Morgan Stanley International Limited Group

Pillar 3 Quarterly Disclosure Report as at 30 June 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 second quarter of 2018.

As at 30 June 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 30 June 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 two entities form the MSIM sub-consolidated group ("MSIM Group"). For further information on 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. This disclosure is 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. 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.

Key Metrics

Table 1: MSI Group Key Metrics[1]

	Q2'18 $MM	Q1'18 $MM
Common Equity Tier 1 Capital ("CET1")	18,355	18,132
Additional Tier 1 Capital ("AT1")	1,300	1,300
Tier 1 Capital	19,655	19,432
Tier 2 Capital	5,381	6,777
Total Own Funds	25,036	26,209
Risk Weighted Assets ("RWAs")	140,101	138,129
CET1 Ratio	13.1%	13.1%
Tier 1 Capital Ratio	14.0%	14.1%
Total Capital Ratio	17.9%	19.0%
Leverage Exposure	458,368	453,156
Leverage Ratio	4.3%	4.3%
Liquidity Coverage Ratio ("LCR")	208%	192%

1. The MSI Group is required to maintain a minimum ratio of Own Funds to RWAs. As at 30 June 2018, the MSI Group is in compliance with the PRA capital requirements.

Table 2: MSIP Key Metrics[1]

	Q2'18 $MM	Q1'18 $MM
Common Equity Tier 1 Capital ("CET1")	15,809	15,585
Additional Tier 1 Capital ("AT1")	1,300	1,300
Tier 1 Capital	17,109	16,885
Tier 2 Capital	5,000	7,000
Total Own Funds	22,109	23,885
Risk Weighted Assets ("RWAs")	137,062	132,357
CET1 Ratio	11.5%	11.8%
Tier 1 Capital Ratio	12.5%	12.8%
Total Capital Ratio	16.1%	18.0%
Leverage Exposure	454,783	449,407
Leverage Ratio	3.8%	3.8%

1. MSIP is required to maintain a minimum ratio of Own Funds to RWAs. As at 30 June 2018, MSIP is in compliance with the PRA capital requirements.

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, these requirements 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, these templates are used within this disclosure.

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 30 June 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 30 June 2018.

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.

Progress has been made by European policy-makers during 2018. The final stage of the legislative process ("trilogue") has commenced and legislators are targeting completion by the end of 2018.

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.

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.

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 and Evaluation Process ("SREP") and sets a Total Capital Requirement ("TCR") which establishes the minimum level of regulatory capital for the MSI Group and MSIP. As of 30th June 2018 the MSI Group and MSIP TCR was set at 11.3%. 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 are not currently material for the MSI Group or MSIP, with the buffer adding 0.17% to the minimum capital ratio for MSI Group.

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 23 August 2018, MSI Group issued $2.2Bn of AT1 securities to Morgan Stanley International Holdings Inc. (“MSIHI”) and utilised the proceeds to subscribe for $2.2Bn of AT1 securities issued by MSIP.

On 26 September, the PRA granted both MSI Group and MSIP permission to include the interim profits for the period beginning 01 January 2018 and ending on 30 June 2018 in Common Equity Tier 1 capital.

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. Capital Resources

The capital resources of the MSI Group and MSIP are set out in Table 3. All capital resources included in Tier 1 and 2 capital are of standard form and the main terms and conditions of the capital instruments are disclosed in Appendix I.

Table 3: Own funds

	MSI Group $MM	MSIP $MM
Capital instruments eligible as CET1 Capital	1,615	12,978
Retained Earnings	11,858	2,952
Accumulated other comprehensive income	(577)	(139)
Other reserves	7,461	1,402
Adjustments to CET1 due to prudential filters	(1,188)	(1,153)
Other Intangible Assets	(579)	(2)
Internal Ratings Based (“IRB”) Shortfall of credit risk adjustments to expected losses	(235)	(229)
CET1 Capital	**18,355**	**15,809**
Additional Tier 1 Capital	1,300	1,300
Tier 1 Capital	**19,655**	**17,109**
Capital instruments and subordinated loans eligible as T2 Capital	5,381	5,000
Instruments issued by subsidiaries that are given recognition in T2 Capital	-	-
Transitional adjustments due to additional recognition in T2 Capital of instruments issued by subsidiaries	-	-
Tier 2 Capital	**5,381**	**5,000**
Total Own Funds	**25,036**	**22,109**

The MSI Group relies on its policies, procedures and systems to determine the adequacy of valuation for financial assets and compliance with accounting standards. To comply with the requirements of CRD IV, additional valuation adjustments are applied to capital over and above those that are taken in order to comply with the accounting requirements. The regulatory adjustments are referred to in the above table as prudential filters.

The capital resources of the MSI Group and MSIP are based on unaudited financial information. Table 4 presents a reconciliation between balance sheet own funds and regulatory own funds. The balance sheet data is unaudited.

Table 4: Reconciliation of Balance Sheet Total Equity to Regulatory Capital

	MSI Group				MSIP			
	$MM	CET1 Capital $MM	AT1 Capital $MM	Tier 2 Capital $MM	$MM	CET1 Capital $MM	AT1 Capital $MM	Tier 2 Capital $MM
Equity Instruments	2,915	1,615	1,300	-	13,765	12,465	1,300	-
Share Premium	0	0	-	-	513	513	-	-
Other reserves	7,461	7,461	-	-	1,402	1,402	-	-
Other Comprehensive Income	(577)	(577)	-	-	(139)	(139)	-	-
Retained Earnings	12,638	12,638	-	-	3,622	3,622	-	-
Non-controlling interest	104	104	-	-	-	-	-	-
Balance sheet total equity	**22,541**	**21,241**	**1,300**	**-**	**19,163**	**17,863**	**1,300**	**-**
Add:								
Tier 2 instruments classified as other liabilities	**5,381**	**-**	**-**	**5,381**	**5,000**	**-**	**-**	**5,000**
Less:								
Qualifying own funds subordinated debt instruments not included in consolidated T2 capital	-	-	-	-	-	-	-	-
Part of interim or year-end profit not eligible	(780)	(780)	-	-	(670)	(670)	-	-
Non-controlling interest (amount not allowed in consolidated CET1)	(104)	(104)	-	-	-	-	-	-
Additional value adjustments (negative amount)	(1,209)	(1,209)	-	-	(1,177)	(1,177)	-	-
Negative amounts resulting from the calculation of expected loss amounts	(235)	(235)	-	-	(229)	(229)	-	-
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	21	21	-	-	24	24	-	-
Intangible assets (net of related tax liability) (negative amount)	(579)	(579)	-	-	(2)	(2)	-	-
Total Own Funds (Transitional Rules)	**25,036**	**18,355**	**1,300**	**5,381**	**22,109**	**15,809**	**1,300**	**5,000**
Less:								
Qualifying own funds subordinated debt instruments issued by subsidiaries subject to phase out	-	-	-	-	-	-	-	-
Total Own Funds (Fully Loaded Position)	**25,036**	**18,355**	**1,300**	**5,381**	**22,109**	**15,809**	**1,300**	**5,000**

5. 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 has remained at 4.3% as of 30 June 2018. From 31 March 2018 to 30 June 2018 there was an increase in Tier 1 capital offset by an increase in derivative exposures.

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 5 provides a reconciliation between total assets in the balance sheet and the leverage exposure measure.

Table 5: Reconciliation of Accounting Assets and Leverage Ratio Exposures

	MSI Group $MM	MSIP $MM
Total assets as per balance sheet	472,571	466,268
Adjustments for derivative financial instruments	(45,266)	(43,069)
Adjustments for securities financing transactions	21,919	22,535
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	6,703	5,989
(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	-	(455)
Other adjustments	2,441	3,515
Total leverage ratio exposure	**458,368**	**454,783**

Table 6 provides a detailed breakdown of the components of the leverage ratio exposure.

Table 6: Leverage Ratio Common Disclosure

	MSI Group $MM	MSIP $MM
On-balance sheet exposures (excluding derivatives and SFTs[1])		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	213,822	205,039
(Asset amounts deducted in determining Tier 1 capital)	(2,024)	(1,409)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	211,798	203,630
Derivative exposures		
Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	20,963	20,710
Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	137,303	137,702
Gross-up for derivatives collateral provided where deducted from the balance sheet pursuant to the applicable accounting framework	1,104	1,104
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(20,490)	(20,032)
(Exempted CCP leg of client-cleared trade exposures)	(10,373)	(10,406)
Adjusted effective notional amount of written credit derivatives	175,245	175,245
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(169,562)	(169,083)
Total derivative exposures	134,190	135,240
Securities financing transaction exposures		
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	187,360	191,447
(Netted amounts of cash payables and cash receivables of gross SFT assets)	(95,405)	(94,868)
Counterparty credit risk exposure for SFT assets	13,722	13,800
Total securities financing transaction exposures	105,677	110,379
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	23,363	21,961
(Adjustments for conversion to credit equivalent amounts)	(16,660)	(15,972)
Total other off-balance sheet exposures	6,703	5,989
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))	-	(455)
Capital and total exposure measure		
Tier 1 capital	**19,655**	**17,109**
Total leverage ratio exposures	**458,368**	**454,783**
Leverage ratio	4.3%	3.8%
Choice on transitional arrangements for the definition of the capital measure	**Fully Phased-In**	**Fully Phased-In**

1. Securities Financing Transactions ("SFTs")

Table 7 provides a breakdown of the on-balance sheet exposures into trading and non-trading book exposures.

Table 7: 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:	213,822	205,039
Trading Book exposures	175,713	169,709
Non-Trading Book exposures, of which:	38,109	35,330
Exposures treated as sovereigns	14,659	13,360
Institutions	18,266	17,756
Corporate	3,362	3,649
Exposures in default	66	64
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	1,756	501

6. Capital Requirements and RWAs

RWAs reflect both on- and off-balance sheet risk, as well as capital charges attributable to the risk of loss arising from the following.

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.

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.

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 comprise of capital associated with the Internal Modelling Approaches (“IMA”) approved by the PRA and those associated with the 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 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”).

For further discussion on credit risk, counterparty credit risk and market risk, please refer to the specific sections within this document.

Table 8 and Table 9 summarise RWAs and minimum capital requirements (“MCR”) by risk type for MSI Group and MSIP.

Table 8: Overview of RWAs – MSI Group (EU OV1-A)

	RWAs Q2'18 $MM	RWAs Q1'18 $MM	MCR[1] Q2'18 $MM
Credit risk (excluding Counterparty Credit Risk) ("CCR")	**10,795**	**11,366**	**864**
Of which standardised approach	4,052	4,267	324
Of which foundation IRB (FIRB) approach	4,359	4,587	349
Of which advanced IRB (AIRB) approach	-	-	-
Of which equity IRB under the simple risk-weighted approach or the IMA	2,384	2,512	191
CCR	**50,880**	**50,363**	**4,070**
Of which mark to market	10,994	10,335	879
Of which original exposure	-	-	-
Of which standardised approach	1,473	841	118
Of which internal model method ("IMM")	17,782	17,763	1,423
Of which Financial collateral comprehensive method (for SFTs)	9,962	11,485	797
Of which risk exposure amount for contributions to the default fund of a CCP	588	809	47
Of which CVA	10,081	9,130	806
Settlement risk	**42**	**242**	**3**
Securitisation exposures in banking book (after cap)	**236**	**253**	**19**
Of which IRB	156	165	13
Of which IRB supervisory formula approach (SFA)	-	-	-
Of which internal assessment approach (IAA)	-	-	-
Of which standardised approach	80	88	6
Market risk	**59,357**	**59,573**	**4,749**
Of which standardised approach	14,560	14,834	1,165
Of which IMA	44,797	44,739	3,584
Large exposures	**8,346**	**6,315**	**667**
Operational risk	**10,010**	**10,017**	**801**
Of which basic indicator approach	10,010	10,017	801
Of which standardised approach	-	-	-
Of which advanced measurement approach	-	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	435	-	35
Floor adjustment	-	-	-
Total	**140,101**	**138,129**	**11,208**

Table 9: Overview of RWAs – MSIP (EU OV1-A)

	RWAs Q2'18 $MM	RWAs Q1'18 $MM	MCR[1] Q2'18 $MM
Credit risk (excluding CCR)	**9,097**	**10,452**	**728**
Of which standardised approach	3,173	3,111	254
Of which foundation IRB (FIRB) approach	3,432	3,620	275
Of which advanced IRB (AIRB) approach	-	-	-
Of which equity IRB under the simple risk-weighted approach or the IMA	2,492	3,721	199
CCR	**50,014**	**49,783**	**4,001**
Of which mark to market	10,547	9,955	844
Of which original exposure	-	-	-
Of which standardised approach	1,473	841	118
Of which internal model method (IMM)	17,455	17,541	1,396
Of which Financial collateral comprehensive method (for SFTs)	10,189	11,774	815
Of which risk exposure amount for contributions to the default fund of a CCP	580	761	46
Of which CVA	9,770	8,911	782
Settlement risk	**42**	**242**	**3**
Securitisation exposures in banking book (after cap)	**236**	**253**	**19**
Of which IRB	156	165	13
Of which IRB supervisory formula approach (SFA)	-	-	-
Of which internal assessment approach (IAA)	-	-	-
Of which standardised approach	80	88	6
Market risk	**55,913**	**55,965**	**4,473**
Of which standardised approach	11,116	11,226	889
Of which IMA	44,797	44,739	3,584
Large exposures	**12,690**	**7,952**	**1,015**
Operational risk	**7,702**	**7,710**	**616**
Of which basic indicator approach	7,702	7,710	616
Of which standardised approach	-	-	-
Of which advanced measurement approach	-	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	1,368	-	110
Floor adjustment	-	-	-
Total	**137,062**	**132,357**	**10,965**

1. MSI Group and MSIP calculate Pillar 1 MCR as 8% of RWAs in accordance with CRD IV.

Over the second quarter, there has been a modest increase in RWAs for both MSI Group and MSIP, primarily driven by an increase in Large Exposure RWAs following implementation of revised regulatory requirements.

7. Credit Risk

7.1 Credit and Counterparty Credit Risk Management

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 is exposed to Credit Risk from the extension of credit to clients through lending commitments, derivatives, securities financing and prime brokerage activities. The MSI Group primarily incurs credit risk exposure to Corporates, Institutions, Central Governments and Central Banks through its Institutional Securities business segment.

The MSI Group Credit Risk Management department is an independent risk oversight group headed by the Chief Credit Officer who reports directly to the EMEA Chief Risk Officer. The MSI Group Credit Risk Management is responsible for managing and overseeing the credit risk profile of the MSI Group, including the design and oversight of the credit risk and limits framework covering the independent identification, analysis, monitoring, reporting and escalation of credit risks. In order to help protect the MSI Group from losses resulting from its business activities, Credit Risk Management establishes practices to evaluate, monitor and control credit risk exposure at the transaction, obligor and portfolio levels. Credit Risk Management 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.

7.2 Credit and Counterparty Credit Risk Capital Requirements

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.

RWAs are determined using the IRB approach which reflects the 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, typically for certain business units which are non-significant and certain exposure classes or types of exposures which are immaterial in terms of size and perceived risk profile.

The standardised approach assigns fixed risk weights to the following exposures classes in accordance with the CRR: Central Governments and Central Banks, Corporates, Institutions, Multilateral Development Banks, International Organisations, Regional Governments and Local Authorities.

Table 10 summarises the MSI Groups Credit Risk RWAs and MCR as at 30 June 2018.

Table 10: Credit Risk RWA Summary

	RWAs Q2'18 $MM	RWAs Q1'18 $MM	MCR Q2'18 $MM
Credit Risk	10,795	11,366	864
Of Which FIRB	4,359	4,587	349
Counterparty Credit Risk (excluding CVA)	40,799	41,233	3,264
Of Which IMM	17,782	17,763	1,423
Securitisation	236	253	19
Amounts below the thresholds for deduction (subject to 250% risk weight)	435	-	35
Total(excluding CVA)	**52,265**	**52,852**	**4,182**
CVA	10,081	9,130	806
Credit Risk Total	**62,346**	**61,982**	**4,988**

Table 11 shows the Credit and Counterparty Credit Risk for MSI Group as at 30 June 2018, for each exposure class as per the classification set out in the CRR.

Table 11: Credit and Counterparty Credit Risk Summary

	EAD[1] $MM	RWAs $MM	MCR $MM
IRB			
Central Governments or Central Banks	26,277	1,930	154
Corporates	55,451	27,666	2,214
Equity	803	2,384	191
Institutions	54,024	12,276	982
Securitisation	180	156	13
Total (IRB)	**136,735**	**44,412**	**3,554**
Standardised			
Central Governments Or Central Banks	318	249	20
Corporates	4,505	4,453	357
High Risk	-	-	-
Institutions	17,335	1,292	103
Multilateral Development Banks	5	-	-
International Organisations	5	-	-
Regional Government Or Local Authorities	2	-	-
Securitisation	246	80	6
Other Items	1,067	1,191	95
Total (Standardised)	**23,483**	**7,265**	**581**
Total (CCP Default Fund)	**922**	**588**	**47**
Total	**161,140**	**52,265**	**4,182**

1. Exposure at Default ("EAD")

Credit and Counterparty Credit RWA flow statements

Table 12 summarises the movements of RWAs and MCR for MSI Group and MSIP's credit risk exposures under the IRB approach.

Table 12: 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]	**4,587**	**367**	**3,620**	**290**
Asset size	(262)	(21)	(228)	(18)
Asset quality	34	3	40	3
Model updates	-	-	-	-
Methodology and policy	-	-	-	-
Acquisitions and disposals	-	-	-	-
Foreign exchange movements	-	-	-	-
Other	-	-	-	-
RWAs at the end of the reporting period	**4,359**	**349**	**3,432**	**275**

1. Previous reporting period was Q1'18.

The decrease in asset size was primarily driven by a loan termination and increased cash exposures.

7.3 Non-Trading Book Equity Exposure and Specialised Lending

The MSI Group applies the IRB simple risk weight approach for equity exposures falling outside of the Trading Book. The majority of the equity positions are held as hedges for employee long-term compensation schemes. A specialized lending slotting methodology is used in capital calculation for loans secured by Income Producing Real Estate ("IPRE").

Table 13 shows the MSI Group's specialised lending and equity exposures using the simple risk-weighted approach.

Table 13: IRB (Specialised Lending and Equities) (EU CR10)

MSI Group – Specialised Lending Regulatory Categories[1]	Remaining Maturity	On-Balance Sheet Amount $MM	Off-Balance Sheet Amount $MM	Risk Weight %	Exposure Amount $MM	RWAs $MM	Expected Losses $MM
Category 1	Less than 2.5 years	-	-	50%	-	-	-
	Equal to or more than 2.5 years	-	-	70%	-	-	-
Category 2	Less than 2.5 years	-	-	70%	-	-	-
	Equal to or more than 2.5 years	-	-	90%	-	-	-
Category 3	Less than 2.5 years	-	-	115%	-	-	-
	Equal to or more than 2.5 years	-	-	115%	-	-	-
Category 4	Less than 2.5 years	-	-	250%	-	-	-
	Equal to or more than 2.5 years	-	-	250%	-	-	-
Category 5	Less than 2.5 years	-	-	-	-	-	-
	Equal to or more than 2.5 years	-	-	-	-	-	-
Total	**Less than 2.5 years**	**-**	**-**	**-**	**-**	**-**	**-**
	Equal to or more than 2.5 years	**-**	**-**	**-**	**-**	**-**	**-**

MSI Group – Equities Under the Simple Risk-Weight Approach Categories	On-Balance Sheet Amount $MM	Off-Balance Sheet Amount $MM	Risk Weight %	Exposure Amount $MM	RWAs $MM	Expected Losses $MM
Private equity exposures	-	-	190%	-	-	-
Exchange-traded equity exposures	378	357	290%	735	2,133	6
Other equity exposures	68	-	370%	68	251	2
Total	**446**	**357**	**-**	**803**	**2,384**	**8**

MSIP – Specialised Lending Regulatory Categories	Remaining Maturity	On-Balance Sheet Amount $MM	Off-Balance Sheet Amount $MM	Risk Weight %	Exposure Amount $MM	RWAs $MM	Expected Losses $MM
Category 1	Less than 2.5 years	-	-	50%	-	-	-
	Equal to or more than 2.5 years	-	-	70%	-	-	-
Category 2	Less than 2.5 years	-	-	70%	-	-	-
	Equal to or more than 2.5 years	-	-	90%	-	-	-
Category 3	Less than 2.5 years	-	-	115%	-	-	-
	Equal to or more than 2.5 years	-	-	115%	-	-	-
Category 4	Less than 2.5 years	-	-	250%	-	-	-
	Equal to or more than 2.5 years	-	-	250%	-	-	-
Category 5	Less than 2.5 years	-	-	-	-	-	-
	Equal to or more than 2.5 years	-	-	-	-	-	-
Total	**Less than 2.5 years**	**-**	**-**	**-**	**-**	**-**	**-**
	Equal to or more than 2.5 years	**-**	**-**	**-**	**-**	**-**	**-**

MSIP – Equities Under the Simple Risk-Weight Approach Categories	On-Balance Sheet Amount $MM	Off-Balance Sheet Amount $MM	Risk Weight %	Exposure Amount $MM	RWAs $MM	Expected Losses $MM
Private equity exposures	-	-	190%	-	-	-
Exchange-traded equity exposures	377	334	290%	711	2,063	6
Other equity exposures	116	-	370%	116	429	3
Total	**493**	**334**	**-**	**827**	**2,492**	**9**

1. Categories as defined by Risk Weight banding prescribed in the CRR.

Over the first half of 2018, the total RWA and expected losses have been relatively stable.

7.4 Credit Risk Mitigation

The MSI Group may seek to mitigate credit risk from its lending and trading activities in multiple ways, including netting, collateral, guarantees and hedges. At the transaction level, the MSI Group seeks to mitigate risk through management of key risk elements such as size, tenor, financial covenants, seniority and collateral. The MSI Group actively hedges its lending and derivatives exposure through various financial instruments that may include single-name, portfolio and structured credit derivatives. Additionally, the MSI Group may sell, assign or syndicate funded loans and lending commitments to other financial institutions in the primary and secondary loan market. In connection with its derivatives trading activities, the MSI Group generally enters into master netting agreements and collateral arrangements with counterparties. These agreements provide the MSI Group with the ability to demand collateral, as well as to liquidate collateral and offset receivables and payables covered under the same master agreement in the event of a counterparty default.

8. Counterparty Credit Risk

8.1 Counterparty Credit exposures

The MSI Group uses the IMM and the Mark-to-Market Method for calculating its Counterparty Credit Risk exposure. The majority of OTC derivatives within the MSI Group are in scope of the IMM permission. The IMM approach uses a Monte Carlo simulation technique to measure and monitor potential future exposures of derivative portfolios. The models used simulate risk factors and replicate the risk mitigation techniques such as netting and collateral. The most material risk factors are calibrated daily to market implied data, while other risk factors are calibrated based on three years or more of historical data.

Table 14 shows a comprehensive view of the methods used to calculate CCR regulatory requirements and the main parameters used within each method for the MSI Group as at 30 June 2018.

Table 14: Analysis of the Counterparty Credit Risk (CCR) Exposure by Approach (EU CCR1)

	Notional	Replacement Cost/ Current Market Value	Potential Future Exposure	Effective Expected Positive Exposure ("EEPE")	Multiplier	EAD Post CRM	RWAs
	$MM	$MM	$MM	$MM	$MM	$MM	$MM
Mark to market		3,978	25,463			20,743	10,655
Original exposure	-					-	-
Standardised approach		1,170			-	1,626	1,473
IMM (for derivatives and SFTs)				23,479	1.5	35,489	17,782
Of which securities financing transactions				-	-	-	-
Of which derivatives & long settlement transactions				23,479	1.5	35,489	17,782
Of which from contractual cross product netting				-	-	-	-
Financial collateral simple method (for SFTs)						-	-
Financial collateral comprehensive method(for SFTs)						53,805	9,912
VaR for SFTs						-	-
Total							39,822

Table 15 summarises the movements of RWAs and MCR for MSI Group and MSIP's counterparty credit risk exposures under the IMM Model.

Table 15: 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]	17,763	1,421	17,541	1,403
Asset size	788	63	728	58
Credit quality of counterparties	(769)	(61)	(814)	(65)
Model updates (IMM only)	-	-	-	-
Methodology and policy (IMM only)	-	-	-	-
Acquisitions and disposals	-	-	-	-
Foreign exchange movements	-	-	-	-
Other	-	-	-	-
RWAs at the end of the reporting period	**17,782**	**1,423**	**17,455**	**1,396**

1. Previous reporting period was Q1'18.

The IMM RWA remains stable with the underlying movements mainly driven by market, collateral and portfolio changes.

8.2 Credit Valuation Adjustment

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

Table 16 shows the CVA by approaches for the MSI Group as at 30 June 2018.

Table 16: Credit Valuation Adjustment (CVA) Capital Charge (EU CCR2)

	Exposure Value $MM	RWAs $MM
Total portfolios subject to the advanced method	23,020	5,544
(i) VaR component (including the 3× multiplier)		842
(ii) Stressed VaR component (including the 3× multiplier)		4,702
All portfolios subject to the standardised method	9,450	4,537
Based on the original exposure method	-	-
Total subject to the CVA capital charge	**32,470**	**10,081**

1. Exposure is the spot value as at June 2018 month end.
2. Advanced RWA is 60-day average.

Over the first half of 2018, the increase in exposures is from portfolio movements and the implementation of a new regulation which increased the number of counterparties in scope.

8.3 Derivatives and SFTs credit exposure

Table 17 shows the impact of netting and collateral held on exposures on derivative and SFTs held as at 30 June 2018 for the MSI Group.

Gross positive fair value represents any long market value on derivative transactions before netting benefits are applied but after any regulatory eliminations and exemptions are applied. Collateral held represents the market value of enforceable collateral received after regulatory eliminations and exemptions are applied.

Net derivatives credit exposure represents the net exposure after collateral received has been applied.

Table 17: Impact of Netting and Collateral Held on Exposure Values (EU CCR5-A)

	Gross Positive Fair Value or Net Carrying Amount $MM	Netting Benefits $MM	Netted Current Credit Exposure $MM	Collateral Held $MM	Net Credit Exposure $MM
Derivatives	274,244	228,377	45,867	34,663	11,204
SFTs[1]	573,903	-	573,903	486,804	87,099
Total	848,147	228,377	619,770	521,467	98,303

1. SFTs carrying amount reflects netting benefit. MSI Group does not engage in any cross product netting.

Over the first half of 2018, Gross Fair Value on Derivatives increased primarily on Listed Derivatives and OTC Derivatives exposures. Net carrying amount on Securities Financing remained relatively flat.

Table 18 shows the shows breakdown of all types of collateral posted or received by banks to support or reduce CCR exposures related to derivative transactions or to SFTs, including transactions cleared through a Central Counterparty ("CCP") as at 30 June 2018 for the MSI Group.

Table 18: Composition of Collateral for Exposures to CCR (EU CCR5-B)

	Collateral Used in Derivative Transactions				Collateral Used in SFTs	
	Fair Value of Collateral Received		Fair Value of Posted Collateral		Fair Value of Collateral Received	Fair Value of Posted Collateral
	Segregated $MM	Unsegregated $MM	Segregated $MM	Unsegregated $MM	$MM	$MM
Cash	3,097	62,593	5,218	41,295	348,930	368,580
Corporate Bonds	616	2,212	1,679	294	8,718	8,057
Equity Securities	766	3,380	544	127	106,942	110,316
Government Agency Debt	1,795	133	14	15	23,274	7,831
Other Collateral	-	-	-	-	-	-
Sovereign Debt	2,719	6,466	796	2,666	162,744	155,626
Total	**8,993**	**74,784**	**8,251**	**44,397**	**650,608**	**650,410**

Over the first half of 2018, the increase in collateral received for derivative transactions is driven by additional sovereign debt, government agency debt and equity securities. Cash collateral posted decreased on unsegregated cash received on OTC derivative transactions. Collateral received for SFTs increased in both pledged and received collateral reflecting greater business activity.

8.4 Exposures to CCPs

Table 19 shows the breakdown of the exposures by qualifying and non-qualifying CCPs as at 30 June 2018 for the MSI Group.

Table 19: Exposures to CCPs (EU CCR8)

	EAD Post CRM $MM	RWAs $MM
Exposures to QCCPs (total)		**1,065**
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	14,743	295
(i) OTC derivatives	2,619	52
(ii) Exchange-traded derivatives	9,646	193
(iii) SFTs	2,478	50
(iv) Netting sets where cross-product netting has been approved	-	-
Segregated initial margin	-	
Non-segregated initial margin	9,144	183
Prefunded default fund contributions	701	209
Alternative calculation of own funds requirements for exposures		378
Exposures to non-QCCPs (total)		**68**
Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	68	68
(i) OTC derivatives	-	-
(ii) Exchange-traded derivatives	68	68
(iii) SFTs	-	-
(iv) Netting sets where cross-product netting has been approved	-	-
Segregated initial margin	-	
Non-segregated initial margin	-	-
Pre-funded default fund contributions	-	-
Unfunded default fund contributions	-	-

Over the first half of 2018, exposure to QCCPs decreased primarily on SFTs driven by an enhancement in collateral recognition approach. This is partially offset by an increase in OTC derivatives.

8.5 Credit Derivative Transactions

Table 20 shows the extent of an institution's exposures to credit derivative transactions broken down between derivatives bought or sold.

Table 20: Credit Derivatives Exposures (EU CCR6)

	Protection Bought $MM	Protection Sold $MM
Notionals		
Credit Derivative products used for own credit portfolio		
Single-name credit default swaps	1,350	871
Total Notionals used for own credit portfolio	**1,350**	**871**
Credit Derivative products used for Intermediation		
Single-name credit default swaps	92,938	89,006
Index credit default swaps	54,837	56,060
Total return swaps	2,804	2,210
Credit options	20,037	18,352
Other credit derivatives	10,076	10,078
Total Notionals used for intermediation	180,692	175,706
Total Credit Derivative Notionals	**182,042**	**176,577**
Fair Values		
Positive fair value (asset)	1,805	2,196
Negative fair value (liability)	(2,045)	(1,764)

Over the first half of 2018, the total notional for Credit Derivatives decreased following portfolio movements.

9. 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 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.

9.1 Market Risk Capital Requirements

The market risk capital requirements of the MSI Group comprises of capital which is calculated using IMA in accordance with regulatory approved models, and of capital which is calculated under the Standardised approach. Table 21 summarises the capital requirements under the respective approaches. Testing to ensure that the capital assessment meets the required soundness standard is carried out on a quarterly basis with the results reported to the PRA.

Table 21: Market Risk RWAs and MCR

	RWAs Q2’18 $MM	RWAs Q1’18 $MM	MCR Q2’18 $MM
Standardised	14,560	14,834	1,165
Internal Models Approach	44,797	44,739	3,584
Total	**59,357**	**59,573**	**4,749**

Standardised Approach

Table 22 shows the market risk capital requirements for the MSI Group as at 30 June 2018, calculated in accordance with the standardised approach and categorised by component type.

Table 22: Market Risk under the Standardised Approach (EU MR1)

	RWAs $MM	MCR $MM
Outright products		
Interest rate risk (general and specific)	2,952	236
Equity risk (general and specific)	25	2
Foreign exchange risk	2,334	187
Commodity risk	450	36
Options		
Simplified approach	-	-
Delta-plus method	554	44
Scenario approach	-	-
Securitisation (specific risk)	8,245	660
Total	**14,560**	**1,165**

Over the first half of 2018, there were no significant changes to Standardised portfolios.

IMA Approach

The Value at Risk (“VaR”)-based capital and the Stressed Value at Risk (“SVaR”)-based capital are determined by the higher of the 60-day average of the 10-day VaR / 10-day SVaR numbers, multiplied by the regulatory Internal Model multiplication factor as prescribed by the PRA, and the 10-day VaR/ 10-day SVaR for the relevant day. The IRC and Comprehensive Risk Measure charges are determined by the higher of the average of the latest 12 weeks IRC/CRM and the IRC/CRM charge for the relevant day.

Table 23 shows the VaR and SVaR, as well as the IRC and CRM measures, for the period ending 30 June 2018. The VaR, SVaR, IRC and CRM capital measures presented in Table 23 were based on the 60 day / 12 week regulatory average measures, as they were higher than the daily measures as at 30 June 2018.

Table 23: Market Risk under Internal Models Approach (EU MR2-A)

	RWAs $MM	MCR $MM
VaR (higher of values a and b)	**4,544**	**364**
Previous day's VaR (Article 365(1) (VaRt-1))	1,164	93
Average of the daily VaR (Article 365(1)) of the CRR on each of the preceding 60 business days (VaRavg) x multiplication factor (mc) in accordance with Article 366 of the CRR	4,544	364
SVaR (higher of values a and b)	**15,445**	**1,236**
Latest SVaR (Article 365(2) (sVaRt-1))	3,704	296
Average of the SVaR (Article 365(2) of the CRR) during the preceding 60 business days (SVaRavg) x multiplication factor (ms) (Article 366 of the CRR)	15,445	1,236
IRC (higher of values a and b)	**4,744**	**379**
Most recent IRC value (incremental default and migration risks calculated in accordance with Article 370 and Article 371 of the CRR)	4,436	355
Average of the IRC number over the preceding 12 weeks	4,744	379
Comprehensive risk measure (higher of values a, b and c)	**15**	**1**
Most recent risk number for the correlation trading portfolio (Article 377 of the CRR)	2	-
Average of the risk number for the correlation trading portfolio over the preceding 12 weeks	15	1
8% of the own funds requirement in the standardised approach on the most recent risk number for the correlation trading portfolio (Article 338(4) of the CRR)		
Other	**20,049**	**1,604**
Total	**44,797**	**3,584**

Table 24 summarises the movements of RWAs and MCR for both MSI Group and MSIP’s market risk exposures under IMA Model.

Table 24: 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]	5,132	15,683	6,166	19	17,739	44,739	3,579
Regulatory adjustment[2]	(3,874)	(9,433)	(747)	-	-	(14,054)	(1,124)
RWAs at end of day previous quarter end[3]	1,258	6,250	5,419	19	17,739	30,685	2,455
Movement in risk levels	64	(2,629)	(965)	(17)	2,492	(1,055)	(84)
Model updates/changes	(220)	(202)	-	-	(182)	(604)	(48)
Methodology and policy	-	-	-	-	-	-	-
Acquisitions and disposals	-	-	-	-	-	-	-
Foreign exchange movements	-	-	-	-	-	-	-
Other	62	285	(18)	-	-	329	26
RWAs at end of day current quarter end[3]	1,164	3,704	4,436	2	20,049	29,355	2,349
Regulatory adjustment[2]	3,380	11,741	308	13	-	15,442	1,235
RWAs at end of reporting period	4,544	15,445	4,744	15	20,049	44,797	3,584

1. Previous reporting period was Q1’18
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 second quarter, the primary driver of end of day Market Risk RWA movements has been changes in risk levels associated with Stressed VaR, as a result of lower interest rate risk in the fixed income business. This also resulted in movements in Reported VaR RWAs, as higher interest rate risk in the first quarter of 2018 moved out of the 60-day average.

End of day RWA movements from changes in risk levels for the Incremental Risk Charge ("IRC") were a result of lower exposures to credit risk-sensitive positions in the fixed income business. This was also the driver of quarterly movements in Reported IRC RWAs, as higher exposures in the first quarter of 2018 moved out of the 12-week average by the end of the second quarter.

The movement in Other (risk measure) was attributable to increases in Risks not in VaR ("RNIVs") as a result of new RNIVs, and higher exposures to existing RNIVs, for the equities business.

The movements in Market Risk RWAs due to model updates/changes related to the removal of scaling adjustments to historical simulation calculations in the VaR model, coupled with the change of the time-series look-back window length from 4 years to 1 year. These changes reduce the VaR model's complexity, and make the model more responsive to changing market conditions.

Table 25 provides a summary of the maximum, minimum, average and period-end values over the six months to 31 December 2017, resulting from the different types of models approved to be used for computing the regulatory capital charge.

Table 25: IMA Values for Trading Portfolios (EU MR3)

	$MM
VaR (10 day 99%)	
Maximum value	152
Average value	99
Minimum value	73
Period end	93
SVaR (10 day 99%)	
Maximum value	500
Average value	320
Minimum value	204
Period end	296
IRC (99.9%)	
Maximum value	655
Average value	434
Minimum value	266
Period end	355
Comprehensive Risk capital charge (99.9%)	
Maximum value	2
Average value	1
Minimum value	1
Period end	1

Over the first half of 2018, a reduction in interest rates risk and exposures to credit-sensitive positions in the fixed income business have reduced VaR and IRC respectively, while Stressed VaR has remained stable on average.

9.2 Backtesting

Morgan Stanley performs regulatory backtesting for MSIP Group on a daily basis at various levels of the business hierarchy to validate the accuracy of the VaR models for entities having regulatory permission to use VaR for internal model capital calculations.

Backtesting is performed on the firm's Regulatory Trading Book population and compares the profit and loss (for the MSIP Group) for trade date N against the 99%/one-day Regulatory Trading VaR for N-1. As per the requirements of the CRR rules, backtesting uses 'Actual' and 'Hypothetical' definitions of the profit and loss. Backtesting on Hypothetical changes in the portfolio's value refers to a comparison between the portfolio's end-of-day value and, assuming unchanged positions, its value at the end of the subsequent day. Backtesting on Actual changes in the portfolio's value refers to a comparison between the portfolio's end-of-day value and its actual value at the end of the subsequent day (i.e. inclusive of intra-day trading/new activity).

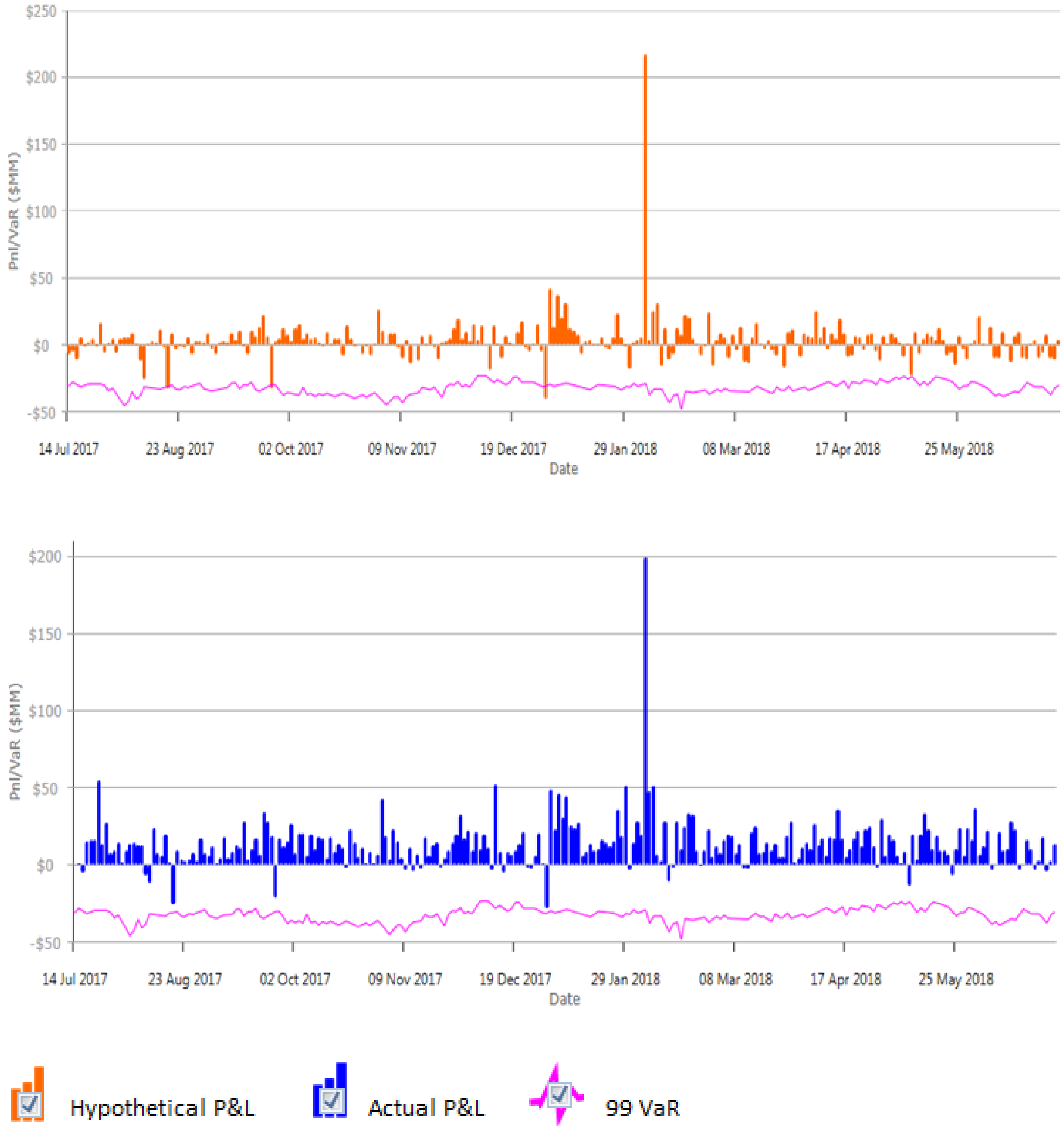
As of 30 June 2018, 80% of total MSIP Market Risk Capital requirements are covered by the internal models. Backtesting is performed against the VaR model in accordance with requirements under the regulation. VaR represents a subset of total model based Market Risk capital requirements for MSIP.

The results of backtesting and model performance monitoring are reported to the PRA on a periodic basis. For the measurement period ending 30 June 2018, three Hypothetical profit and loss exceptions and zero Actual profit and loss exceptions were observed for MSIP. Exception counts of this order equate to the PRA Green zone (fewer than five exceptions). The Hypothetical profit and loss exceptions occurred in August, September and December of 2017. The August and September exceptions were primarily driven by losses in equities markets, and the December exception was largely driven by losses in interest rate markets.

The plots of Actual and Hypothetical profit and loss for the measurement period to 30 June 2018 are displayed in Figure 1.

Figure 1: Comparison of VaR Estimates with Gains/Losses (EU MR4)

The graphs below show the 1 day Regulatory Trading VaR against Actual and Hypothetical profit and loss for MSIP, values in millions of dollars:



10. Liquidity Coverage Ratio

The Liquidity Coverage Ratio ("LCR"), as per the Commission Delegated Regulation (EU) 2015/61, requires credit institutions to maintain an amount of unencumbered high quality liquid assets that is sufficient to meet their estimated total net cash outflows over a prospective 30 calendar-day period of significant stress. MSI Group is compliant with the minimum required LCR of 100%.

Table 26: Liquidity Coverage Ratio

	Q2'18	Q1'18
Number of data points used in the calculation of averages	12	12
	Total weighted adjusted value (12 month average)	
	$MM	$MM
Liquidity Buffer	40,717	39,442
Total net cash outflows	19,596	20,492
Liquidity Coverage Ratio	208%	192%

The weighted adjusted value of the liquidity buffer is the value of the total high quality liquid assets after the application of both haircuts and any applicable cap. The liquidity buffer disclosed covers both Pillar I and Pillar II liquidity risk. The weighted adjusted value of net cash outflows is calculated after the inflows and outflows rates are applied and after any applicable cap on inflows.

11. Appendix I: MSI Group Capital Instruments Template

Table 27: MSI Group Capital Instruments Table[1]

Description	Reported in USD Unless Otherwise Stated Common Equity Tier 1		Additional Tier 1	Subordinated Debt		
	A	B	C	D	E	F
Issuer	Morgan Stanley International Limited	Morgan Stanley International Limited	Morgan Stanley International Limited	Morgan Stanley International Limited	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
Governing law(s) of the instrument	Companies Act 2006	Companies Act 2006	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	Tier 2
Post-transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Additional Tier 1	Tier 2	Tier 2	Tier 2
Eligible at solo/(sub-) consolidated/solo&(sub-) consolidated	(Sub-) Consolidated	(Sub-) Consolidated	(Sub-) Consolidated	(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 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 51MM	USD 330MM
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 51,000,000	Currency of issuance: GBP 250,000,000 Reporting currency: USD 329,750,000
Issue Price	USD 1,615,180,159	GBP 2	USD 1,300,000,000	USD 5,000,000,000	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 51,000,000	GBP 250,000,000
Accounting Classification	Shareholders' Equity	Shareholders' Equity	Shareholders' Equity	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	21/12/2015	21/12/2015
Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated	Dated	Dated
Original maturity date	No maturity	No maturity	No maturity	21/12/2025	21/12/2025	21/12/2025
Issuer call subject to prior supervisory approval	N/A	N/A	Yes	N/A	N/A	N/A

Description	Common Equity Tier 1		Additional Tier 1	Subordinated Debt		
	A	B	C	D	E	F
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
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
Fixed or floating dividend / coupon	Floating	Floating	Fixed Rate	Floating	Floating	Floating
Coupon rate and any related index	N/A	N/A	9%	OBFR + 2.300%	OBFR + 2.086%	SONIA + 2.121%
Existence of a dividend stopper	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
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully Discretionary	Fully Discretionary	Fully Discretionary	Mandatory	Mandatory	Mandatory
Existence of step up or other incentive to redeem	No	No	No	No	No	No
Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Cumulative	Cumulative	Cumulative
Convertible or non-convertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible	Nonconvertible

Description	Common Equity Tier 1		Additional Tier 1	Subordinated Debt		
	A	B	C	D	E	F
If convertible, conversion trigger(s)	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
If convertible, conversion rate	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
If convertible, specify instrument type convertible into	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
Write-down features	No	No	Yes	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
If write-down, full or partial	N/A	N/A	Full	N/A	N/A	N/A
If write-down, permanent or temporary	N/A	N/A	Permanent	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
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
Non-compliant transitioned features	No	No	No	No	No	No
If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A	N/A

1. All capital instruments issued by the MSI Group are issued within Morgan Stanley and are not marketable instruments.

12. Appendix II: MSI Group and MSIP Own Funds Transitional Template

Table 28: MSI Group and MSIP Own Funds Transitional Template[1]

	MSI Group Transitional Rules $MM	MSI Group Fully Loaded Position $MM	MSIP Transitional Rules $MM	MSIP Fully Loaded Position $MM
Capital instruments and the related share premium accounts	1,615	1,615	12,978	12,978
Paid up capital instruments	1,615	1,615	12,465	12,465
Of which: Ordinary shares	1,615	1,615	10,965	10,965
Of which: Class A Ordinary shares (non-voting)	-	-	1,500	1,500
Share premium	0	0	513	513
Retained earnings	11,858	11,858	2,952	2,952
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	6,884	6,884	1,263	1,263
Independently reviewed interim profits net of any foreseeable charge or dividend	-	-	-	-
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**20,357**	**20,357**	**17,193**	**17,193**
Additional value adjustments (negative amount)	(1,209)	(1,209)	(1,177)	(1,177)
Intangible assets (net of related tax liability) (negative amount)	(579)	(579)	(2)	(2)
Negative amounts resulting from the calculation of expected loss amounts	(235)	(235)	(229)	(229)
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	21	21	24	24
Total regulatory adjustments to Common equity Tier 1 (CET1)	**(2,002)**	**(2,002)**	**(1,384)**	**(1,384)**
Common Equity Tier 1 (CET1) capital	**18,355**	**18,355**	**15,809**	**15,809**
Capital instruments and the related share premium accounts	1,300	1,300	1,300	1,300
Of which: classified as equity under applicable accounting standards	1,300	1,300	1,300	1,300
Additional Tier 1 (AT1) capital	**1,300**	**1,300**	**1,300**	**1,300**
Tier 1 capital (T1 = CET1 + AT1)	**19,655**	**19,655**	**17,109**	**17,109**
Capital instruments and the related share premium accounts	5,381	5,381	5,000	5,000
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	**5,381**	**5,381**	**5,000**	**5,000**
Tier 2 (T2) capital	**5,381**	**5,381**	**5,000**	**5,000**
Total capital (TC = T1 + T2)	**25,036**	**25,036**	**22,109**	**22,109**
Total risk weighted assets	**140,101**	**140,101**	**137,062**	**137,062**
Common Equity Tier 1 (as a percentage of risk exposure amount)	13.1%	13.1%	11.5%	11.5%
Tier 1 (as a percentage of risk exposure amount)	14.0%	14.0%	12.5%	12.5%
Total capital (as a percentage of risk exposure amount)	17.9%	17.9%	16.1%	16.1%
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)	6.55%	7.17%	6.56%	7.18%
Of which: Capital conservation buffer requirement	1.88%	2.50%	1.88%	2.50%
Of which: Counter cyclical buffer requirement	0.17%	0.17%	0.18%	0.18%
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	8.0%	8.0%	6.5%	6.5%
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)	921	921	930	930
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)	-	-	536	536
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)	176	176	65	65

1. Under PRA supervision, the MSI Group is required to maintain a minimum ratio of Own Funds to RWAs. As at 30 June 2018, the MSI Group is in compliance with the PRA capital requirements as defined by the CRR.

13. Appendix III: Additional Credit and Counterparty Credit Risk Tables

Table 29: Credit Quality of Exposures by Exposure Class and Instrument (EU CR1-A)

	Gross Carrying Values of						
MSI Group	Defaulted Exposures $MM	Non-Defaulted Exposures $MM	Specific Credit Risk Adjustment $MM	General Credit Risk Adjustment $MM	Accumulated Write-offs $MM	Credit Risk Adjustment Charges $MM	Net Values $MM
Central governments or central banks	-	14,427	-	-	-	-	14,427
Institutions	-	10,323	-	-	-	-	10,323
Corporates	66	5,025	-	-	-	-	5,091
Of which: Specialised lending	-	-	-	-	-	-	-
Equity	-	803	-	-	-	-	803
Total IRB approach	**66**	**30,578**	**-**	**-**	**-**	**-**	**30,644**
Central governments or central banks	1	247	1	-	-	-	247
Regional governments or local authorities	-	2	-	-	-	-	2
Public sector entities	-	-	-	-	-	-	-
Multilateral development banks	-	5	-	-	-	-	5
International organisations	-	5	-	-	-	-	5
Institutions	4	762	4	-	-	-	762
Corporates	34	2,642	34	-	-	5	2,642
Secured by mortgages on immovable property	-	-	-	-	-	-	-
Exposures in default	-	-	-	-	-	-	-
Items associated with particularly high risk	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-
Claims on institutions and corporates with a short- term credit assessment	-	-	-	-	-	-	-
Collective investments undertakings (CIU)	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	-
Other exposures	-	1,067	-	-	-	-	1,067
Total standardised approach	**39**	**4,730**	**39**	**-**	**-**	**5**	**4,730**
Total	**105**	**35,308**	**39**	**-**	**-**	**5**	**35,374**
Of which: Loans and advances	105	27,836	39	-	-	-	27,902
Of which: Off-balance sheet	-	6,669	-	-	-	-	6,669
Of which: Equity	-	803	-	-	-	-	803

Over the first half of 2018 movements are primarily driven by IRB exposure increases, offset by a termination of a loan exposure.

Table 30: Credit Quality of Exposures by Exposure Class and Instrument (EU CR1-A)

	Gross Carrying Values of						
MSIP	Defaulted Exposures $MM	Non-Defaulted Exposures $MM	Specific Credit Risk Adjustment $MM	General Credit Risk Adjustment $MM	Accumulated Write-offs $MM	Credit Risk Adjustment Charges $MM	Net Values $MM
Central governments or central banks	-	13,179	-	-	-	-	13,179
Institutions	-	9,382	-	-	-	-	9,382
Corporates	64	4,108	-	-	-	-	4,172
Of which: Specialised lending	-	-	-	-	-	-	-
Equity	-	826	-	-	-	-	826
Total IRB approach	**64**	**27,495**	**-**	**-**	**-**	**-**	**27,559**
Central governments or central banks	1	469	1	-	-	-	469
Regional governments or local authorities	-	2	-	-	-	-	2
Public sector entities	-	-	-	-	-	-	-
Multilateral development banks	-	5	-	-	-	-	5
International organisations	-	5	-	-	-	-	5
Institutions	4	777	4	-	-	-	777
Corporates	34	2,389	34	-	-	5	2,389
Secured by mortgages on immovable property	-	-	-	-	-	-	-
Exposures in default	-	-	-	-	-	-	-
Items associated with particularly high risk	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-
Claims on institutions and corporates with a short- term credit assessment	-	-	-	-	-	-	-
Collective investments undertakings (CIU)	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	-
Other exposures	-	49	-	-	-	-	49
Total standardised approach	**39**	**3,696**	**39**	**-**	**-**	**5**	**3,696**
Total	**103**	**31,191**	**39**	**-**	**-**	**5**	**31,255**
Of which: Loans and advances	103	25,073	39	-	-	-	25,137
Of which: Off-balance sheet	-	5,292	-	-	-	-	5,292
Of which: Equity	-	826	-	-	-	-	826

Over the first half of 2018 movements are primarily driven by IRB exposure increases.

Table 31 shows the credit quality of on-balance-sheet and off-balance-sheet by industry as at 30 June 2018 for both MSI Group and MSIP.

Table 31: Credit Quality of Exposures by Industry or Counterparty Types (EU CR1-B)

	Gross Carrying Values of						
MSI Group	**Defaulted Exposures $MM**	**Non-Defaulted Exposures $MM**	**Specific Credit Risk Adjustment $MM**	**General Credit Risk Adjustment $MM**	**Accumulated Write-Offs $MM**	**Credit Risk Adjustment Charge $MM**	**Net Values[1] $MM**
Mining and quarrying	-	128	-	-	-	-	128
Manufacturing	14	718	12	-	-	-	720
Electricity, gas, steam and air conditioning supply	1	693	1	-	-	-	693
Transport and storage	24	262	1	-	-	-	285
Information and communication	16	650	7	-	-	-	659
Financial and insurance activities	47	13,817	15	-	-	5	13,849
Real estate activities	-	74	-	-	-	-	74
Professional, Scientific and Technical	-	610	-	-	-	-	610
Public administration and defence, compulsory social security	-	14,687	-	-	-	-	14,687
Other services	3	323	3	-	-	-	323
Other	-	3,346	-	-	-	-	3,346
Total	**105**	**35,308**	**39**	**-**	**-**	**5**	**35,374**

	Gross Carrying Values of						
MSIP	**Defaulted Exposures $MM**	**Non-Defaulted Exposures $MM**	**Specific Credit Risk Adjustment $MM**	**General Credit Risk Adjustment $MM**	**Accumulated Write-Offs $MM**	**Credit Risk Adjustment Charge $MM**	**Net Values[1] $MM**
Mining and quarrying	-	102	-	-	-	-	102
Manufacturing	12	478	12	-	-	-	478
Electricity, gas, steam and air conditioning supply	1	382	1	-	-	-	382
Transport and storage	24	12	1	-	-	-	35
Information and communication	16	505	7	-	-	-	514
Financial and insurance activities	47	13,112	15	-	-	5	13,144
Real estate activities	-	62	-	-	-	-	62
Professional, Scientific and Technical	-	609	-	-	-	-	609
Public administration and defence, compulsory social security	-	13,439	-	-	-	-	13,439
Other services	3	192	3	-	-	-	192
Other	-	2,298	-	-	-	-	2,298
Total	**103**	**31,191**	**39**	**-**	**-**	**5**	**31,255**

1. Net value is the total of defaulted, non defaulted exposures, less specific credit risk adjustments.

Over the first half of 2018 movements resulted in increased exposures to Financial and Insurance activities due to increased cash placement with major institutional banks. Exposure increase in Public Administration and defence, compulsory social security relates to additional cash placement on Central Government and Central Banks.

Table 32 shows the credit quality of on-balance-sheet and off-balance-sheet by geography as at 30 June 2018 for both MSI Group and MSIP.

Table 32: Credit Quality of Exposures by Geography (EU CR1-C)

MSI Group	Gross Carrying Values of: Defaulted Exposures $MM	Gross Carrying Values of: Non-Defaulted Exposures $MM	Specific Credit Risk Adjustment $MM	General Credit Risk Adjustment $MM	Accumulated Write-offs $MM	Credit Risk Adjustment Charges $MM	Net Values $MM
EMEA	**61**	**24,885**	**35**	**-**	**-**	**4**	**24,911**
France	2	13,069	2	-	-	-	13,069
United Kingdom	28	5,059	28	-	-	-	5,059
Belgium	-	1,082	-	-	-	1	1,082
Other countries	31	5,675	5	-	-	3	5,701
Asia	**39**	**3,650**	**3**	**-**	**-**	**1**	**3,686**
Japan	-	1,482	-	-	-	-	1,482
China	2	699	2	-	-	-	699
Hong Kong	-	694	-	-	-	-	694
Other Countries	37	775	1	-	-	1	811
Americas	**5**	**6,768**	**1**	**-**	**-**	**-**	**6,772**
United States	4	6,478	-	-	-	-	6,482
Other countries	1	290	1	-	-	-	290
Other geographical areas	**-**	**5**	**-**	**-**	**-**	**-**	**5**
Total	**105**	**35,308**	**39**	**-**	**-**	**5**	**35,374**

MSIP	Gross Carrying Values of: Defaulted Exposures $MM	Gross Carrying Values of: Non-Defaulted Exposures $MM	Specific Credit Risk Adjustment $MM	General Credit Risk Adjustment $MM	Accumulated Write-offs $MM	Credit Risk Adjustment Charges $MM	Net Values $MM
EMEA	**59**	**20,276**	**35**	**-**	**-**	**4**	**20,300**
France	2	11,407	2	-	-	-	11,407
United Kingdom	28	5,438	28	-	-	-	5,438
Belgium	-	1,082	-	-	-	1	1,082
Other countries	29	2,349	5	-	-	3	2,373
Asia	**39**	**3,095**	**3**	**-**	**-**	**1**	**3,131**
Japan	-	1,482	-	-	-	-	1,482
China	2	426	2	-	-	-	426
Hong Kong	-	686	-	-	-	-	686
Other Countries	37	501	1	-	-	1	537
Americas	**5**	**6,092**	**1**	**-**	**-**	**-**	**6,096**
United States	4	5,809	-	-	-	-	5,813
Other countries	1	283	1	-	-	-	283
Other geographical areas	**-**	**1,728**	**-**	**-**	**-**	**-**	**1,728**
Total	**103**	**31,191**	**39**	**-**	**-**	**5**	**31,255**

Over the first half of 2018 movements primarily driven by IRB exposure in cash holdings as a result of increased liquidity requirements across EUR, USD, JPY, GBP; offset by a termination of a loan exposure. Belgium’s increase is driven by a contingent liquidity facility to a clearing house.

Table 33 shows an ageing analysis of on-balance-sheet past-due exposures regardless of their impairment status as at 30 June 2018 for both MSI Group and MSIP.

Table 33: Ageing of Past-Due Exposures (EU CR1-D)

	Gross Carrying Values $MM					
MSI Group	**≤ 30 Days**	**> 30 Days ≤ 60 Days**	**> 60 Days ≤ 90 Days**	**> 90 Days ≤ 180 Days**	**> 180 Days ≤ 1 Year**	**> 1 Year**
Loans and advances	4,490	1	136	60	10	64
Debt Securities	-	-	-	-	-	-
Total exposures	4,490	1	136	60	10	64

	Gross Carrying Values $MM					
MSIP	**≤ 30 Days**	**> 30 Days ≤ 60 Days**	**> 60 Days ≤ 90 Days**	**> 90 Days ≤ 180 Days**	**> 180 Days ≤ 1 Year**	**> 1 Year**
Loans and advances	4,470	-	135	59	9	64
Debt Securities	-	-	-	-	-	-
Total exposures	**4,470**	**-**	**135**	**59**	**9**	**64**

Over the first half of 2018 movements in exposures are due to standard trading activity across a number of products, with most fails being less than or equal to 30 days old.

Table 34 shows an overview of non-performing and forborne exposures as at 30 June 2018 for both MSI Group and MSIP.

Table 34: Non-Performing and Forborne Exposures (EU CR1-E)

	Gross Carrying Amount of Performing and Non-Performing Exposures $MM							Accumulated Impairment and Provisions and Negative Fair Value Adjustments due to Credit Risk				Collaterals and Financial Guarantees Received	
		Of Which Performing But Past Due >30 Days and <=90 Days $MM	Of Which Performing Forborne $MM	Of Which Non-Performing $MM				On Performing Exposures $MM		On Non-Performing Exposures $MM		On Non-Performing Exposures $MM	Of Which: Forborne $MM
MSI Group					Of Which: Defaulted $MM	Of Which: Impaired $MM	Of Which: Forborne $MM		Of Which: Forborne $MM		Of Which: Forborne $MM		
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances	27,941	137	-	133	105	39	-	-	-	39	-	-	-
Off-balance sheet exposures	6,669	-	-	-	-	-	-	-	-	-	-	-	-
MSIP													
Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances	25,176	135	-	132	103	39	-	-	-	39	-	-	-
Off-balance sheet exposures	5,292	-	-	-	-	-	-	-	-	-	-	-	-

Gross carrying amount of performing and non-performing exposures are primarily cash and loan exposures. Increases over the first half of 2018 are driven by increased cash holdings.

Table 35 shows the changes in stock of general and specific credit risk adjustments held against loans and debt securities that are defaulted or impaired as at 30 June 2018 for both MSI Group and MSIP.

Table 35: Changes in Stock of General and Specific Credit Risk Adjustments (EU CR2-A)

	MSI Group		MSIP	
	Accumulated Specific Credit Risk Adjustment $MM	Accumulated General Credit Risk Adjustment $MM	Accumulated Specific Credit Risk Adjustment $MM	Accumulated General Credit Risk Adjustment $MM
Opening balance	**48**	**-**	**41**	**-**
Increases due to amounts set aside for estimated loan losses during the period	4	-	4	-
Decreases due to amounts reversed for estimated loan losses during the period	(8)	-	(1)	-
Decreases due to amounts taken against accumulated credit risk adjustments	(4)	-	(4)	-
Transfers between credit risk adjustments	-	-	-	-
Impact of exchange rate differences	(1)	-	(1)	-
Business combinations, including acquisitions and disposals of subsidiaries	-	-	-	-
Other adjustments	-	-	-	-
Closing balance	**39**	**-**	**39**	**-**
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	-	-	-	-
Specific credit risk adjustments recorded directly to the statement of profit or loss	-	-	-	-

Over the first half of 2018 movements are due to a defaulted loan sold in Q2 2018.

Table 36 shows the changes in stock of defaulted loans and debt securities as at 30 June 2018 for both MSI Group and MSIP.

Table 36: Changes in Stock of Defaulted and Impaired Loans and Debt Securities (EU CR2-B)

	MSI Group	MSIP
	Gross Carrying Value Defaulted Exposures $MM	Gross Carrying Value Defaulted Exposures $MM
Opening balance	126	**105**
Loans and debt securities that have defaulted or impaired since the last reporting period	4	4
Returned to non-defaulted status	(1)	(1)
Amounts written off	(6)	(4)
Other changes	(18)	(1)
Closing balance	105	**103**

Other changes moved over the first half of 2018 due to the sale of a defaulted loan.

Table 37 shows the extent of the use of CRM techniques as at 30 June 2018 for both MSI Group and MSIP.

Table 37: Credit Risk Mitigation Techniques – Overview (EU CR3)

MSI Group	Exposures Unsecured: Carrying Amount $MM	Exposures Secured: Carrying Amount $MM	Exposures Secured by Collateral $MM	Exposures Secured by Financial Guarantees $MM	Exposures Secured by Credit Derivatives $MM
Total loans	26,435	1,467	1,467	-	-
Total debt securities	-	-	-	-	-
Total exposures	**26,435**	**1,467**	**1,467**	**-**	**-**
Of which defaulted	66	-	-	-	-

MSIP	Exposures Unsecured: Carrying Amount $MM	Exposures Secured: Carrying Amount $MM	Exposures Secured by Collateral $MM	Exposures Secured by Financial Guarantees $MM	Exposures Secured by Credit Derivatives $MM
Total loans	23,531	1,606	1,606	-	-
Total debt securities	-	-	-	-	-
Total exposures	**23,531**	**1,606**	**1,606**	**-**	**-**
Of which defaulted	64	-	-	-	-

Over the first half of 2018 unsecured carrying amount increased following cash placement. Secured exposures increased, driven by inter-company receivables.

Table 38 shows the effect of all CRM techniques as at 30 June 2018 for both MSI Group and MSIP.

Table 38: Standardised Approach – Credit Risk Exposure and Credit Risk Mitigation (CRM) effects (EU CR4)

	Exposures Before CCF[1] and CRM		Exposures Post CCF and CRM		RWAs and RWA Density	
MSI Group	On-Balance Sheet Amount $MM	Off-Balance Sheet Amount $MM	On-Balance Sheet Amount $MM	Off-Balance Sheet Amount $MM	RWAs $MM	RWA Density %
Central governments or central banks	247	-	247	-	67	27%
Regional government or local authorities	2	-	2	-	-	0%
Public sector entities	-	-	-	-	-	0%
Multilateral development banks	5	-	5	-	-	0%
International organisations	5	-	5	-	-	0%
Institutions	213	549	213	110	397	123%
Corporates	2,642	-	2,642	-	2,832	107%
Retail	-	-	-	-	-	0%
Secured by mortgages on immovable property	-	-	-	-	-	0%
Exposures in default	-	-	-	-	-	0%
Higher-risk categories	-	-	-	-	-	0%
Covered bonds	-	-	-	-	-	0%
Institutions and corporates with a short term credit assessment	-	-	-	-	-	0%
Collective investment undertakings	-	-	-	-	-	0%
Equity	-	-	-	-	-	0%
Other items	1,067	-	1,067	-	1,191	112%
Total	**4,181**	**549**	**4,181**	**110**	**4,487**	**105%**

	Exposures Before CCF and CRM		Exposures Post CCF and CRM		RWAs and RWA Density	
MSIP	On-Balance Sheet Amount $MM	Off-Balance Sheet Amount $MM	On-Balance Sheet Amount $MM	Off-Balance Sheet Amount $MM	RWAs $MM	RWA Density %
Central governments or central banks	469	-	469	-	260	55%
Regional government or local authorities	2	-	2	-	-	8%
Public sector entities	-	-	-	-	-	25%
Multilateral development banks	5	-	5	-	-	-
International organisations	5	-	5	-	-	-
Institutions	228	549	228	110	398	118%
Corporates	2,389	-	2,389	-	2,628	110%
Retail	-	-	-	-	-	-
Secured by mortgages on immovable property	-	-	-	-	-	-
Exposures in default	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-
Institutions and corporates with a short term credit assessment	-	-	-	-	-	-
Collective investment undertakings	-	-	-	-	-	-
Equity	-	-	-	-	-	-
Other items	49	-	49	-	49	100%
Total	**3,147**	**549**	**3,147**	**110**	**3,335**	**106%**

1. Credit Conversion Factor ("CCF")

Over the first half of 2018, exposures to corporates increased on various general ledger receive accounts. Exposures to institutions decreased following settlement of FX fails at year end.

Table 39 shows the breakdown of exposures under the standardised approach by asset class and risk weight as at 30 June 2018 for the MSI Group.

Table 39: Standardised Approach (EU CR5)

	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Total Credit Exposures Amount
	$MM	$MM	$MM	$MM	$MM	$MM	$MM	$MM	$MM	$MM	$MM	$MM	$MM	$MM	$MM	$MM
Central governments or central banks	146	-	-	-	6	-	62	-	-	32	1	-	-	-	-	247
Regional government or local authorities	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2
Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5
International organisations	5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5
Institutions	-	110	-	-	31	-	108	-	-	51	-	-	-	23	-	323
Corporates	157	-	-	-	5	-	93	-	-	2,239	119	-	-	29	-	2,642
Retail	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Secured by mortgages on immovable property	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exposures in default	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions and corporates with a short term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other items	-	-	-	-	171	-	-	-	-	722	-	174	-	-	-	1,067
Total	**315**	**110**	**-**	**-**	**213**	**-**	**263**	**-**	**-**	**3,044**	**120**	**174**	**-**	**52**	**-**	**4,291**

Over the first half of 2018, exposures to corporates increased on various general ledger receive accounts. Exposures to institutions decreased following settlement of FX fails at year end.

Table 40 shows the exposures for the MSI Group, calculated using the Standardised approach for each exposure class and broken down by Credit Quality Step ("CQS").

Table 40: Standardised Approach EAD by Credit Quality Step[1]

		CQS1 $MM	CQS2 $MM	CQS3 $MM	CQS4 $MM	CQS5 $MM	CQS6 $MM	Other[2] $MM	Unrated $MM	Total $MM
Central Governments or Central Banks	GROSS EAD	15	-	-	-	-	-	-	303	318
	EAD	15	-	-	-	-	-	-	303	318
Corporates	GROSS EAD	5	263	109	-	7	-	-	4,121	4,505
	EAD	5	263	109	-	7	-	-	4,121	4,505
High risk	GROSS EAD	-	-	-	-	-	-	-	-	-
	EAD	-	-	-	-	-	-	-	-	-
Institutions	GROSS EAD	38	5,337	52	84	7	-	12,752	499	18,769
	EAD	38	4,800	52	84	7	-	11,855	499	17,335
Multilateral developments banks	GROSS EAD	-	-	-	-	-	-	-	5	**5**
	EAD	-	-	-	-	-	-	-	5	**5**
International Organisations	GROSS EAD	-	-	-	-	-	-	-	5	**5**
	EAD	-	-	-	-	-	-	-	5	**5**
Regional governments or Local Authorities	GROSS EAD	-	-	-	-	-	-	-	2	**2**
	EAD	-	-	-	-	-	-	-	2	**2**
Securitisation	GROSS EAD	236	-	3	9	-	-	-	-	248
	EAD	236	-	3	9	-	-	-	-	248
Other Items	GROSS EAD	-	-	-	-	-	-	-	1,067	**1,067**
	EAD	-	-	-	-	-	-	-	1,067	**1,067**
TOTAL	**GROSS EAD**	**294**	**5,600**	**164**	**93**	**14**	**-**	**12,752**	**6,002**	**24,919**
	EAD	**294**	**5,063**	**164**	**93**	**14**	**-**	**11,855**	**6,002**	**23,485**

1. Under the Standardised Approach, risk weights are generally applied according to the relevant exposure class and the associated credit quality (CRR Article 113). Credit quality may be determined by reference to the credit assessments of an External Credit Assessment Institution ("ECAI"), which are then mapped to a CQS. The unrated segment represents exposure for which no ECAI credit assessment is available.
2. The OTHER segment represents exposures where alternative rules to the CQS treatment described in the note above apply. The majority of exposures in this segment are exposures to central counterparties to which a fixed risk weight is applied.

Table 41 shows the breakdown of exposures under the standardised approach by asset class and risk weight as at 30 June 2018 for both MSI Group and MSIP. Credit Derivatives are not used as a CRM technique for RWA benefits.

Table 41: IRB Approach – Effect on the RWAs of Credit Derivatives used as CRM Techniques (EU CR7)

	MSI Group		MSIP	
	Pre-Credit Derivatives RWAs $MM	Actual RWAs $MM	Pre-Credit Derivatives RWAs $MM	Actual RWAs $MM
Exposures under Foundation IRB	4,359	4,359	3,432	3,432
Central governments and central banks	884	884	757	757
Institutions	1,566	1,566	1,307	1,307
Corporates – SME	-	-	-	-
Corporates - Specialised Lending	-	-	-	-
Corporates – Other	1,909	1,909	1,368	1,368
Exposures under Advanced IRB	-	-	**-**	**-**
Total	**4,359**	**4,359**	**3,432**	**3,432**

Table 42 shows the parameters used for the calculation of capital requirements for IRB models as at 30 June 2018 for the MSI Group.

Table 42: IRB Approach – Credit Risk Exposures by Exposure Class and PD Range (EU CR6)

	Original On-Balance Sheet Gross Exposure $MM	Off-Balance Sheet Exposures Pre-CCF $MM	Average CCF %	EAD Post-CRM and Post-CCF $MM	Average PD[1] %	Number of Obligors #	Average LGD[2] %	Average Maturity Years	RWAs $MM	RWA Density %	EL[3] $MM	Value Adjustments and Provisions $MM
0.00 to <0.15	14,318	4	20.00%	14,319	0.02%	7	45%	1.00	833	6%	1	-
0.15 to <0.25	-	-	0.00%	-	0.00%	-	0%	0.00	-	0%	-	-
0.25 to <0.50	101	3	20.00%	102	0.42%	3	45%	1.00	51	50%	0	-
0.50 to <0.75	-	-	0.00%	-	0.00%	-	0%	0.00	-	0%	-	-
0.75 to <2.50	-	-	0.00%	-	0.00%	-	0%	0.00	-	0%	-	-
2.50 to <10.00	-	-	0.00%	-	0.00%	-	0%	-	-	0%	-	-
10.00 to <100.00	-	-	0.00%	-	0.00%	-	0%	-	-	0%	-	-
100.00 (Default)	-	-	0.00%	-	0.00%	-	0%	-	-	0%	-	-
Central governments or central banks	**14,419**	**7**	**20.00%**	**14,421**	**0.02%**	**10**	**45%**	**1.00**	**884**	**6%**	**1**	**-**
0.00 to <0.15	7,426	2,497	70.36%	8,039	0.05%	99	45%	0.94	1,258	16%	2	-
0.15 to <0.25	97	-	0.00%	97	0.20%	5	45%	1.00	41	42%	0	-
0.25 to <0.50	154	24	67.75%	170	0.40%	24	45%	1.32	117	69%	0	-
0.50 to <0.75	41	-	0.00%	41	0.71%	2	45%	1.00	35	86%	0	-
0.75 to <2.50	47	-	0.00%	47	1.18%	12	45%	1.03	50	106%	0	-
2.50 to <10.00	25	12	75.00%	34	7.22%	20	45%	1.05	65	192%	1	-
10.00 to <100.00	-	-	0.00%	-	0.00%	-	0%	-	-	0%	-	-
100.00 (Default)	-	-	0.00%	-	0.00%	-	0%	-	-	0%	-	-
Institutions	**7,790**	**2,533**	**70.36%**	**8,428**	**0.10%**	**162**	**45%**	0.95	**1,566**	**19%**	**3**	**-**
0.00 to <0.15	1,033	2,114	74.74%	2,575	0.07%	69	45%	2.35	648	25%	1	-
0.15 to <0.25	66	885	73.60%	717	0.20%	23	45%	2.97	403	56%	1	-
0.25 to <0.50	160	244	70.01%	331	0.34%	76	45%	1.96	201	61%	0	-
0.50 to <0.75	23	12	20.00%	26	0.71%	8	45%	1.42	23	88%	0	-
0.75 to <2.50	27	61	75.00%	72	1.70%	24	45%	2.97	93	129%	1	-
2.50 to <10.00	109	264	55.23%	255	5.94%	92	43%	3.96	474	186%	6	-
10.00 to <100.00	27	-	0.00%	27	27.91%	8	45%	4.05	67	252%	3	-
100.00 (Default)	66	-	0.00%	66	100.00%	7	45%	4.53	-	0%	30	-
Corporates	**1,511**	**3,580**	**72.52%**	**4,069**	**2.31%**	**307**	**45%**	**2.58**	**1,909**	**47%**	**42**	**-**
Total	**23,720**	**6,120**	**71.56%**	**26,918**	**0.39%**	**479**	**45%**	**1.22**	**4,359**	**16%**	**46**	**-**

1. Probability of Default ("PD")
2. Loss-Given Default ("LGD")
3. Expected Loss ("EL")

Over the first half of 2018 exposure increases in Central Governments or Central Banks and Institutions are primarily driven by higher cash placement. Corporate exposures decreased primarily due to loan termination, settlement and sale of loan.

Table 43 shows the all relevant parameters used for the calculation of CCR capital requirements for IRB models as at 30 June 2018 for the MSI Group.

Table 43: Standardised Approach – CCR Exposures by Regulatory Portfolio and Risk Weight (EU CCR3)

	Risk Weight												
	0% $MM	2% $MM	4% $MM	10% $MM	20% $MM	50% $MM	70% $MM	75% $MM	100% $MM	150% $MM	1250% $MM	Others $MM	Total $MM
Central governments or central banks	1	-	-	-	-	-	-	-	48	-	-	21	70
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	162	16,050	-	-	381	2	-	-	404	-	2	11	17,012
Corporates	769	-	-	-	-	123	-	-	891	6	26	48	1,863
Retail	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Items	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Standardised Approach	**932**	**16,050**	**-**	**-**	**381**	**125**	**-**	**-**	**1,343**	**6**	**28**	**80**	**18,945**

Table 44 shows the all relevant parameters used for the calculation of CCR capital requirements for IRB models as at 30 June 2018 for the MSI Group.

Table 44: IRB Approach – CCR Exposures by Portfolio and PD Scale (EU CCR4)

	EAD Post-CRM $MM	Average PD %	Number of Obligors #	Average LGD %	Average Maturity Years	RWAs $MM	RWA Density %
Central governments and central banks	**11,856**	**0.05%**	**141**	**44%**	**0.84**	**1,045**	**9%**
0.00 to <0.15	11,634	0.04%	117	44%	0.81	884	8%
0.15 to <0.25	55	0.20%	8	45%	3.81	33	61%
0.25 to <0.50	148	0.38%	11	45%	2.30	94	64%
0.50 to <0.75	-	0.00%	-	0%	-	-	0%
0.75 to <2.50	-	0.00%	-	0%	-	-	0%
2.50 to <10.00	19	7.39%	5	45%	2.43	34	179%
10.00 to <100.00	-	0.00%	-	0%	-	-	0%
100.00 (Default)	-	0.00%	-	0%	-	-	0%
Corporates	**51,383**	**0.77%**	**9,203**	**46%**	**1.53**	**25,757**	**50%**
0.00 to <0.15	31,039	0.07%	4,119	46%	1.68	8,741	28%
0.15 to <0.25	4,079	0.20%	607	46%	1.66	1,915	47%
0.25 to <0.50	8,738	0.34%	2,189	45%	1.14	5,085	58%
0.50 to <0.75	2,543	0.71%	257	45%	0.90	2,072	81%
0.75 to <2.50	1,104	1.73%	221	45%	1.44	1,206	109%
2.50 to <10.00	3,516	5.57%	1,269	45%	1.57	5,834	166%
10.00 to <100.00	364	27.91%	541	45%	1.08	904	248%
100.00 (Default)	-	0.00%	-	0%	-	-	0%
Institutions	**45,596**	**0.10%**	**525**	**46%**	**0.93**	**10,709**	**23%**
0.00 to <0.15	43,056	0.07%	245	46%	0.85	8,561	20%
0.15 to <0.25	1,185	0.20%	46	46%	1.60	614	52%
0.25 to <0.50	543	0.35%	93	45%	2.50	431	79%
0.50 to <0.75	617	0.71%	37	54%	2.96	824	134%
0.75 to <2.50	131	1.65%	49	45%	1.65	155	118%
2.50 to <10.00	61	7.45%	49	45%	1.76	117	191%
10.00 to <100.00	3	27.91%	6	45%	1.11	7	249%
100.00 (Default	-	0.00%	-	0%	-	-	0%
Total (All Portfolios)	**108,835**	**0.41%**	**9,869**	**46%**	**1.20**	**37,511**	**-**

Central Government and Central Banks exposures are composed of Stock Loan, OTC and Repo. Exposure reduction relates to enhancements in collateral recognition on SFTs.

Corporate exposures largely comprise of OTC derivatives and SFTs. Exposure increases in the portfolio relate to increased Stock Lending activity, offset by a decrease in OTC derivatives driven by portfolio movements.

Institution exposures consist of Stock Loan, OTC and Listed Derivatives. Reduction in exposures largely driven by options and futures.

14. Appendix IV: Abbreviations

Term	Definition
AT1	Additional Tier 1 Capital
BIA	Basic Indicator Approach
BRRD	Bank Recovery and Resolution Directive
CCB	Capital Conservation Buffer
CCF	Credit Conversion Factor
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CCyB	Countercyclical Capital Buffer
CET1	Common Equity Tier 1 Capital
CQS	Credit Quality Step
CRD	Capital Requirements Directive
CRD IV	Capital Requirements Directive — EU implementation of Basel III
CRM	Credit Risk Mitigation
CRR	Capital Requirements Regulation
CVA	Credit Valuation Adjustment
EAD	Exposure at Default
EBA	European Banking Authority
ECAI	External Credit Assessment Institutions
EL	Expected Loss
EMEA ALCO	EMEA Asset and Liability Committee
EU	European Union
FCA	Financial Conduct Authority
G-SIIs	Global Systematically Important Institutions
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
IPRE	Income Producing Real Estate
IRB	Foundation Internal Ratings Based
IRC	Incremental Risk Charge
IMA	Internal Modelling Approach
IMM	Internal Models Method
ITS	Implementing Technical Standards
LCR	Liquidity Coverage Ratio
LGD	Loss-Given Default
MCR	Minimum Capital Requirements
MRD	Market Risk Department
MREL	Minimum Requirements for Own Funds and Eligible Liabilities
MSBIL	Morgan Stanley Bank International Limited
MSI	Morgan Stanley International Limited
MSI Group	Morgan Stanley International Limited (and its subsidiaries)
MSIHI	Morgan Stanley International Holdings Inc.
MSIM	Morgan Stanley Investment Management Limited
MSIM ACD	Morgan Stanley Investment Management (ACD) Limited
MSIM Group	MSIM sub-consolidated Group
MSIP	Morgan Stanley & Co. International plc
MSIP Group	Morgan Stanley & Co. International plc and its subsidiaries
MTMM	Mark to Market Method
NSFR	Net Stable Funding Ratio
O-SII	Other Systemic Important Institutions
OTC	Over-the-counter
PD	Probability of Default
PRA	Prudential Regulation Authority
RNIVs	Risks Not in VaR
RTS	Regulatory Technical Standards
RWAs	Risk Weighted Assets
SA	Standardised Approach
SFTs	Securities Financing Transactions
SRM	Single Resolution Mechanism
SREP	Supervisory Review Process
STS	Simple Transparent Standardised Regulation
SVaR	Stressed Value at Risk
T1	Tier 1
T2	Tier 2
TCR	Total Capital Requirement
TLAC	Total Loss Absorbing Capacity
UK	United Kingdom
US	United States
VaR	Value at Risk