NSFR	Net Stable Funding Ratio
OTC	Over The Counter Derivatives
PRA	Prudential Regulation Authority
RTS	Regulatory Technical Standards
RWAs	Risk Weighted Assets
SA	Standardised Approach
SRM	Single Resolution Mechanism
SREP	Supervisory Review Process
STS	Simple Transparent Standardised Regulation
SVaR	Stressed Value at Risk
TLAC	Total Loss Absorbing Capacity
UK	United Kingdom
VaR	Value at Risk