MORGAN STANLEY ASIA INTERNATIONAL LIMITED

Reports and financial statements

31 December 2015

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

REPORTS AND FINANCIAL STATEMENTS
Year ended 31 December 2015

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MORGAN STANLEY ASIA INTERNATIONAL LIMITED

DIRECTORS' REPORT

The Directors present the annual report and audited financial statements (which comprise the income statement, statement of comprehensive income, statement of changes in equity, statement of financial position, statement of cash flows and related notes 1 to 28) for Morgan Stanley Asia International Limited (the "Company") for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

The Company is a restricted licence bank under the Banking Ordinance in Hong Kong, regulated by the Hong Kong Monetary Authority ("HKMA"). It is also a registered institution under the Hong Kong Securities and Futures Ordinance. The Company is a private limited company incorporated in Hong Kong, with a head office in Hong Kong and a branch in Singapore ("Branch") which is regulated by the Monetary Authority of Singapore ("MAS").

The principal activities of the Company are to engage in the business of banking including deposit taking and lending. It also acts as introducing broker for other subsidiaries of the Morgan Stanley group of companies in connection with the provision of general investment, securities and futures dealing, and custody services, as well as discretionary management.

On 9 February 2015, Morgan Stanley (Switzerland) AG (formerly known as Bank Morgan Stanley AG) transferred its wealth management business in Asia Pacific conducted through its Hong Kong and Singapore branches (the "Business") to the Company's intermediate holding company, Morgan Stanley Asia Holdings Limited ("MSAHL"). On the same day, MSAHL contributed the Business through the Company's intermediate holding companies and then to its immediate holding company, Morgan Stanley Hong Kong Limited ("MSHK") and simultaneously, MSHK transferred the Business to the Company and its Branch in return for 1 ordinary share of USD1 issued by the Company. The employees of Morgan Stanley (Switzerland) AG were transferred to the Company and its Branch on the same day, and commenced business on the same day.

The Company's ultimate parent undertaking and controlling entity is Morgan Stanley which, together with the Company and Morgan Stanley's other subsidiary undertakings, form the Morgan Stanley Group (the "Morgan Stanley Group").

RESULTS AND APPROPRIATIONS

The results of the Company for the year ended 31 December 2015 are set out in the income statement on page 5.

No interim dividends were paid to the shareholders during the year. The Directors do not recommend the payment of a final dividend and propose that the profits be retained.

SHARE CAPITAL

Details of the Company's shares issued are set out in note 18 to the financial statements. During the year, the Company issued ordinary shares to the shareholder as follows: (a) 156,999,998 ordinary shares were issued on 13 January 2015 for a total of consideration of US$156,999,998, which was used for providing working capital to the Company; and (b) 1 ordinary share was issued on 9 February 2015 in return for the Business transferred from MSHK.

DIRECTORS

The following Directors held office throughout the year and up to the date of approval of this report (except where otherwise shown):

Chui, Vincent Yik Chiu	
Fung, Choi Cheung	(appointed on 6 January 2015)
Jesse Jr, James William	(appointed on 6 January 2015)
Laroia, Gokul	
Kohli, Arun	(appointed on 6 January 2015)
Kwan, Yin Ping	(appointed on 6 January 2015)
Ong, Whatt Soon Ronald	(appointed on 6 January 2015)
Sim, Hwee Hoon	(appointed on 6 January 2015)

DIRECTORS' REPORT (CONTINUED)

DIRECTORS (CONTINUED)

There being no provision to the contrary in the Company's Articles of Association, all Directors continue in office.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

No transactions, arrangements and contracts of significance to which the Company, its holding companies or any subsidiaries of its holding companies were a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Morgan Stanley, the Company's ultimate holding company, has several senior executive incentive compensation programs under which senior executives receive, as part of their total compensation, incentive awards of restricted stock units and, in some cases, restricted stock options that in time are, or may be, converted into shares of Morgan Stanley. All Directors of the Company except independent non-executive directors, are eligible to participate in such incentive compensation programs and receive awards of restricted stock units and, in some cases, restricted stock options thereunder.

Details of the deferred stock awards of the ultimate holding company, in which the Directors of the Company are entitled to participate, are set out in note 26 to the financial statements.

Other than as disclosed above, at no time during the year was the Company, its holding companies or any subsidiaries of its holding companies a party to any arrangements to enable the Directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

PERMITTED INDEMNITY PROVISION

The Articles of Association of the Company provide that a director or former director of the Company may be indemnified out of the Company's assets against any liability incurred by the Director to a person other than the Company or an associated company of the Company in connection with any negligence, default, breach of duty or breach of trust in relation to the Company or associated company (as the case may be).

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

CHUI, VINCENT YIK CHIU

DIRECTOR

21 April 2016

INDEPENDENT AUDITOR’S REPORT

TO THE SOLE MEMBER OF MORGAN STANLEY ASIA INTERNATIONAL LIMITED

(incorporated in Hong Kong with limited liability)

<u>Report on the Financial Statements</u>

We have audited the financial statements of Morgan Stanley Asia International Limited (the "Company") set out on pages 5 to 49, which comprise the statement of financial position as at 31 December 2015, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

TO THE SOLE MEMBER OF MORGAN STANLEY ASIA INTERNATIONAL LIMITED

(incorporated in Hong Kong with limited liability)

Report on the Financial Statements (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2015 and of its financial performance and cash flows for the year then ended, in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

21 April 2016

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

INCOME STATAMENT
Year ended 31 December 2015

	Note	For the year ended 31 December 2015 US$'000	For the period from 19 May 2014 (date of incorporation) to 31 December 2014 US$'000
Interest income	4	17,866	-
Interest expense	4	(19,658)	-
Net interest expense		(1,792)	-
Fee and commission income	5	218,350	-
Net gains on financial instruments classified as held for trading		50,922	-
Net losses on available-for-sale financial assets	6	(62,514)	-
Other income	7	17,833	-
Other expense	8	(180,218)	(24)
PROFIT/(LOSS) BEFORE INCOME TAX		42,581	(24)
Income tax (expense)/benefit	9	(6,838)	4
PROFIT/(LOSS) FOR THE YEAR/PERIOD		35,743	(20)

All operations were continuing in the current year and prior period.

The notes on pages 10 to 49 form an integral part of the financial statements.

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2015

	Note	For the year ended 31 December 2015 US$'000	For the period from 19 May 2014 (date of incorporation) to 31 December 2014 US$'000
PROFIT/(LOSS) FOR THE YEAR/PERIOD		35,743	(20)
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale reserve:			
Net change in fair value of available-for-sale financial assets	9	(407)	-
Net amount reclassified to income statement	9	7	-
OTHER COMPREHENSIVE LOSS AFTER INCOME TAX FOR THE YEAR/PERIOD		(400)	-
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD		35,343	(20)

The notes on pages 10 to 49 form an integral part of the financial statements.

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2015

	Note	Share capital US$'000	Available-for-sale reserve US$'000	(Accumulated losses)/ retained earnings US$'000	Total equity US$'000
Balance at 19 May 2014 (date of incorporation)		-	-	-	-
Loss and total comprehensive loss for the period		-	-	(20)	(20)
Transaction with owners:					
- Issue of capital	18	13,000	-	-	13,000
Balance at 31 December 2014		13,000	-	(20)	12,980
Profit for the year		-	-	35,743	35,743
Other comprehensive loss	9	-	(400)	-	(400)
Total comprehensive income		-	(400)	35,743	35,343
Transactions with owners:					
- Issue of capital	18	157,000	-	-	157,000
- Share-based payments		-	-	382	382
Balance at 31 December 2015		170,000	(400)	36,105	205,705

The notes on pages 10 to 49 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION
As at 31 December 2015

	Note	2015 US$'000	2014 US$'000
ASSETS			
Loans and receivables:			
Cash and short-term deposits	19(a)	798,943	13,000
Trade receivables		553	-
Loans and advances to customers	10	1,031,953	-
Other receivables	11	1,914	-
		1,833,363	13,000
Financial assets classified as held for trading	12	9,558	-
Available-for-sale financial assets	13	4,031,391	-
Deferred tax assets	14	1,868	4
Prepayments		111	46
TOTAL ASSETS		5,876,291	13,050
LIABILITIES AND EQUITY			
Financial liabilities at amortised cost:			
Deposits	15	5,439,241	-
Trade payables		150,770	-
Other payables	16	63,403	70
		5,653,414	70
Financial liabilities classified as held for trading	12	7,863	-
Current tax liabilities		8,619	-
Accruals		690	-
TOTAL LIABILITIES		5,670,586	70
EQUITY			
Share capital	18	170,000	13,000
Available-for-sale reserve	18	(400)	-
Retained earnings/(Accumulated losses)		36,105	(20)
Equity attributable to owners of the Company		205,705	12,980
TOTAL EQUITY		205,705	12,980
TOTAL LIABILITIES AND EQUITY		5,876,291	13,050

These financial statements were approved by the Board and authorised for issue on 21 April 2016:

Signed on behalf of the Board

Chui, Vincent Yik Chiu
Director

Sim, Hwee Hoon
Director

The notes on pages 10 to 49 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS
Year ended 31 December 2015

	Note	For the year ended 31 December 2015 US$'000	For the period from 19 May 2014 (date of incorporation) to 31 December 2014 US$'000
NET CASH FLOWS FROM OPERATING ACTIVITIES	19(b)	1,352,953	-
INVESTING ACTIVITIES			
Net cash flow arising from business combination	19(c)	1,193,634	-
Purchase of available-for-sale financial assets	13	(13,092,050)	-
Proceeds from sale of available-for-sale financial assets	13	11,165,234	-
Interest received from available-for-sale financial assets	13	9,172	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(724,010)	-
FINANCING ACTIVITY			
Issue of ordinary share capital	18	157,000	13,000
NET CASH FLOWS FROM FINANCING ACTIVITY		157,000	13,000
NET INCREASE IN CASH AND CASH EQUIVALENTS		785,943	13,000
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/PEIOD		13,000	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD	19(a)	798,943	13,000

The notes on pages 10 to 49 form an integral part of the financial statements.

1. CORPORATE INFORMATION

The Company is a private limited company with a head office in Hong Kong and a branch in Singapore ("Branch"). The Company was incorporated and is domiciled in Hong Kong, at the following principal place of business address: Level 31, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong.

The Company is a restricted licence bank under the Banking Ordinance in Hong Kong, regulated by the HKMA, with its Branch regulated by the MAS. It is also a registered institution under the Hong Kong Securities and Futures Ordinance. The principal activities of the Company are to engage in the business of banking including deposit taking and lending. It also acts as introducing broker for other subsidiaries of the Morgan Stanley Group in connection with the provision of general investment, securities and futures dealing, and custody services, as well as discretionary management.

On 9 February 2015, Morgan Stanley (Switzerland) AG (formerly known as Bank Morgan Stanley AG) transferred its wealth management business in Asia Pacific conducted through its Hong Kong and Singapore branches to the Company's intermediate holding company, MSAHL. On the same day, MSAHL contributed the Business through the Company's intermediate holding companies and then to its immediate holding company, MSHK and simultaneously, MSHK transferred the Business to the Company and its Branch in return for 1 ordinary share of USD1 issued by the Company. The employees of Morgan Stanley (Switzerland) AG were transferred to the Company and its Branch on the same day, and commenced business on the same day. Please refer to Note 18 and Note 19(c) for the issue of ordinary share capital and net assets and liabilities recognised at the date of business transfer.

The Company's immediate parent undertaking is MSHK, which was incorporated in Hong Kong.

The Company's ultimate parent undertaking and controlling entity is Morgan Stanley which, together with the Company and Morgan Stanley's other subsidiary undertakings, form the Morgan Stanley Group. Morgan Stanley was incorporated in the State of Delaware, the United States of America. Copies of its financial statements can be obtained from http://www.morganstanley.com/investorrelations.

2. BASIS OF PREPARATION

Statement of compliance

The Company has prepared its annual financial statements in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Hong Kong Companies Ordinance.

New standards and interpretations adopted during the year

The following amendments to standards and interpretations relevant to the Company's operations were adopted during the year. Except where otherwise stated, these amendments to standards and interpretations did not have a material impact on the Company's financial statements.

An amendment to HKAS 19 *'Employee benefits on defined benefit plans'* was issued by the HKICPA in November 2013, for retrospective application in annual periods beginning on or after 1 July 2014.

As part of the 2010 – 2012 Annual Improvements Cycle published in January 2014, the HKICPA made amendments to the following standards that are relevant to the Company's operations: HKFRS 2 *'Share-based payment'*, HKFRS 3 *'Business combinations'*, HKFRS 13 *'Fair value measurement'* and HKAS 24 *'Related party disclosures'* (for application in accounting periods beginning on or after 1 July 2014).

As part of the 2011 – 2013 Annual Improvements Cycle published in January 2014, the HKICPA made amendments to the following standards that are relevant to the Company's operations: HKFRS 3 *'Business combinations' and* HKFRS 13 *'Fair value measurement'* (for application in accounting periods beginning on or after 1 July 2014).

There were no other standards or interpretations relevant to the Company's operations which were adopted during the year.

2. BASIS OF PREPARATION (CONTINUED)

New standards and interpretations not yet adopted

At the date of authorisation of these financial statements, the following standards, amendments to standards and interpretations relevant to the Company's operations were issued by the HKICPA but not yet mandatory. Except where otherwise stated, the Company does not expect that the adoption of the following standards, amendments to standards and interpretations will have a material impact on the Company's financial statements.

An amendment to HKAS 1 *'Disclosure initiative'* was issued by the HKICPA in January 2015, for application in annual periods beginning on or after 1 January 2016.

HKFRS 9 *'Financial instruments'* ("HKFRS 9") was issued by the HKICPA in November 2009, amended in December 2013, and revised and reissued by the HKICPA in July 2014. HKFRS 9 is applicable retrospectively, except where otherwise prescribed by transitional provisions of the standard, and is effective for annual periods beginning on or after 1 January 2018. Early adoption, either in full or relating to own credit in isolation, is permitted. The Company is currently assessing the impact of HKFRS 9 on its financial statements.

HKFRS 15 *'Revenue from Contracts with Customers'* was issued by the HKICPA in July 2014 for retrospective application in annual periods beginning on or after 1 January 2018. The Company is currently assessing the impact of HKFRS 15 on its financial statements.

As part of the 2012-2014 Annual Improvements Cycle published in October 2014, the HKICPA made amendments to the following standards that are relevant to the Company's operations: HKFRS 7 *'Financial instruments: Disclosures'*, HKAS 19 *'Employee benefits'* and HKAS 34 *'Interim financial reporting'* (for application in accounting periods beginning on or after 1 January 2016).

Basis of measurement

The financial statements of the Company are prepared under the historical cost basis except for certain financial instruments that have been measured at fair value as explained in the accounting policies below.

Use of estimates and sources of uncertainty

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions regarding the valuation of certain financial instruments, impairment of assets, deferred tax assets, allowances for loan and advances and other matters that affect the financial statements and related disclosures. The Company believes that the estimates utilised in preparing the financial statements are reasonable, relevant and reliable. Actual results could differ from these estimates.

For further details on the judgements used in determining fair value of certain assets and liabilities, see note 3(d) and 23.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Functional currency

Items included in the financial statements are measured and presented in US dollars, the currency of the primary economic environment in which the Company operates.

All currency amounts in the financial statements are rounded to the nearest thousand US dollars.

b. Foreign currencies

Unless otherwise stated, all monetary assets and liabilities denominated in currencies other than US dollars are translated into US dollars at the rates ruling at the reporting date. Transactions and non-monetary assets and liabilities denominated in currencies other than US dollars are recorded at the rates prevailing at the dates of the transactions. Foreign exchange differences on available-for-sale financial assets are recorded in the 'Available-for-sale reserve' in equity, with the exception of translation differences on the amortised cost of monetary available-for-sale assets, which are recognised through the income statement. All other translation differences are taken through the income statement. Exchange differences recognised in the income statement are presented in 'Other income' or 'Other expense', except where noted in 3(c) below.

c. Financial instruments

The Company classifies its financial assets into the following categories on initial recognition: financial assets classified as held for trading, available-for-sale financial assets and loans and receivables.

The Company classifies its financial liabilities into the following categories on initial recognition: financial liabilities classified as held for trading and financial liabilities at amortised cost.

More information regarding these classifications is included below:

i) Financial instruments classified as held for trading

Financial instruments classified as held for trading, including all derivatives, are initially recorded on trade date at fair value (see note 3(d) below). All subsequent changes in fair value, foreign exchange differences, interest and dividends are reflected in the income statement in 'Net gains/ (losses) on financial instruments classified as held for trading'.

For all financial instruments classified as held for trading, transaction costs are excluded from the initial fair value measurement of the financial instrument. These costs are recognised in the income statement in 'Other expense'.

ii) Available-for-sale financial assets

Financial assets classified as available-for-sale are non-derivative financial assets that are either designated in this category or not classified in any of the other categories of financial instruments. Financial assets classified as available-for-sale are recorded on trade date and are initially recognised and subsequently measured at fair value (see note 3(d) below).

Transaction costs that are directly attributable to the acquisition of an available-for-sale financial asset are added to the fair value on initial recognition.

For debt instruments, interest calculated using the effective interest rate method (see note 3(c)(iii) below), impairment losses and reversals of impairment losses and foreign exchange differences on the amortised cost of the asset are recognised in the income statement in 'Net gains/ (losses) on available-for-sale financial assets'. All other gains and losses on debt instruments classified as available-for-sale are recognised in the 'Available-for-sale reserve' within equity.

On disposal or impairment of an available-for-sale financial asset, the cumulative gain or loss in the 'Available-for-sale reserve' is reclassified to the income statement and reported in 'Net gains/ (losses) on available-for-sale financial assets'.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial instruments (continued)

iii) Loans and receivables and financial liabilities at amortised cost

Financial assets classified as loans and receivables are recognised when the Company becomes a party to the contractual provision of the instrument. They are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost less allowance for impairment. Interest is recognised in the income statement in 'Interest income', using the effective interest rate method as described below. Transaction costs that are directly attributable to the acquisition of the financial asset are added to or deducted from the fair value on initial recognition. Impairment losses and reversals of impairment losses on financial assets classified as loans and receivables are recognised in the income statement in 'Other expense'.

Financial assets classified as loans and receivables include trade receivables.

Financial liabilities at amortised cost are recognised when the Company becomes a party to the contractual provision of the instrument. They are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost. Interest is recognised in the income statement in 'Interest expense' using the effective interest rate method as described below. Transaction costs that are directly attributable to the issue of the financial liability are added to or deducted from the fair value on initial recognition.

The effective interest rate method is a method of calculating the amortised cost of a financial instrument (or a group of financial instruments) and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument (or, where appropriate a shorter period) to the carrying amount of the financial instrument. The effective interest rate is established on initial recognition of the financial instrument. The calculation of the effective interest rate includes all fees and commissions paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument.

d. Fair value

Fair value measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants at the measurement date.

The fair value of a financial instrument on initial recognition is the transaction price (i.e. the fair value of the consideration given or received).

In determining fair value, the Company uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value that maximises the use of relevant observable inputs and minimises the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions other market participants would use in pricing the asset or liability, that are developed based on the best information available in the circumstances.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

The hierarchy is broken down into three levels based on the observability of inputs as follows:

- Level 1 - Quoted prices (unadjusted) in an active market for identical assets or liabilities

  Valuations based on quoted prices in active markets for identical assets or liabilities that the Morgan Stanley Group has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgement.

- Level 2 - Valuation techniques using observable inputs

  Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

- Level 3 - Valuation techniques with significant unobservable inputs

  Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the product. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgement. Accordingly, the degree of judgement exercised by the Company in determining fair value is greatest for instruments categorised in Level 3 of the fair value hierarchy.

The Company considers prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or Level 2 to Level 3 of the fair value hierarchy. In addition, a downturn in market conditions could lead to declines in the valuation of many instruments.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Valuation techniques
Many cash instruments and over-the-counter ("OTC") derivative contracts have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that a party is willing to pay for an asset. Ask prices represent the lowest price that a party is willing to accept for an asset. For financial instruments whose inputs are based on bid-ask prices, the Company does not require that the fair value estimate always be a predetermined point in the bid-ask range. The Company's policy is to allow for mid-market pricing and to adjust to the point within the bid-ask range that meets the Company's best estimate of fair value. For offsetting positions in the same financial instrument, the same price within the bid-ask spread is used to measure both the long and short positions.

Fair value for many cash instruments and OTC derivative contracts is derived using pricing models. Pricing models take into account the contract terms (including maturity), as well as multiple inputs including, where applicable, commodity prices, equity prices, interest rate yield curves, credit curves, correlation, creditworthiness of the counterparty, creditworthiness of the Company, option volatility and currency rates. Where appropriate, valuation adjustments are made to account for various factors such as liquidity risk (bid-ask adjustments), credit quality, model uncertainty and concentration risk.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

Valuation techniques (continued)
Adjustments for liquidity risk adjust model-derived mid-market levels of Level 2 and Level 3 financial instruments for the bid-mid or mid-ask spread required to properly reflect the exit price of a risk position. Bid-mid and mid-ask spreads are marked to levels observed in trade activity, broker quotes or other external third-party data. Where these spreads are unobservable for the particular position in question, spreads are derived from observable levels of similar positions.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those that the Company believes market participants would use in pricing the asset or liability at the measurement date.

Where the Company manages a group of financial assets and financial liabilities on the basis of its net exposure to market or credit risk, the Company measures the fair value of that group of financial instruments consistently with how market participants would price the net risk exposure at the measurement date.

Valuation process
The Valuation Review Group ("VRG") within the Financial Control Group ("FCG") is responsible for the Company's fair value valuation policies, processes and procedures. VRG is independent of the business units and reports to the Chief Financial Officer of the Morgan Stanley Group ("CFO"), who has final authority over the valuation of the Company's financial instruments. VRG implements valuation control processes to validate the fair value of the Company's financial instruments measured at fair value including those derived from pricing models. These control processes are designed to assure that the values used for financial reporting are based on observable inputs wherever possible. In the event that observable inputs are not available, the control processes are designed to ensure the valuation approach utilised is appropriate and consistently applied and that the assumptions are reasonable.

The Company's control processes apply to financial instruments categorised in Level 1, Level 2 or Level 3 of the valuation hierarchy, unless otherwise noted. These control processes include:

> *Model Review.* VRG, in conjunction with the Market Risk Department ('MRD') and, where appropriate, the Credit Risk Management Department, both of which report to the Chief Risk Officer of the Morgan Stanley Group ('CRO'), independently review valuation models' theoretical soundness, the appropriateness of the valuation methodology and calibration techniques developed by the business units using observable inputs. Where inputs are not observable, VRG reviews the appropriateness of the proposed valuation methodology to ensure it is consistent with how a market participant would arrive at the unobservable input. The valuation methodologies utilised in the absence of observable inputs may include extrapolation techniques and the use of comparable observable inputs. As part of the review, VRG develops a methodology to independently verify the fair value generated by the business unit's valuation models. Before trades are executed using new valuation models, those models are required to be independently reviewed. All of the Company's valuation models are subject to an independent annual VRG review.

> *Independent Price Verification.* The business units are responsible for determining the fair value of financial instruments using approved valuation models and valuation methodologies. Generally on a monthly basis, VRG independently validates the fair values of financial instruments determined using valuation models by determining the appropriateness of the inputs used by the business units and by testing compliance with the documented valuation methodologies approved in the model review process described above.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Fair value (continued)

Valuation process (continued)

VRG uses recently executed transactions, other observable market data such as exchange data, broker/ dealer quotes, third-party pricing vendors and aggregation services for validating the fair values of financial instruments generated using valuation models. VRG assesses the external sources and their valuation methodologies to determine if the external providers meet the minimum standards expected of a third-party pricing source. Pricing data provided by approved external sources are evaluated using a number of approaches; for example, by corroborating the external sources' prices to executed trades, by analysing the methodology and assumptions used by the external source to generate a price and/ or by evaluating how active the third-party pricing source (or originating sources used by the third-party pricing source) is in the market. Based on this analysis, VRG generates a ranking of the observable market data to ensure that the highest-ranked market data source is used to validate the business unit's fair value of financial instruments.

For financial instruments where the fair value is based on unobservable inputs, VRG reviews the business unit's valuation techniques to ensure these are consistent with market participant assumptions.

The results of this independent price verification and any adjustments made by VRG to the fair value generated by the business units are presented to management of the Morgan Stanley Group's three business segments (i.e. Institutional Securities, Wealth Management and Investment Management), the CFO and the CRO on a regular basis.

Review of Transactions where the valuation is based on unobservable inputs. VRG reviews the models and valuation methodology used to price all new material Level 3 transactions and both the FCG and MRD management must approve the fair value of the trade that is initially recognised.

e. Derecognition of financial assets and liabilities

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risk and rewards of ownership of the asset.

The Company derecognises financial liabilities when the Company's obligations are discharged, cancelled or they expire.

f. Impairment of financial assets

At each reporting date, an assessment is made as to whether there is any objective evidence of impairment in the value of a financial asset classified as either available-for-sale or loans and receivables. Impairment losses are recognised if an event has occurred which will have an adverse impact on the expected future cash flows of an asset and the expected impact can be reliably estimated.

Impairment losses on available-for-sale financial assets are measured as the difference between cost (net of any principal repayment and amortisation) and the current fair value (see note 3(d) above). Where there is evidence that the available-for-sale financial asset is impaired, the cumulative loss that had been previously recognised in other comprehensive income is reclassified from the 'Available-for-sale reserve' and recognised in the income statement within 'Net gains/ (losses) on available-for-sale financial assets'.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Impairment of financial assets (continued)

Impairment losses on loans and receivables are measured as the difference between the carrying amount of the loans and receivables and the present value of estimated cash flows discounted at the asset's original effective interest rate. Such impairment losses are recognised in the income statement within 'Other expense' and are recognised against the carrying amount of the impaired asset on the statement of financial position. Interest on the impaired asset continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset.

For all financial assets, if in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed as detailed by financial asset in note 3(c)(ii) and (iii). Any reversal is limited to the extent that the value of the asset may not exceed the original amortised cost of the asset had no impairment occurred.

g. Impairment of non-financial assets

Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets that have suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period. Such impairment losses are recognised in the income statement within 'Other expense' and are recognised against the carrying amount of the impaired asset on the statement of financial position.

h. Fees and commissions

Fee and commission income includes sales commissions and introductory brokerage fees. These amounts are recognised as the related services are performed or received.

i. Transfer of business under common control

Transfer of business under common control is accounted for using the predecessor values method of accounting. This involves recognising assets and liabilities of the acquired business at the predecessors' book value, without any change to reflect fair value of those assets and liabilities. Any difference between the cost of acquisition and the aggregate book value of the assets and liabilities as of the date of the transfer of the acquired business is recorded as an adjustment to equity. No goodwill is created by the business combination.

Post-business transfer, income received and expenses incurred by the business acquired are included in the income statement on a line-by-line basis in accordance with the accounting policies set out herein.

j. Cash and cash equivalents

Cash and cash equivalents comprise cash and demand deposits with banks along with highly liquid investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

k. Income tax

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is calculated based on taxable profit for the year. Taxable profit may differ from profit/ (loss) before income tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date. Current tax is charged or credited in the income statement, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the current tax is also recorded within other comprehensive income or equity respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Income tax (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and limited to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is reflected within other comprehensive income or equity, respectively.

Current tax assets are offset against current tax liabilities when there is a legally enforceable right to set off current tax assets against current tax liabilities and the Company intends to settle its current tax assets and current tax liabilities on a net basis or to realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and current tax liabilities on a net basis.

l. Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the year end date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

m. Employee compensation plans

i) Equity-settled share-based compensation plans

Morgan Stanley operates equity-based compensation plans on behalf of the Company in relation to which, the Company pays Morgan Stanley in consideration of the procurement of the transfer of shares to employees. The cost of equity-based transactions with employees is measured based on the fair value of the equity instruments at grant date. Fair value of stock unit awards is based on the market price of Morgan Stanley shares. Non-market vesting conditions are not taken into account when measuring fair value, but are reflected by adjusting over time the number of equity instruments included in the measurement of the transaction such that the amount ultimately recognised reflects the number that actually vest. The expense is recorded within ‘Staff costs’, ‘Directors’ remuneration’ and ‘Management charges from other Morgan Stanley Group undertakings’ in ‘Other expense’ in the income statement; the corresponding credit to retained earnings is reduced to the extent that payments are due to Morgan Stanley in respect of these awards.

ii) Deferred cash-based compensation plans

Morgan Stanley also maintains deferred compensation plans on behalf of the Company for the benefit of certain employees that provide a return to the participating employees based upon the performance of various referenced investments. Liabilities for these awards, which are included within ‘Other payables’ in the statement of financial position, are measured at fair value and recognised over time in accordance with the awards’ vesting conditions. The related expense is recorded within ‘Staff costs’ and ‘Directors’ remuneration’ in ‘Other expense’.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n. Post-employment benefits

The Company operates defined contribution post-employment plans. Additionally, the Branch of the Company participates in a defined contribution plan, the Singapore Central Provident Fund.

Contributions due in relation to the Company's defined contribution post-employment plan are recognised in 'Other expense' in the income statement when payable.

Details of the plans are given in note 27 to these financial statements.

o. Offsetting of financial assets and financial liabilities

Where there is a currently legally enforceable right to set off the recognised amounts and an intention to either settle on a net basis or to realise the asset and the liability simultaneously, financial assets and financial liabilities are offset and the net amount is presented on the statement of financial position. In the absence of such conditions, financial assets and financial liabilities are presented on a gross basis.

4. INTEREST INCOME AND INTEREST EXPENSE

'Interest income' and 'Interest expense' represent total interest income and total interest expense for financial assets and financial liabilities that are not carried at fair value.

No other gains or losses have been recognised in respect of loans and receivables other than as disclosed as 'Interest income' and foreign exchange differences disclosed in 'Other income' (note 7).

No other gains or losses have been recognised in respect of financial liabilities at amortised cost other than as disclosed as "Interest expense" within the income statement and foreign exchange differences disclosed in "Other income" (note 7).

5. FEE AND COMMISSION INCOME

	For the year ended 31 December 2015 US$'000	For the period from 19 May 2014 (date of incorporation) to 31 December 2014 US$'000
Sales commissions and introductory brokerage fees	218,342	-
Other fees	8	-
	218,350	-

6. NET LOSSES ON AVAILABLE-FOR-SALE FINANCIAL ASSETS

	For the year ended 31 December 2015 US$'000	For the period from 19 May 2014 (date of incorporation) to 31 December 2014 US$'000
Interest income	20,725	-
Foreign exchange revaluation	(83,231)	-
Net fair value losses reclassified from the available-for-sale reserve on disposal of asset	(8)	-
	(62,514)	-

7. OTHER INCOME

	For the year ended 31 December 2015 US$'000	For the period from 19 May 2014 (date of incorporation) to 31 December 2014 US$'000
Net foreign exchange gains	16,766	-
Management charges to other Morgan Stanley Group undertakings	1,002	-
Other	65	-
	17,833	-

8. OTHER EXPENSE

	For the year ended 31 December 2015 US$'000	For the period from 19 May 2014 (date of incorporation) to 31 December 2014 US$'000
Staff costs	95,688	-
Directors' remuneration		
Fees	83	-
Contribution to defined contribution plan	41	-
Other	4,684	-
Auditors' remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	532	12
Fees payable to the Company's auditor for other services to the Company	-	9
Non-audit professional services	10,572	-
Management charges from other Morgan Stanley Group undertakings relating to staff costs	1,743	-
Management charges from other Morgan Stanley Group undertakings relating to other services	62,539	-
Other	4,336	3
	180,218	24

Included within 'Staff costs', 'Directors' remuneration' and 'Management charges from other Morgan Stanley Group undertakings' is an amount of US$12,651,000 (for the period from 19 May 2014 (date of incorporation) to 31 December 2014: Nil) in relation to equity-settled share-based compensation plans, granted to employees of the Company.

Included within 'Staff costs' and 'Directors' remuneration' is an amount of US$7,835,000 (for the period from 19 May 2014 (date of incorporation) to 31 December 2014: Nil) in relation to current and previous year's awards of non-equity based deferred compensation plans, granted to employees of the Company. Previous years' awards were granted to the employees prior to their transfer to the Company.

For the period from 19 May 2014 (date of incorporation) to 31 December 2014, the Company did not employ any staff. Any compensation received by the directors was borne by other Morgan Stanley Group undertakings.

For the year ended 31 December 2015 and for the period from 19 May 2014 (date of incorporation) to 31 December 2014, the Company has not paid any (a) payment or benefit in respect of the termination of the service of directors whether in the capacity of directors or in any other capacity while being a director of the Company, and (b) consideration provided to or receivable by any third party for making available the services of a person as a director or in any other capacity while being a director of the Company.

During the year, the Company has not granted any loans, quasi-loans nor entered into any other dealings in favor of (a) the Directors, (b) entities controlled by the Directors; or (c) entities connected with the Directors (for the period from 19 May 2014 (date of incorporation) to 31 December 2014: Nil).

9. INCOME TAX EXPENSE/(BENEFIT)

	For the year ended 31 December 2015 US$'000	For the period from 19 May 2014 (date of incorporation) to 31 December 2014 US$'000
Current tax expense		
Current year		
Hong Kong	8,551	-
Other jurisdiction	109	-
	8,660	-
Deferred tax benefit		
Origination and reversal of temporary differences	(1,822)	(4)
	(1,822)	(4)
Income tax expense/(benefit)	6,838	(4)

Reconciliation of effective tax rate

The current year income tax expense (2014: income tax benefit) is lower than (2014: equals to) that resulting from applying the standard rate of profits tax in Hong Kong for the year of 16.5% (2014:16.5%). The main differences are explained below:

	For the year ended 31 December 2015 US$'000	For the period from 19 May 2014 (date of incorporation) to 31 December 2014 US$'000
Profit/(loss) before income tax	42,581	(24)
Income tax using the standard rate of profits tax in Hong Kong of 16.5%	7,026	(4)
Impact on tax of:		
Expenses not deductible for tax purposes	1,484	-
Utilisation of tax losses	(4)	-
Tax exempt income	(1,765)	-
Concessionary tax rate	88	-
Effect of tax rates in foreign jurisdiction	(12)	-
Withholding tax expensed	20	-
Others	1	-
Total income tax expense/(benefit) in the income statement	6,838	(4)

9. INCOME TAX EXPENSE/(BENEFIT) (CONTINUED)

In addition to the amount charged to the income statement, the aggregate amount of current and deferred tax relating to each component of other comprehensive income was as follows:

	Year ended 31 December 2015		
	Before tax US$'000	Tax benefit/ (expense) US$'000	Net of tax US$'000
Available-for-sale reserve:			
Net change in fair value of available-for-sale financial assets	(463)	56	(407)
Net amount reclassified to income statement	8	(1)	7
Other comprehensive (loss)/ income	(455)	55	(400)

There were no current and deferred tax credited or charged to any component of other comprehensive income for the period from 19 May 2014 (date of incorporation) to 31 December 2014.

10. LOANS AND ADVANCES TO CUSTOMERS

	2015 US$'000	2014 US$'000
Loans and advances to customers	1,031,953	-

There were no impaired loan and advances, collective and specific provisions, as at 31 December 2015 (31 December 2014: Nil).

11. OTHER RECEIVABLES

	2015 US$'000	2014 US$'000
Amounts due from other Morgan Stanley Group undertakings	185	-
Interest receivable	1,576	-
Other amounts receivable	153	-
	1,914	-

12. FINANCIAL ASSETS AND FINANCIAL LIABILITIES CLASSIFIED AS HELD FOR TRADING

Financial assets and financial liabilities classified as held for trading are summarised as follows:

	2015		
		Fair Value	
	Notional Amount US$'000	Assets US$'000	Liabilities US$'000
Derivatives			
Exchange rate swap contracts	2,874,841	9,036	7,197
Interest rate swap contracts	3,300,000	522	666
	6,174,841	9,558	7,863

The derivatives are entered with other Morgan Stanley Group undertakings (see Note 28). There were no financial instruments classified as held for trading as at 31 December 2014.

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Financial assets classified as available-for-sale are summarised as follows:

	2015 US$'000	2014 US$'000
Government debt securities:		
Singapore government treasury bills	1,927,296	-
US treasury bills and securities	2,104,095	-
	4,031,391	-

Movement in available-for-sale financial assets

	US$'000
Fair value	
At 19 May 2014 (date of incorporation) and 31 December 2014	-
Additions through business combination	2,176,716
Additions	13,092,050
Changes in fair value recognised in the income statement	20,725
Changes in fair value recognised in the available-for-sale reserve	(463)
Foreign exchange revaluation recognised in the income statement	(83,231)
Disposals and other settlements	(11,174,406)
At 31 December 2015	4,031,391

14. DEFERRED TAX ASSETS

Deferred taxes are calculated on all temporary differences under the liability method. The movement in the deferred tax account is as follows:

	Deferred tax asset US$'000
At 19 May 2014 (date of incorporation)	-
Amount recognised in the income statement	4
At 31 December 2014	4
Amount recognised in the income statement	1,822
Amount recognised in other comprehensive income:	
Available-for-sale financial assets	55
Foreign exchange revaluation	(13)
At 31 December 2015	1,868

14. DEFERRED TAX ASSETS (CONTINUED)

The deferred tax included in the statement of financial position and changes recorded in the 'Income tax expense/(benefit)' are as follows:

	2015			2014		
	Deferred tax asset US$'000	Income statement US$'000	Other Comprehensive Income US$'000	Deferred tax asset US$'000	Income statement US$'000	Other Comprehensive Income US$'000
Deferred compensation	1,813	1,826	-	-	-	-
Available-for-sale financial assets	55	-	55	-	-	-
Tax losses (utilised)/ carried forward	-	(4)	-	4	4	-
	1,868	1,822	55	4	4	-

The deferred tax assets recognised are based on management assessment that it is probable that the Company will have taxable profits against which the temporary differences can be utilised.

15. DEPOSITS

	2015 US$'000	2014 US$'000
Deposits of banks		
Current account balances	6,854	-
Deposits of non-bank customers		
Current account balances	3,799,197	-
Term deposits	1,287,227	-
Deposits of other Morgan Stanley Group undertakings	345,963	-
	5,439,241	-

16. OTHER PAYABLES

	2015 US$'000	2014 US$'000
Amounts due to other Morgan Stanley Group undertakings	10,101	58
Staff compensation and benefits accruals	46,604	-
Interest payable	4,175	-
Other amounts payable	2,523	12
	63,403	70

17. COMMITMENTS AND CONTINGENCIES

At 31 December 2015, there are no commitments and contingencies (31 December 2014: Nil).

18. EQUITY

Ordinary share capital

	Ordinary shares Number	Ordinary shares US$'000
Issued and fully paid		
At 19 May 2014 (date of incorporation)	1	-
Issued in the period: 11 July 2014	13,000,000	13,000
At 31 December 2014	13,000,001	13,000
Issued in the year: 13 January 2015	156,999,998	157,000
Issued in the year: 9 February 2015	1	-
At 31 December 2015	170,000,000	170,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Available-for-sale reserve

The 'Available-for-sale reserve' includes the cumulative net change in the fair value of available-for-sale financial assets held at the reporting date. The tax effect of these movements is also included in the 'Available-for-sale reserve'.

19. ADDITIONAL CASH FLOW INFORMATION

a. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances, which have less than three months maturity from the date of acquisition:

	2015 US$'000	2014 US$'000
Cash with central bank	10,513	-
Cash at banks	345,180	13,000
Placement with banks	443,250	-
	798,943	13,000

19. ADDITIONAL CASH FLOW INFORMATION (CONTINUED)

b. Reconciliation of cash flows from operating activities

	For the year ended 31 December 2015 US$'000	For the period from 19 May 2014 (date of incorporation) to 31 December 2014 US$'000
Profit/(loss) for the year/period	35,743	(20)
Adjustments for:		
Net losses on available-for-sale financial assets	62,514	-
Share-based payment	382	-
Interest income	(17,866)	-
Interest expense	19,658	-
Income tax expense/(benefit)	6,838	(4)
Operating cash flows before changes in operating assets and liabilities	107,269	(24)
Changes in operating assets		
Increase in loans and receivables, excluding cash and short-term deposits	(49,931)	-
Increase in financial assets classified as held for trading	(9,558)	-
Decrease/ (increase) in prepayments	526	(46)
	(58,963)	(46)
Changes in operating liabilities		
Increase in financial liabilities at amortised cost	1,292,391	70
Increase in financial liabilities classified as held for trading	7,863	-
Increase in accruals	690	-
	1,300,944	70
Interest received	16,290	-
Interest paid	(12,559)	-
Income tax paid	(20)	-
Effect of foreign exchange movements	(8)	-
Net cash flows from operating activities	1,352,953	-

19. ADDITIONAL CASH FLOW INFORMATION (CONTINUED)

c. Net cash flow arising from business transfer

Assets and liabilities recognised at the date of business transfer

	US$'000
Assets	
Loans and receivables:	
Cash and short-term deposits	1,193,634
Loans and advances to customers	972,127
Other receivables	10,786
Available-for-sale financial assets	2,176,716
Prepayments	591
	4,353,854
Liabilities	
Financial liabilities at amortised cost:	
Deposits	4,341,486
Other payables	12,368
	4,353,854
Net assets transferred	-
Net cash inflow from business transfer	
Cash and short-term deposits transferred	1,193,634

20. EXPECTED MATURITY OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered, realised or settled.

At 31 December 2015	Less than or equal to twelve months US$'000	More than twelve months US$'000	Total US$'000
ASSETS			
Loans and receivables:			
Cash and short term deposits	798,943	-	798,943
Trade receivables	553	-	553
Loans and advances to customers	1,031,953	-	1,031,953
Other receivables	1,914	-	1,914
	1,833,363		1,833,363
Financial assets classified as held for trading	9,558	-	9,558
Available-for-sale financial assets	4,031,391	-	4,031,391
Deferred tax assets	55	1,813	1,868
Prepayments	111	-	111
	5,874,478	1,813	5,876,291
LIABILITIES			
Financial liabilities at amortised cost:			
Deposits	5,439,241	-	5,439,241
Trade payables	150,770	-	150,770
Other payables	51,772	11,631	63,403
	5,641,783	11,631	5,653,414
Financial liabilities classified as held for trading	7,863	-	7,863
Current tax liabilities	8,619	-	8,619
Accruals	690	-	690
	5,658,955	11,631	5,670,586

At 31 December 2014	Less than or equal to twelve months US$'000	More than twelve months US$'000	Total US$'000
ASSETS			
Loans and receivables:			
Cash and short term deposits	13,000	-	13,000
	13,000	-	13,000
Deferred tax assets	4	-	4
Prepayments	46	-	46
	13,050	-	13,050
LIABILITIES			
Financial liabilities at amortised cost:			
Other payables	70	-	70
	70	-	70

21. FINANCIAL RISK MANAGEMENT

Risk management procedures

Risk is an inherent part of the Company's business activities. The Company seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities in accordance with defined policies and procedures. The Company has developed its own risk management policy framework, which is consistent with and leverages the risk management policies and procedures of the Morgan Stanley Group and which includes escalation to appropriate senior management personnel of the Company as well as oversight through the Company's Board of Directors (the "Board") and through a dedicated Risk Committee that reports to the Board.

Significant risks faced by the Company resulting from its private wealth management and financing activities are set out below.

Credit risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company. Credit risk includes the risk that economic, social and political conditions and events in a foreign country will adversely affect an obligor's ability and willingness to fulfill their obligations.

Credit risk management policies and procedures for the Company are consistent with those of the Morgan Stanley Group and include escalation to the Company's Board and appropriate key management personnel.

The Company's credit risk management policies and procedures establish the framework for ensuring transparency of material credit risks, ensuring compliance with established limits and escalation of risk concentrations to appropriate senior management.

The Company primarily incurs credit risk exposure to institutions and sophisticated individuals mainly through its Wealth Management business segment. The Company incurs credit risk primarily through lending to individuals and entities, including, but not limited to, margin loans and other loans predominantly collateralised by cash and securities.

The Company also may incur credit risk through a variety of activities, including, but not limited to, the following:

- entering into derivative contracts under which counterparties have obligations to make payments to the Company;
- providing short-term or long-term funding;
- posting margin and/or collateral to banks and other financial counterparties;
- placing funds on deposit at other financial institutions; and
- trading in securities, whereby the value of these assets may fluctuate based on realised or expected defaults on the underlying obligations.

Monitoring and Control

In order to help protect the Company from losses, the Credit Risk Management Department establishes firm-wide practices to evaluate, monitor and control credit risk exposure at the transaction, obligor and portfolio levels. The Credit Risk Management Department approves extensions of credit, evaluates the creditworthiness of the Company's obligors on a regular basis, and ensures that credit exposure is actively monitored and managed. The evaluation of counterparties and borrowers includes an assessment of the probability that an obligor will default on its financial obligations and any subsequent losses that may occur when an obligor defaults. In addition, credit risk exposure is actively managed by credit professionals and committees within the Credit Risk Management Department and through various risk committees, whose membership includes individuals from the Credit Risk Management Department.

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Monitoring and Control (continued)

A comprehensive and global Credit Limits Framework is also utilised to evaluate and manage credit risk levels across the Morgan Stanley Group, including the Company. The Credit Limits Framework is calibrated within the Morgan Stanley Group's risk tolerance and includes single-name limits and portfolio concentration limits by country, industry and product type. The Credit Risk Management Department ensures transparency of material credit risks, compliance with established limits and escalation of risk concentrations to appropriate senior management. The Credit Risk Management Department also works closely with the Market Risk Department and applicable business units to monitor risk exposures and to perform stress tests to identify, analyse and control credit risk concentrations arising in the Morgan Stanley Group's lending and trading activities. The stress tests shock market factors (e.g., interest rates, commodity prices, credit spreads), risk parameters (e.g., default probabilities and loss given default), recovery rates and expected losses in order to assess the impact of stresses on exposures, profit and loss and the Company's capital position. Stress and scenario tests are conducted in accordance with established Morgan Stanley Group's policies and procedures and comply with methodologies outlined in the Basel regulatory framework.

Credit Evaluation

The evaluation of corporate and institutional counterparties includes assigning obligor credit ratings, which reflect an assessment of an obligor's probability of default and loss given default. Credit evaluations typically involve the assessment of financial statements, leverage, liquidity, capital strength, asset composition and quality, market capitalisation, access to capital markets, the adequacy of collateral, if applicable, and in the case of certain loans, cash flow projections and debt service requirements. The Credit Risk Management Department also evaluates strategy, market position, industry dynamics, management and other factors that could affect the obligor's risk profile. Additionally, the Credit Risk Management Department evaluates the relative position of the Company's exposure in the borrower's capital structure and relative recovery prospects, as well as adequacy of collateral (if applicable) and other structural elements of the particular transaction.

In addition to assessing and monitoring its credit exposure and risk at the individual obligor level, the Company also reviews its credit exposure and risk to geographic regions. As at 31 December 2015, credit exposure was concentrated in Asian countries. In addition, the Company pays particular attention to smaller exposures in emerging markets given their unique risk profile. Country ceiling ratings are derived using methodologies generally consistent with those employed by external rating agencies.

The Company also reviews its credit exposure and risk to types of customers. At 31 December 2015, the Company's material credit exposure was to individuals, corporate entities, sovereign-related entities and financial institutions.

Risk Mitigation

The Credit Risk Management Department may seek to mitigate credit risk from its lending and trading activities in multiple ways, including collateral provisions, guarantees and hedges. At the transaction level, the Credit Risk Management Department seeks to mitigate risk through management of key risk elements such as size, tenor, financial covenants, seniority and collateral. In connection with its lending and derivatives trading activities, the Company generally enters into master netting agreements and collateral arrangements with counterparties. These agreements provide the Company 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. The Company monitors the creditworthiness of counterparties to these transactions on an ongoing basis and requests additional collateral in accordance with collateral arrangements when deemed necessary.

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Risk Mitigation (continued)

Exposure to credit risk

The maximum exposure to credit risk ("gross credit exposure") of the Company as at 31 December 2015 is disclosed below, based on the carrying amounts of the financial assets the Company believes are subject to credit risk. Where the Company enters into credit enhancements, including receiving cash and security as collateral and master netting agreements, to manage the credit exposure on these financial instruments the financial effect of the credit enhancements is also disclosed below. The net credit exposure represents the credit exposure remaining after the effect of the credit enhancements. The 'unrated' balance in the 'Maximum exposure to credit risk by credit rating' represents the pool of counterparties that either do not require a rating or are under review in accordance with the Morgan Stanley Group's rating policies. These counterparties individually generate no material credit exposure and this pool is highly diversified, monitored and subject to limits.

The Company does not have any significant exposure arising from items not recognised on the statement of financial position.

Exposure to credit risk by class:

Class	2015			2014		
	Gross credit exposure(1) US$'000	Credit enhancements US$'000	Net Credit Exposure US$'000	Gross credit exposure(1) US$'000	Credit enhancements US$'000	Net Credit Exposure US$'000
Loans and receivables:						
Cash and short-term deposits	798,943	-	798,943	13,000	-	13,000
Trade receivables (2)	553	-	553	-	-	-
Loans and advances to customers (3)	1,031,953	1,031,953	-	-	-	-
Other receivables	1,914	-	1,914	-	-	-
Financial assets classified as held for trading:						
Derivatives	9,558	-	9,558	-	-	-
Available-for-sale financial assets	4,031,391	-	4,031,391	-	-	-
	5,874,312	1,031,953	4,842,359	13,000	-	13,000

(1) The carrying amount recognised in the statement of financial position best represents the Company's maximum exposure to credit risk.

(2) Trade receivables primarily included cash collateral pledged against the payable on OTC derivative positions. These derivative liabilities are included within financial liabilities classified as held for trading in the statement of financial position.

(3) The collateral held as security for loan and advances consists of cash of US$271,570,000, securities of US$498,144,000 and other collateral of US$262,239,000.

The impact of master netting arrangements and similar agreements on the Company's ability to offset financial assets and financial liabilities is disclosed in Note 22.

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Exposure to credit risk by class (continued)

Maximum exposure to credit risk by credit rating [(1)]:

Credit rating	Gross credit exposure 2015 US$'000	Gross credit exposure 2014 US$'000
AAA	4,121,910	-
AA	398,632	-
A	319,907	13,000
BBB	10	-
BB	1,447	-
CCC	496,693	-
Unrated	535,713	-
Total	5,874,312	13,000

(1) Internal credit rating derived using methodologies generally consistent with those used by external rating agencies.

At 31 December 2015, there were no financial assets past due but not impaired or individually impaired (2014: Nil).

The main considerations for the impairment assessment include whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Company determines the allowance appropriate for each individually significant asset on an individual basis. Items considered when determining the allowance amount include the sustainability of the counterparty's business plan, the counterparty's ability to improve performance once a financial difficulty has arisen, the realisable value of collateral, and the timing of expected cash flows. The impairment losses are evaluated at least at each reporting date.

Liquidity and funding risk

Liquidity and funding risk refers to the risk that the Company will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity and funding risk also encompasses the Company's ability to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten its viability as a going concern.

The Company's liquidity and funding risk management policies and procedures are consistent with those of the Morgan Stanley Group. The Board of Directors of the Company is ultimately responsible for establishing the liquidity risk tolerance and ensuring the Company's liquidity risk is appropriately managed. In addition to the internal liquidity risk management framework, the Company is locally subject to the liquidity regulations prescribed by the HKMA. The Company has daily monitoring and reporting processes in place to ensure compliance with its regulatory requirements.

The primary goal of the Company's liquidity risk and funding management framework is to ensure that the Company has access to adequate funding across a wide range of market conditions. The framework is designed to enable the Company to fulfil its financial obligations and support the execution of the Company's business strategies.

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

The following principles guide the Company's liquidity and funding risk management framework:

- Sufficient liquid assets should be maintained to cover maturing liabilities and other planned and contingent outflows;
- Maturity profile of assets and liabilities should be aligned, with limited reliance on short-term funding;
- Source, counterparty, currency, region, and term of funding should be diversified; and
- Contingency Funding Plan ("CFP") should anticipate, and account for, periods of limited access to funding.

The core components of the Company's liquidity and funding risk management framework, are the CFP, Liquidity Stress Tests and the Liquidity Reserve (as defined below), which support the Company's target liquidity profile.

Contingency Funding Plan

CFP describes the data and information flows, limits, targets, operating environment indicators, escalation procedures, roles and responsibilities, and available mitigating actions in the event of a liquidity stress. The CFP also sets forth the principal elements of the liquidity stress testing which identifies stress events of different severity and duration, assesses current funding sources and uses and establishes a plan for monitoring and managing a potential liquidity stress event.

Liquidity Stress Tests

The Company uses Liquidity Stress Tests to model liquidity outflows across multiple scenarios over a range of time horizons. These scenarios contain various combinations of idiosyncratic and systemic stress events.

The assumptions underpinning the Liquidity Stress Tests include, but are not limited to, the following:

- withdrawal of customer deposits;
- no government support;
- no access to equity and unsecured debt markets;
- repayment of all unsecured debt maturing within the stress horizon;
- additional collateral that would be required by trading counterparties, certain exchanges and clearing organisations related to credit rating downgrades;
- drawdowns on unfunded commitments provided to customers; and
- limited access to the foreign exchange swap markets.

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

Liquidity Stress Tests (continued)

The Liquidity Stress Tests are produced for the Company, to capture specific cash requirements and cash availability. The Liquidity Stress Tests assume that a legal entity will use its own liquidity first to fund its obligations before drawing liquidity from its ultimate parent undertaking, Morgan Stanley. Morgan Stanley will support its subsidiaries and will not have access to subsidiaries' liquidity reserve that are subject to any regulatory, legal or tax constraints. In addition to the assumptions underpinning the Liquidity Stress Tests, the Company takes into consideration the settlement risk related to intra-day settlement and clearing of securities and financing activities.

At 31 December 2015, the Company maintained sufficient liquidity to meet current and contingent funding obligations as modelled in its Liquidity Stress Tests.

Liquidity Reserve

The Company maintains sufficient liquidity reserves ("Liquidity Reserve") to cover daily funding needs and to meet strategic liquidity targets sized by the CFP and Liquidity Stress Tests. The size of the Liquidity Reserve is actively managed by the Company. The following components are considered in sizing the Liquidity Reserve; unsecured debt maturity profile, balance sheet size and composition, funding needs in a stressed environment inclusive of contingent cash outflows and collateral requirements. Additionally, the Company's Liquidity Reserve includes an additional reserve, which is primarily a discretionary surplus based on the Company's risk tolerance and is subject to change dependent on market and firm-specific events.

The Company holds its own Liquidity Reserve which is composed of diversified cash and cash equivalents and unencumbered highly liquid securities.

Eligible unencumbered highly liquid securities include primarily non-US government securities in addition to US government securities and other highly liquid investment grade securities.

Funding Management

The Company manages its funding in a manner that reduces the risk of disruption to the Company's operations. The Company pursues a strategy of diversification of secured and unsecured funding sources and attempts to ensure that the tenor of the Company's liabilities equals or exceeds the expected holding period of the assets being financed.

The Company funds itself through diverse sources. These sources may include equity capital, long-term debt and deposits.

Balance sheet management

In managing both the Morgan Stanley Group's and the Company's funding risk the composition and size of the entire balance sheet, not just financial liabilities, is monitored and evaluated. A substantial portion of the Morgan Stanley Group's total assets consists of liquid marketable securities and short-term receivables arising principally from its Institutional Securities business segment's sales and trading activities. The liquid nature of these assets provides the Morgan Stanley Group and the Company with flexibility in managing the size of its balance sheet.

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

Maturity analysis

In the following maturity analysis of financial assets and financial liabilities, derivatives not held as part of the Company's trading activities are disclosed according to their earliest contractual maturity; all such amounts are presented at their fair value, consistent with how these financial assets and liabilities are managed. All other amounts represent undiscounted cash flows receivable and payable by the Company arising from its financial assets and financial liabilities to earliest contractual maturities as at 31 December 2015 and 31 December 2014. Receipts of financial assets and repayments of financial liabilities that are subject to immediate notice are treated as if notice were given immediately and are classified as on demand. This presentation is considered by the Company to appropriately reflect the liquidity risk arising from those financial assets and financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial assets and financial liabilities is managed by the Company.

31 December 2015	**On demand US$'000**	**Less than 1 month US$'000**	**Equal to or more than 1 month but less than 3 months US$'000**	**Equal to or more than 3 months but less than 1 year US$'000**	**Equal to or more than 1 year but less than 5 years US$'000**	**Equal to or more than 5 years US$'000**	**Total US$'000**
Financial assets							
Loan and receivables:							
Cash and short-term deposits	355,693	443,268	-	-	-	-	798,961
Trade receivables	553	-	-	-	-	-	553
Loan and advances to customers	1,006,730	14,782	10,528	-	-	-	1,032,040
Other receivables	1,670	33	211	-	-	-	1,914
Financial assets classified as held for trading:							
Derivatives	-	7,921	1,115	522	-	-	9,558
Available-for-sale financial assets	-	994,011	1,585,215	1,452,165	-	-	4,031,391
Total financial assets	1,364,646	1,460,015	1,597,069	1,452,687	-	-	5,874,417
Financial liabilities							
Financial liabilities at amortised cost:							
Deposits	3,806,051	176,780	295,981	1,172,585	-	-	5,451,397
Trade payables	150,770	-	-	-	-	-	150,770
Other payables	10,303	11,619	23,287	6,563	11,631	-	63,403
Financial liabilities classified as held for trading:							
Derivatives	-	5,299	2,520	44	-	-	7,863
Total financial liabilities	3,967,124	193,698	321,788	1,179,192	11,631	-	5,673,433

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity and funding risk (continued)

31 December 2014	On demand US$'000	Less than 1 month US$'000	Equal to or more than 1 month but less than 3 months US$'000	Equal to or more than 3 months but less than 1 year US$'000	Equal to or more than 1 year but less than 5 years US$'000	Equal to or more than 5 years US$'000	Total US$'000
Financial assets							
Loan and receivables:							
Cash and short-term deposits	13,000	-	-	-	-	-	13,000
Total financial assets	13,000	-	-	-	-	-	13,000
Financial liabilities							
Financial liabilities at amortised cost:							
Other payables	58	-	-	12	-	-	70
Total financial liabilities	58	-	-	12	-	-	70

Market Risk

Market risk is defined by HKFRS 7 as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Sound market risk management is an integral part of the Company's culture. The Company is responsible for ensuring that market risk exposures are well-managed and monitored. The Company also ensures transparency of material market risks, monitors compliance with established limits, and escalates risk concentrations to appropriate senior management.

To execute these responsibilities, the Morgan Stanley Group monitors the market risk of the firm against limits on aggregate risk exposures, performs a variety of risk analyses, routinely reports risk summaries and maintains the Value at Risk ("VaR") and scenario analysis methodologies. These limits are designed to control market risk. The Company is managed within the Morgan Stanley Group's global framework. The market risk management policies and procedures of the Company include performing risk analyses and reporting any material risks identified to appropriate key management personnel of the Company.

The Company is exposed to the following types of market risk under this definition: interest rate risk and currency risk.

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market Risk (continued)

Interest rate risk

Interest rate risk is defined by HKFRS 7 as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is primarily exposed to interest rate risk under this definition as a result of changes in the future cash flows of floating rate deposits and loans, bank balance, changes in the fair value of fixed rate debt investments categorised as available-for-sale financial assets, and the basis swap which is paying out variable but earning fixed interest.

The application of a parallel shift in interest rates of 50 basis points increase or decrease to these positions, would result in a net gain or loss of approximately US$13,273,000 (for the period from 19 May 2014 (date of incorporation) to 31 December 2014: Nil).

Currency risk

The Company has foreign currency exposure arising from its assets and liabilities in currencies other than US dollars, which it actively manages by hedging with other Morgan Stanley Group undertakings.

The analysis below details the foreign currency exposure for the Company, by foreign currency. The analysis calculates the impact on total comprehensive income of a reasonably possible parallel shift of the foreign currency in relation to the US dollar, with all other variables held constant. This analysis does not take into account the effect of the foreign currency hedges held by other members of the Morgan Stanley Group.

	2015		
	Foreign currency exposure US$'000	**Percentage change applied %**	**Sensitivity to applied percentage change in currency (+/-) profit or loss US$'000**
Australian Dollar	(3)	11	-
Euro	3	12	-
Hong Kong Dollar	(6,852)	-	-
Japanese Yen	1	14	-
New Zealand Dollar	3	12	-
Singapore Dollar	(2,045)	7	143
Sterling	1	6	-
Yuan Renminbi	(152)	6	9
	(9,044)		

The reasonably possible percentage change in the currency rate in relation to US dollars has been calculated based on the greatest annual percentage change for the year ended 31 December 2015.

The currency risk for the Company for the period from 19 May 2014 (date of incorporation) to 31 December 2014 was not material.

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

Operational risk

Operational risk refers to the risk of loss, or of damage to the Company's reputation, resulting from inadequate or failed processes, people and systems or from external events. This definition includes legal risk, but excludes strategic risk.

The Company's business is highly dependent on the ability to process, on a daily basis, a large number of transactions across numerous and diverse markets in many currencies.

In addition, new products or services may be introduced or processes are changed, resulting in new operational risk that may not be fully appreciated or identified. In general, the transactions processed are increasingly complex. The Company relies on the ability of the Morgan Stanley Group's employees, its internal systems, and systems at technology centres operated by unaffiliated third parties to process a high volume of transactions.

The Company also faces the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries it uses to facilitate securities transactions. In the event of a breakdown or improper operation of the Company's or a third party's systems or improper or unauthorised action by third parties or the Morgan Stanley Group's employees, the Company could suffer financial loss, an impairment to its liquidity, a disruption of its businesses, regulatory sanctions or damage to its reputation. In addition, the interconnectivity of multiple financial institutions with central agencies, exchanges and clearing houses, and the increased importance of these entities, increases the risk that an operational failure at one institution or entity may cause an industry-wide operational failure that could materially impact the Company's ability to conduct business.

The Company's operations rely on the secure processing, storage and transmission of confidential and other information in its computer systems and the systems of third parties with which the Company does business with or that facilitate our business activities, such as vendors. Like other financial services firms, the Company and its third party providers have been and continue to be subject to risk of unauthorised access, mishandling or misuse, computer viruses or malware cyber-attacks, denial of service attacks and other events. The increased use of smartphones, tablets and other mobile devices may also heighten these and other operational risks. Events such as these could have a security impact on the Company's systems and jeopardise the Company's or the Company's clients' or counterparties' personal, confidential, proprietary or other information processed and stored in, and transmitted through, the Company's and its third party providers' computer systems. Furthermore, such events could cause interruptions or malfunctions in the Company's, the Company's clients', the Company's counterparties' or third parties' operations, which could result in reputational damage, litigation or regulatory fines or penalties not covered by insurance maintained by the Company, and adversely affect the business, financial condition or results of operations.

The Company is exposed to legal and regulatory risk, including the risk of exposure to fines, penalties, judgements, damages and/or settlements in connection with regulatory or legal actions as a result of non-compliance with applicable legal or regulatory requirements and standards or litigation. Legal risk also includes contractual and commercial risk such as the risk that a counterparty's performance obligations will be unenforceable. The Company is generally subject to extensive regulation in the different jurisdictions in which it conducts its business. In the current environment of rapid and possibly transformational regulatory change, the Company also views regulatory change as a component of legal risk.

21. FINANCIAL RISK MANAGEMENT (CONTINUED)

Operational risk (continued)

The Company has established procedures designed to foster compliance with applicable statutory and regulatory requirements. The Company, principally through the Morgan Stanley Group's Legal and Compliance Division, also has established procedures that are designed to require that the Morgan Stanley Group's policies relating to business conduct, ethics and practices are complied with. In connection with its businesses, the Company has and continuously develops various procedures addressing issues such as regulatory capital requirements, sales and trading practices, new products, information barriers, potential conflicts of interest, structured transactions, use and safekeeping of customer funds and securities, lending and credit granting, anti-money laundering, privacy and recordkeeping.

In addition, the Company has established procedures to mitigate the risk that a counterparty's performance obligations will be unenforceable, including consideration of counterparty legal authority and capacity, adequacy of legal documentation, the permissibility of a transaction under applicable law and whether applicable bankruptcy or insolvency laws limit or alter contractual remedies. The legal and regulatory focus on the financial services industry presents a continuing business challenge for the Company.

Culture, values and conduct of employees

All employees have accountability for risk management. The Morgan Stanley Group strives to establish a culture of effective risk management through training and development programs, policies, procedures, and defined roles and responsibilities within the Morgan Stanley Group. The actions and conduct of each employee are essential to risk management. The Morgan Stanley Group's Code of Conduct (the "Code") has been established to provide a framework and standards for employee conduct that further reinforces the Morgan Stanley Group's commitment to integrity and high ethical standards. Every new hire and every employee annually must certify to their understanding of and adherence to the Code. The employee annual review process includes evaluation of adherence to the Code. The Global Incentive Compensation Discretion Policy sets forth standards that specifically provide that managers must consider whether the employee effectively managed and supervised the risk control practices of his/her employee reports during the performance year. The Morgan Stanley Group's clawback and cancellation provisions permit recovery of deferred incentive compensation where, for example, there is a failure to appropriately manage or monitor an employee who engaged in conduct detrimental to the Morgan Stanley Group or conduct constituting 'cause' for termination.

22. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING

In order to manage credit exposure arising from its business activities, the Company applies various credit risk management policies and procedures, see note 21 for further details. Primarily in connection with derivative transactions, the Company enters into master netting arrangements and collateral arrangements with its counterparties. These agreements provide the Company with the right, in the ordinary course of business and/ or in the event of a counterparty default (such as bankruptcy or a counterparty's failure to pay or perform), to net a counterparty's rights and obligations under such agreement and, in the event of counterparty default, set off collateral held by the Company against the net amount owed by the counterparty. However, in certain circumstances, the Company may not have such an agreement in place; the relevant insolvency regime (which is based on type of counterparty entity and the jurisdiction of organisation of the counterparty) may not support the enforceability of the agreement; or the Company may not have sought legal advice to support the enforceability of the agreement. In cases where the Company has not determined an agreement to be enforceable, the related amounts are not offset in the narrative disclosures. The Company's policy is generally to receive cash posted as collateral (with rights of rehypothecation), although in certain cases the Company may agree for such collateral to be posted to a third party custodian under a tri-party arrangement that enables the Company to take control of such collateral in the event of a counterparty default. The enforceability of the master netting agreement is taken into account in the Company's risk management practices and application of counterparty credit limits.

In the statement of financial position, financial assets and financial liabilities are only offset and presented on a net basis where there is a current legally enforceable right to set off the recognised amounts and an intention to either settle on a net basis or to realise the asset and the liability simultaneously. Due to the absence of such conditions, financial assets and financial liabilities are presented on a gross basis in the statement of financial position. Certain derivatives that are presented on a gross basis have associated enforceable master netting arrangements in place that allow $7,719,000 of recognised assets and liabilities to be offset in the ordinary course of business and/or in the event of default and an additional $144,000 of recognised financial liabilities available to be set off against the cash collateral placed by the Company with a counterparty.

The effect of collateral agreements and other credit enhancements on the Company's exposure to credit risk is disclosed in Note 21.

23. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

a. Financial assets and liabilities recognised at fair value on a recurring basis

The following tables present the carrying value of the Company's financial assets and financial liabilities recognised at fair value on a recurring basis, classified according to the fair value hierarchy.

2015	Quoted prices in active market (Level 1) US$'000	Valuation techniques using observable inputs (Level 2) US$'000	Valuation techniques with significant unobservable inputs (Level 3) US$'000	Total US$'000
Financial assets classified as held for trading:				
- Derivatives	-	9,558	-	9,558
Available-for-sale financial assets:				
- Government debt securities	2,104,095	1,927,296	-	4,031,391
Total financial assets measured at fair value	2,104,095	1,936,854	-	4,040,949
Financial liabilities classified as held for trading:				
- Derivatives	-	7,863	-	7,863
Total financial liabilities measured at fair value	-	7,863	-	7,863

There were no financial assets and financial liabilities recognised at fair value as at 31 December 2014.

The Company's valuation approach and fair value hierarchy categorisation for certain significant classes of financial instruments recognised at fair value on a recurring basis is as follows:

Financial assets and financial liabilities classified as held for trading and available-for-sale financial assets

- *Government debt securities*

US Treasury Securities. US Treasury Securities are valued using quoted market prices. Valuation adjustments are not applied. Accordingly, US Treasury securities are generally categorised in Level 1 of the fair value hierarchy.

Non-U.S. Sovereign Government Obligations. Non-U.S. Sovereign Government obligations are valued using quoted prices in active markets when available. These bonds are generally categorised in Level 1 of the fair value hierarchy. If the market is less active or prices are dispersed, these bonds are categorised in Level 2 of the fair value hierarchy. As at 31 December 2015, non-U.S. Sovereign Government obligations are categorised in Level 2 of the fair value hierarchy.

- *Derivatives*

OTC Derivative Contracts. OTC derivative contracts include swap contracts related to interest rate or foreign currencies.

23. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

a. Financial assets and liabilities recognised at fair value on a recurring basis (continued)

- *Derivatives (continued)*

Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be either observed or modeled using a series of techniques, and model inputs from comparable benchmarks, including closed-form analytic formulas such as the Black-Scholes option-pricing model, and simulation models or a combination thereof. Many pricing models do not entail material subjectivity because the methodologies employed do not necessitate significant judgement, and the pricing inputs are observed from actively quoted markets, as is the case for generic interest rate swaps. In the case of more established derivative products, the pricing models used by the Company are widely accepted by the financial services industry. A substantial majority of OTC derivative products valued by the Company using pricing models fall into this category and are categorised within Level 2 of the fair value hierarchy.

b. Transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets and liabilities recognised at fair value on a recurring basis

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the current year and prior period.

c. Changes in Level 3 financial assets and liabilities recognised at fair value on a recurring basis

There were no transfers between Level 2 and Level 3 of the fair value hierarchy during the current year and prior period.

d. Assets and liabilities measured at fair value on a non-recurring basis

Non-recurring fair value measurements of assets or liabilities are those which are required or permitted in the statement of financial position in particular circumstances. There were no assets or liabilities measured at fair value on a non-recurring basis during the current year and prior period.

24. ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

For all financial instruments not measured at fair value, the carrying amount is considered to be a reasonable approximation of fair value due to the short term nature of these asset and liabilities.

25. CAPITAL MANAGEMENT

The Morgan Stanley Group manages its capital on a global basis with consideration for its legal entities. The capital managed by the Morgan Stanley Group broadly includes ordinary share capital, preference share capital, subordinated loans and reserves.

The Morgan Stanley Group actively manages its consolidated capital position based upon, among other things, business opportunities, risks, capital availability and rates of return together with internal capital policies, regulatory requirements and rating agency guidelines and, therefore, in the future may expand or contract its capital base to address the changing needs of its businesses.

The Morgan Stanley Group also aims to adequately capitalise at a legal entity level whilst safeguarding that entity's ability to continue as a going concern and ensuring that it meets all regulatory capital requirements, so that it can continue to provide returns for the Morgan Stanley Group.

In order to maintain or adjust the capital structure as described above, the Company may adjust the amount of dividends paid, return capital to shareholders, issue new shares, issue subordinated debt or sell assets to reduce debt.

25. CAPITAL MANAGEMENT (CONTINUED)

The Company is regulated by the HKMA and as such is subject to minimum capital requirements. The Company's capital is monitored on an ongoing basis to ensure compliance with these requirements. At a minimum, the Company must ensure that capital is greater than the capital requirement covering credit, market and operational risk.

The Company complied with all of its regulatory capital requirements during the year and prior period.

The Company manages the following items as capital:

	2015	2014
	US$'000	US$'000
Ordinary share capital	170,000	13,000
Available-for-sale reserve	(400)	-
Retained earnings/(Accumulated losses)	36,105	(20)
	205,705	12,980

26. EMPLOYEE COMPENSATION PLANS

Morgan Stanley maintains various deferred compensation plans for the benefit of its employees. The two principal forms of deferred compensation are granted under equity-settled share-based compensation and deferred cash based compensation plans.

Equity-settled share-based compensation plans

- **Restricted stock units**

Morgan Stanley has granted restricted stock unit awards pursuant to several equity-based compensation plans. The plans provide for the deferral of a portion of certain employees' incentive compensation with awards made in the form of restricted common stock or in the right to receive unrestricted shares of common stock in the future. Awards under these plans are generally subject to vesting over time contingent upon continued employment and to restrictions on sale, transfer or assignment until the end of a specified period, generally one to three years from the date of grant. All or a portion of an award may be cancelled if employment is terminated before the end of the relevant restriction period. All or a portion of a vested award also may be cancelled in certain limited situations, including termination for cause during the relevant restriction period. Recipients of stock-based awards may have voting rights, at the Morgan Stanley Group's discretion, and generally receive dividend equivalents.

During the year, Morgan Stanley granted 10,679 units (for the period from 19 May 2014 (date of incorporation) to 31 December 2014: Nil) of restricted stock units to employees of the Company with a weighted average fair value per unit of US$36.88 (for the period from 19 May 2014 (date of incorporation) to 31 December 2014: Nil), based on the market value of Morgan Stanley shares at grant date.

Included within 'Staff costs', 'Directors' remuneration' and 'Management charges from other Morgan Stanley Group undertakings' within the 'Other expense' note is an amount of US12,651,000 (for the period from 19 May 2014 (date of incorporation) to 31 December 2014: Nil) in relation to restricted stock units equity based compensation plans, granted to employees of the Company.

26. EMPLOYEE COMPENSATION PLANS (CONTINUED)

Deferred cash-based compensation plans

The Company has granted non-equity based deferred compensation awards to certain of its key employees. The plans provide for the deferral of a portion of the employees' discretionary compensation with awards that provide a return based upon the performance of various referenced investments. Awards under these plans are generally subject to a sole vesting condition of service over time, which normally ranges from six months to three years from the date of grant. All or a portion of an award may be cancelled if employment is terminated before the end of the relevant vesting period. The awards are settled in cash at the end of the relevant vesting period.

Awards with a value of US$469,000 (for the period from 19 May 2014 (date of incorporation) to 31 December 2014: Nil) have been granted to employees during the year and an expense of US$7,835,000 (for the period from 19 May 2014 (date of incorporation) to 31 December 2014: Nil) has been recognised within 'Staff costs' and 'Directors' remuneration' in 'Other expense' in the income statement in relation to current and previous years' awards. Previous years' awards were granted to the employees prior to their transfer to the Company. The liability to employees at the end of the year, reported within 'Other payables' in the statement of financial position, is US$10,952,000 (31 December 2014: Nil).

27. POST-EMPLOYMENT BENEFITS

Defined contribution plans

The Morgan Stanley Group operates the Morgan Stanley Defined Contribution Plan (the 'Plan'), which requires contributions to be made to funds held in trust, separate from the assets of the Company. The Plan is a defined contribution plan.

Additionally, the employees of the Branch are members of a state-managed retirement benefit plan, the Central Provident Board Fund, operated by the Government of Singapore. The Branch is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Branch with respect to the retirement plan is to make the specified contributions.

The defined contribution pension charge recognised within 'Staff costs' and 'Directors' remuneration' in 'Other expense' in the income statement was US$3,315,000 for the year (for the period from 19 May 2014 (date of incorporation) to 31 December 2014: Nil) of which USD$192,000 was accrued at 31 December 2015 (31 December 2014: Nil).

28. RELATED PARTY DISCLOSURES

Parent and subsidiary relationships

Parent and ultimate controlling entity

The Company's immediate parent undertaking is Morgan Stanley Hong Kong Limited, which was incorporated in Hong Kong.

The ultimate parent undertaking and controlling entity and the largest group of which the Company is a member and for which group financial statements are prepared is Morgan Stanley. Morgan Stanley was incorporated in the State of Delaware, the United States of America and copies of its financial statements can be obtained from www.morganstanley.com/investorrelations.

28. RELATED PARTY DISCLOSURES

Key management compensation

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company. Key management personnel include the Board of Directors of the Company.

Compensation paid to key management personnel in the Morgan Stanley Group in respect of their services rendered to the Company is:

	For the year ended 31 December 2015 US$'000	For the period from 19 May 2014 (date of incorporation) to 31 December 2014 US$'000
Short-term employee benefits	2,880	-
Post-employment benefits	29	-
Share-based payments	1,148	-
Other long-term employee benefits	294	-
Termination benefits	-	-
	4,351	-

The share-based payment costs disclosed above reflect the amortisation of equity-based awards granted to key management personnel over the last three years, prior to their transfer to the Company and are therefore not directly aligned with other staff costs in the current year.

The Company did not employ any staff for the period from 19 May 2014 (date of incorporation) to 31 December 2014. Any compensation received by the directors was borne by other Morgan Stanley Group undertakings for the period from 19 May 2014 (date of incorporation) to 31 December 2014.

In addition to the above, directors not in the Morgan Stanley Group provided key management personnel services to the Company for which a fee of US$83,000 was charged for the year (for the period from 19 May 2014 to 31 December 2014: Nil) and of which nil was accrued at 31 December 2015 (2014: Nil).

Transactions with related parties

The Morgan Stanley Group conducts business for clients globally through a combination of both functional and legal entity organisational structures. Accordingly, the Company is closely integrated with the operations of the Morgan Stanley Group and enters into transactions with other Morgan Stanley Group undertakings on an arm's length basis for the purposes of utilising financing, trading and risk management, and infrastructure services. The nature of these relationships along with information about the transactions and outstanding balances is given below. Settlement of the outstanding balances will be made in cash. The Company has not recognised any expense and has made no provision for impairment relating to the amount of outstanding balances from related parties (for period from 19 May 2014 (date of incorporation) to 31 December 2014: Nil).

28. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions with related parties (continued)

Cash

The Company receives deposits from other Morgan Stanley Group undertakings. All such transactions are entered into on an arm's length basis.

	For the year ended 31 December 2015 Interest US$'000	2015 Balance US$'000	For the period from 19 May 2014 (date of incorporation) to 31 December 2014 Interest US$'000	2014 Balance US$'000
Amounts due to the Company's direct and indirect parent undertakings	74	-	-	-
Amounts due to other Morgan Stanley Group undertakings	7,953	345,963	-	-
	8,027	345,963	-	-

Trading and risk management

The Company enters into purchases and sales of securities and derivative transactions with other Morgan Stanley Group undertakings primarily to meet local regulatory requirements and to manage the market risks associated with such transactions. The Company also has a cash sweep service with other Morgan Stanley Group undertakings to facilitate provision of financial services to clients on a global basis. All such transactions are entered into on an arm's length basis. The total amounts receivable and payable on such securities transactions not yet settled and the fair value of such derivatives contracts outstanding at the year/period end were as follows:

	2015 US$'000	2014 US$'000
Amounts due from other Morgan Stanley Group undertakings	9,558	-
Amounts due to other Morgan Stanley Group undertakings	158,633	-

The Company has pledged collateral of US$553,000 (2014: Nil) to other Morgan Stanley Group undertakings to mitigate credit risk on exposures arising under derivatives contracts between the Company and other Morgan Stanley Group undertakings. This is reported in the statement of financial position in 'Trade receivables'.

28. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions with related parties (continued)

Infrastructure services and fees and commissions

The Company receives and incurs management charges to and from other Morgan Stanley Group undertakings for infrastructure services, including the provision of staff, administrative support and office facilities. Management recharges received and incurred during the year/period are as follows:

	For the year ended 31 December 2015 US$'000	For the period from 19 May 2014 (date of incorporation) to 31 December 2014 US$'000
Amounts recharged from the Company's direct and indirect parent undertakings	148	-
Amounts recharged from other Morgan Stanley Group undertakings	64,134	-
	64,282	-
Amounts recharged to other Morgan Stanley Group undertakings	1,002	-

The management and execution of business strategies on a global basis results in many Morgan Stanley transactions impacting a number of Morgan Stanley Group undertakings. The Morgan Stanley Group operates a number of intra-group policies to ensure that, where possible, revenues and related costs are matched.

The Company earns fee and commission income from other Morgan Stanley Group undertakings for value added services which include sales commissions and introductory brokerage fees arising from such policies. Fees and commissions received during the year/period are as follows:

	For the year ended 31 December 2015 US$'000	For the period from 19 May 2014 (date of incorporation) to 31 December 2014 US$'000
Fees and commissions received from other Morgan Stanley Group undertakings	218,342	-

28. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions with related parties (continued)

Infrastructure services and fees and commissions (continued)

Amounts arising from infrastructure services and fee and commission income outstanding at the reporting date are as follows:

	2015 US$'000	2014 US$'000
Amounts due from the Company's direct and indirect parent undertakings	16	-
Amounts due from other Morgan Stanley Group undertakings	169	-
	185	-

	2015 US$'000	2014 US$'000
Amounts due to the Company's direct and indirect parent undertakings	109	-
Amounts due to other Morgan Stanley Group undertakings	9,992	-
	10,101	-

These balances are undated, unsecured and non-interest bearing.

Other related party transactions

On 9 February 2015, Morgan Stanley (Switzerland) AG (formerly known as Bank Morgan Stanley AG) transferred its wealth management business in Asia Pacific conducted through its Hong Kong and Singapore branches to the Company's intermediate holding company, MSAHL. On the same day, MSAHL contributed the Business through the Company's intermediate holding companies and then to its immediate holding company, MSHK and simultaneously, MSHK transferred the Business to the Company and its Branch in return for 1 ordinary share of USD1 issued by the Company. The employees of Morgan Stanley (Switzerland) AG were transferred to the Company and its Branch on the same day, and commenced business on the same day.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION
Year ended 31 December 2015

The following information is disclosed as part of the accompanying information to the financial statements to comply with the Banking (Disclosure) Rules and does not form part of the audited financial statements.

A. CORPORATE GOVERNANCE

Corporate Governance Practices
The Company and Morgan Stanley are committed to upholding high standards in its corporate governance practices. The HKMA has issued statutory guidelines, last revised in August 2012, on Corporate Governance of Locally Incorporated Authorized Institutions ("CG-1") under section 7(3) of the Banking Ordinance applicable to all locally incorporated Authorized Institutions ("AIs"). The Company has in place an effective framework which is consistent with the principles and best practices in corporate governance as set forth in the guidelines on CG-1.

Board of Directors
The Board of the Company currently comprises of eight members: two Executive Directors, four Non-Executive Directors, and two Independent Non-Executive Directors. All Directors have the appropriate experience, competence, personal and professional integrity to discharge their responsibilities effectively. The Directors have sufficient independence, expertise and experience to oversee the Company's operations and manage risks appropriately.

Board Practices
Board meetings are held at least four times a year, with one in each quarter. Notice of each Board meeting is given to all Directors in advance and the agenda is sent to the Directors before the date of each Board meeting. Minutes of each Board meeting are circulated to all Directors for their comments prior to confirmation of the minutes at the following Board meeting. Minutes of Board meetings are kept by the Company Secretary and are available for inspection by the Directors.

There are three Board level committees: a) Audit Committee, b) Remuneration Committee; and c) Risk Committee. In addition, there are ten Management level committees: a) Management Committee, b) Operating Committee, c) Asset and Liability Committee, d) Credit & Suitability Risk Committee, e) Operational Risk Committee, f) New Product Approval Committee, g) IT Steering Committee, h) Best Execution Committee, i) Anti-Money Laundering ("AML") Steering Committee and j) Capital Adequacy Assessment Process ("CAAP") Steering Committee.

Key Board Level Committees

(a) Audit Committee
Three Board members sit on the Audit committee including the two Independent Non-Executive Directors. The Audit Committee is chaired by an Independent Non-Executive Director and expects to meet at least 4 times a year. The Audit Committee's mandate is to ensure that there is effective supervision of the Company's financial reporting processes, systems of internal controls and internal audit function. The Audit Committee also will review and endorse the recommendation on the appointment or re-appointment of external auditors and reviews the financial statements before recommending them to the Board for approval.

(b) Remuneration Committee
Three Board members sit on the Remuneration Committee including the two Independent Non-Executive Directors. The Remuneration Committee is chaired by an Independent Non-Executive Director and meets at least once a year. The Committee's responsibility is to assist the Board in discharging its responsibility for the design and operation of the Company's remuneration system, and to make recommendations in respect of remuneration policy and practices to the Board. It is responsible for reviewing and approving the remuneration of Directors who are also employees of the Morgan Stanley Group and Senior Management as defined by the Company's Remuneration Policy.

A. CORPORATE GOVERNANCE (CONTINUED)

Key Board Level Committees (continued)

(c) Risk Committee

The Risk Committee comprises of three Board members, including two Non-Executive Directors and one Executive Director. The Board Risk Committee meets at a minimum of 4 times a year and is chaired by a Non-Executive Director. The Risk Committee reviews annually the Company's risk management strategy and policy. It also reviews and ensures that the Company has appropriate manpower resources, infrastructure and other resources and systems to identify, assess, monitor, and manage risks.

Key Management Level Committees

(a) Management Committee

The Management Committee is chaired by the Chief Executive of the Company and meets monthly. The Committee oversees the operations of the Company and provides a regular forum for business leaders across the Company to identify and discuss key issues and actions that need to be taken to fulfill the Company's strategy.

(b) Operating Committee

The Operating Committee is chaired by the Company's Chief Operating Officer and meets biweekly. The Operating Committee provides a regular forum for representatives from different functional infrastructure groups across the Company to identify, discuss and decide on key business, risk and operating issues.

(c) Asset & Liability Committee

The Asset & Liability Committee is chaired by the Company's Treasury Manager and meets at least monthly. The Asset & Liability Committee oversees the asset/liability risk management and capital adequacy of the Company.

(d) Credit & Suitability Risk Committee

The Credit & Suitability Risk Committee is chaired by the Company's Wealth Management Risk Management Officer and typically meets monthly. The Credit & Suitability Risk Committee assists the Board in its oversight and administration of the Company's credit, product risk, and client suitability risk management policies.

(e) Operational Risk Committee

The Operational Risk Committee is chaired by the Company's Chief Operating Officer and meets typically monthly. The Operational Risk Committee supervises operational risk exposures and the steps the Company takes to identify, measure, monitor, control and mitigate these risks.

(f) New Product Approval Committee

The New Product Approval Committee is chaired by the Company's Chief Operating Officer and meets typically monthly and no fewer than four times per annum. The New Product Approval Committee is appointed by the Company's Operating Committee to ratify new products to be offered by the Company.

(g) IT Steering Committee

The IT Steering Committee is chaired by the Company's Technology Officer and meets typically monthly and no less than 9 times a year. The IT Steering Committee provides oversight and governance of key technology initiatives, risk and control that impact the Company's ability to comply with relevant rules and regulations.

A. CORPORATE GOVERNANCE (CONTINUED)

Key Management Level Committees (continued)

(h) Best Execution Committee
The Best Execution Committee is chaired by the Company's Business Control Manager and meets quarterly. The Best Execution Committee is appointed by the Company's Operating Committee to oversee the Company's compliance with "best execution" obligations under applicable laws, rules and guidelines issued by relevant regulators.

(i) AML Steering Committee
The AML Steering Committee is chaired by the Regional Head of Global Financial Crimes Group of Morgan Stanley and meets quarterly. The AML Steering Committee is responsible for providing the necessary oversight and control of the Company's AML and Counter-Terrorist Financing Program ("AML/CTF Program").

(j) CAAP Steering Committee
The CAAP Steering Committee ("CSC") is chaired by the Treasurer of the Company. The CSC reports to the ALCO to oversee the Company's capital adequacy assessment framework and capital management process. It also performs annual review and evaluation of the capital management policy and capital adequacy assessment process ("CAAP") implemented by various departments including Risk and Financial Control Group.

Internal Audit

The Internal Audit Department ("IAD") is established to assist both senior management and the Audit Committee of the Board in the effective discharge of their legal, fiduciary, and oversight responsibilities. IAD provides independent assurance on the quality and effectiveness of Morgan Stanley's internal control, risk management and governance systems and processes. IAD acts as an objective and independent function within the Firm's risk management framework to promote an environment that fosters continual improvement of risk management processes. IAD identifies and assesses operating risks and evaluates the adequacy and effectiveness of the Company's system of internal control. Accordingly, IAD develops an independent and informed view of the risks faced by the Company and the risk management processes employed to manage those risks.

Compliance

To the extent applicable, the Company has complied with the requirements set out in the guideline CG-1 "Corporate Governance of Locally Incorporated Authorized Institutions" issued by the HKMA.

B. REMUNERATION SYSTEM

(a) Design and Implementation of the Remuneration System

Governance structure

The Remuneration Committee appointed by the Board of Directors of the Company assists the Board of Directors in discharging its responsibility for the design and operation of the Company's remuneration system, and makes recommendation in respect of remuneration policy and practices to the Board of Directors. The Remuneration Committee comprises of three Board members, two of whom are independent non-executive directors of the Company. No external consultants have been engaged by the Company since the set up of the Remuneration Committee in 2015.

The Board of Directors endorses and issues the remuneration policy for the Company and its branch. The remuneration policy takes into consideration the global practices of the Morgan Stanley Group on remuneration. In addition, local market and competitor practices are also taken into consideration in determining the Company's remuneration policy.

B. REMUNERATION SYSTEM (CONTINUED)

(a) Design and Implementation of the Remuneration System (continued)

Governance structure (continued)

Senior management is defined as those persons who are responsible for oversight of the Company's strategy or activities and/or those of the Company's material business lines. Key personnel are defined as individual employees whose duties or activities in the course of their employment involve the assumption of material risk or taking on of material exposures on behalf of the Company. For the year ended 31 December 2015, the Company has 22 senior management and 1 key personnel. Quantitative information on the remuneration for senior management and key personnel is set out in note (b) below.

The Company officially commenced operations and employed staff on 9 February 2015. For the period from 19 May 2014 (date of incorporation) to 31 December 2014, the Company's senior management or key personnel included the Executive Director of the Company. No other personnel were deemed to be senior management or key personnel until such time when the Board of Directors officially appointed and approved the relevant committees and their members. There was no remuneration paid by the Company for the period from 19 May 2014 (date of incorporation) to 31 December 2014.

Two meetings were held by the Remuneration Committee during the year ended 31 December 2015 (during the period from 19 May 2014 (date of incorporation) to 31 December 2014: Nil). For the year ended 31 December 2015, the remuneration paid to the Remuneration Committee members in the Morgan Stanley Group was borne by other Morgan Stanley Group undertakings (for the period from 19 May 2014 (date of incorporation) to 31 December 2014: Nil); the remuneration paid to the Remuneration Committee members not in the Morgan Stanley Group by the Company was US$83,000 (for the period from 19 May 2014 (date of incorporation) to 31 December 2014: Nil).

Remuneration structure

The Company's remuneration policies and procedures are consistent with those of the Morgan Stanley Group. The Morgan Stanley Group is committed to responsible and effective compensation program, which is continually evaluated with a view toward balancing the following objectives, all of which support shareholders' interests:

<u>Deliver Pay for Sustainable Performance</u>
The Morgan Stanley Group applies "pay-for-performance" philosophy that pervades its culture and motivates the employees. The Morgan Stanley Group rewards employees by directly linking compensation to performance based on their annual objective setting and annual performance evaluation, taking account of the overall performance of the Company as a whole over the longer term; performance of the relevant business units; contribution of individual employees to the above performance; and outlook of the overall Morgan Stanley Group.

Compensation programs for the majority of employees comprised two key elements, including base salary and discretionary compensation which may be payable in cash or partially in cash and partially in deferred compensation awards depending on the level of total compensation, seniority and the role of the employees.

In addition, for employees in the most senior roles, a significant portion of compensation is delivered in the form of long-term incentive awards, which closely tie such employees' compensation to the Morgan Stanley Group's long-term performance.

Investment Representatives ("IRs") are also eligible to receive commissions, which are formulaically calculated based on predetermined production goals and also payable in cash or partially in cash and partially in deferred compensation awards.

B. REMUNERATION SYSTEM (CONTINUED)

(a) Design and Implementation of the Remuneration System (continued)

Remuneration structure (continued)

Align Employees' Compensation with Shareholders' Interests
The Morgan Stanley Group links a significant portion of employees' incentive compensation to performance and delivers annual deferred compensation awards which helps motivate employees to achieve the Morgan Stanley Group's financial and strategic goals.

Compensation decisions for employees in risk control functions (including risk management, financial control, compliance, legal and internal audit functions) are determined by senior management of these divisions, wholly independent of the performance of the business units, and not by the management of the business units.

Attract and Retain Top Talent
The Morgan Stanley Group competes for talent globally with other banks and financial institutions. The Morgan Stanley Group continually monitors competitive pay levels and structures its incentive awards to attract and retain the most qualified employees.

Mitigate Excessive Risk-Taking
The Compensation, Management Development and Succession Committee (the "CMDS Committee") of the Morgan Stanley Group Board of Directors is advised by the Morgan Stanley Group's CRO and the CMDS Committee's independent compensation consultant to help ensure that the structure and design of compensation arrangements disincentivize unnecessary or excessive risk-taking that threatens the Morgan Stanley Group's interests or give rise to risks that could have a material adverse effect on the Morgan Stanley Group.

Remuneration process

In the first quarter of each year, senior management of the Morgan Stanley Group proposes and works with the members of the Morgan Stanley Group's Operating Committee (including the CRO of the Morgan Stanley Group) and the Board of Directors of the Morgan Stanley Group to establish financial and non-financial performance priorities that are aligned with the Morgan Stanley Group's business strategy and to incorporate risk-adjusted measures and objectives.

The CRO of the Morgan Stanley Group evaluates the Morgan Stanley Group's current compensation programs on annual basis and has determined that such programs do not encourage excessive risk-taking behavior, due in part to (i) the balance of fixed compensation and variable compensation; (ii) the balance between short-term and long-term incentives; (iii) mandatory deferrals into both equity-based and cash-based incentives programs; (iv) the governance procedures followed in making compensation decisions; and (v) the risk-mitigating features of the deferred incentive compensation awards, such as cancellation and clawback provisions. Details of the deferred compensation plans are set out in note 26 to the financial statements.

The overall discretionary bonus pool is established in consultation with the CMDS Committee. Risk-Adjusted Return on Equity is the primary quantitative metric reviewed with the CMDS Committee to determine the size of the bonus pool. Employee eligibility for bonus compensation is discretionary and bonus decisions are subject to a multi-dimensional process, which considers financial and non-financial individual, business unit and Morgan Stanley Group's performance measures.

B. REMUNERATION SYSTEM (CONTINUED)

(a) Design and Implementation of the Remuneration System (continued)

Remuneration process (continued)

Non-financial performance criteria that may be taken into account in deciding whether to award, and the amount of any bonus compensation, include (but are not limited to):

- Individual conduct, including but not limited to, adherence to the Morgan Stanley Group's Code of Conduct and policies and the Morgan Stanley Group's cultural values;
- Contribution to the performance and profitability of both the business unit and the Morgan Stanley Group and the strategic objectives of the Morgan Stanley Group, business unit and the team and the associated value attributed to the role;
- Commercial impact, including business/functional knowledge and judgment, client relationships, innovation and execution;
- Leadership skills, including teamwork, communication and management;
- Professional skills, including recruiting, diversity and inclusion; and
- Adherence to compliance and risk policies, including ethics, control and risk management.

Senior management of the Morgan Stanley Group and the CMDS Committee oversee the Morgan Stanley Group's controls regarding the year-end compensation process to help eliminate incentives for excessive risk-taking, including:

- Sizing the incentive compensation pool to more fully consider risk-adjusted returns, compliance with risk limits and the market and competitive environment;
- Allocating the incentive compensation pool among businesses after consideration of the business' returns on certain financial and return on capital metrics;
- Delivering a substantial portion of compensation in multi-year deferrals subject to malus/cancellation;
- Directing compensation managers to consider malus/cancellation events and an employee's risk management activities and outcomes in making compensation decisions; and
- Undertaking a rigorous review process by risk control functions to identify potential malus/cancellation situations.

In addition, on an annual basis, business heads and Operating Committee members representing the Morgan Stanley Group's revenue-generating divisions will prepare a Pay and Performance Analysis report that is presented to the CMDS Committee. This report sets the stage for the CMDS Committee to understand the outcomes of pay from the prior year relative to the market, and the linkage of prior year pay and performance. In turn, this enables the CMDS Committee to consider where the starting baseline of pay either trails or leads the market and whether such a position is warranted or should be rectified in light of current year known performance. Compensation outcomes are symmetric with risk outcomes at the Morgan Stanley Group level.

Compliance
To the extent applicable, the Company has complied with Part 3 of CG-5 "Guideline on a Sound Remuneration System" issued by the HKMA.

B. REMUNERATION SYSTEM (CONTINUED)

(b) Aggregate Quantitative Information on the Remuneration for Senior Management and Key Personnel

Quantitative information on the remuneration for senior management and key personnel is set out in the tables below. The Company has a small number of key personnel. The remuneration is disclosed for senior management and key personnel in aggregate to avoid the individual's remuneration being easily deduced.

(i) Analysis of remuneration awards split between fixed and variable compensation for the year/period

	Senior management and key personnel	
	For the year ended 31 December 2015 US$'000	**For the period from 19 May 2014 (date of incorporation) to 31 December 2014 US$'000**
Fixed compensation		
Non-deferred cash	6,409	-
Variable compensation		
Non-deferred cash	5,015	-
Deferred cash	3,304	-
Deferred shares	3,536	-
	11,855	-
Total	18,264	-

B. REMUNERATION SYSTEM (CONTINUED)

(b) Aggregate Quantitative Information on Remuneration for Senior Management and Key Personnel (continued)

(ii) Analysis of deferred remuneration for the year/period

	Senior management and key personnel	
	For the year ended 31 December 2015	For the period from 19 May 2014 (date of incorporation) to 31 December 2014
	US$'000	US$'000
Transferred in on 9 February 2015	14,943	-
Awarded during the year/ period	6,840	-
Paid out during the year/period	348	-
Reduced through performance adjustment	-	-

(iii) Analysis of total amount of outstanding deferred remuneration

	Senior management and key personnel	
	2015	2014
	US$'000	US$'000
At December 31,		
Vested	2,906	-
Unvested	19,658	-
At December 31,		
Cash	9,539	-
Shares	13,025	-

	Senior management and key personnel	
	For the year ended 31 December 2015	For the period from 19 May 2014 (date of incorporation) to 31 December 2014
	US$'000	US$'000
During the period/ year:		
Amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/ or implicit adjustments	22,564	-
Reductions due to ex post explicit adjustments	259	-
Reductions due to ex post implicit adjustments	220	-

B. REMUNERATION SYSTEM (CONTINUED)

(b) Aggregate Quantitative Information on Remuneration for Senior Management and Key Personnel (continued)

(iv) Analysis of guaranteed bonus, sign-on payments and severance payments awarded during the year

	Senior management and key personnel	
	For the year ended 31 December 2015	**For the period from 19 May 2014 (date of incorporation) to 31 December 2014**
	US$'000	**US$'000**
Guaranteed bonus	41	-
Number of beneficiaries of guaranteed bonus	1	-
Sign-on awards	34	-
Number of beneficiaries of sign-on awards	1	-
Severance payments made	356	-
Number of beneficiaries of severance payments made	1	-
Severance payments awarded	527	-
Number of beneficiaries of severance payments awarded	2	-
Highest amount of severance payment to a single person	356	-

C. RISK MANAGEMENT

Risk Governance Structure
Effective risk management is vital to the success of the Company. The Board oversees the establishment of risk governance to protect the interests of the Company's stakeholders and to ensure the safety and soundness of the Company's operations and its compliance with applicable laws and regulations. The Board follows Morgan Stanley's firm-wide risk governance framework.

The Company's Risk Management Principles establish an enterprise risk management ("ERM") framework to integrate the diverse roles of the Risk Management Functions into a holistic enterprise structure and to facilitate the incorporation of risk assessment into decision-making processes across the Company.

The cornerstone of the Company's risk management philosophy is the pursuit of risk-adjusted returns through prudent risk-taking that protects the Company's capital base and franchise. The Company's risk management philosophy is based on the following key principles:

- Integrity: critical to Morgan Stanley's approach to ERM is a strong risk culture and risk governance. Developing the Morgan Stanley Group's risk culture is a continuous process, and builds upon the Morgan Stanley Group's commitment to "doing the right thing" and its values that managing risk is each employee's responsibility;

- Comprehensiveness: a well-defined, comprehensive risk governance structure with appropriate risk management expertise, including a process for periodically assessing the efficacy of the Company's risk management program;

C. RISK MANAGEMENT (CONTINUED)

Risk Governance Structure (continued)

- Independence: independent lines of reporting relationships for risk managers and an appropriate compensation structure help ensure the independent oversight of risk;

- Accountability: well-defined roles and responsibilities that establish clear accountability for risk management; and are aligned with the disciplinary and compensation structure;

- Transparency: appropriate measurement and reporting of risk to senior management, the Board, regulatory entities and other external reporting and disclosure requirements.

The Board members possess adequate knowledge and understanding of the material risks faced by the Company. The Board of the Company has put in place a corporate and risk governance framework consisting of Board and management level committees to effectively oversee the operations of the Company, including risk management. The committees and their roles and functions are stated in the "Corporate Governance" section.

The Board and the Risk Committee are responsible to oversee the risk management activities and the related strategies and policies.

Details of the Financial Risk Management are disclosed in Note 21 to the audited financial statements.

Interest Rate Exposure in the Banking Books

The Company is exposed to interest rate risk arising from banking book activities covering clients' deposits and loans, the Company's funding and liquidity investments. The financial assets and liabilities of the Company, which inherently have interest rate risk, are primarily driven by prevailing market rates.

The sensitivity analysis for the interest rate risk of the banking book is based on the difference in interest rate sensitivity of interest bearing assets and interest bearing liabilities. The Company uses an instantaneous parallel interest rate shock of 200 basis points (upward or downward) to evaluate the potential impact on its earnings, which was a gain or loss of approximately US$14,270,000 as at 31 December 2015. The Company also monitors the interest rate risk of the banking book daily based on price value per one basis point increase or decrease in interest rates, which was a gain or loss of approximately US$265,000 as at 31 December 2015.

As at 31 December 2014, the Company held investments by way of cash balances, predominately with banks. Its liabilities as of that date were primarily amounts due to other Morgan Stanley affiliates. The interest rate exposure was minimal.

New Product Approval

The Company follows Morgan Stanley's Global New Product Approval Policy and Procedures; in addition, the Company has created an addendum to the Global New Product Approval Policy.

The Global New Product Approval Policy establishes a framework for managing the new product approval ("NPA") processes and related risks on an aggregated basis at the firm-wide level which also applies to the Company. The implementation of this policy and the addendum enables the Company's management to monitor the NPA process and related risks and ensure its consistent and effective application.

All new products approved under the Global NPA Policy framework will be ratified by the Company's New Product Approval Committee ("the NPA Committee"). The NPA Committee is appointed by the Operating Committee which in turns reports into the Management Committee which derives its delegated authority from the Board. The NPA Committee is charged with the responsibility for approving new products for the Company.

D. SEGMENTAL INFORMATION

(a) By geographical area

The geographical segmental analysis for the year ended 31 December 2015 is as follows:

2015	**Hong Kong US$'000**	**Singapore US$'000**	**Total US$'000**
Total operating income (net of interest expense)	182,242	40,557	222,799
Profit before income tax	35,631	6,950	42,581
Total assets	6,271	5,870,020	5,876,291
Total liabilities	280,984	5,389,602	5,670,586

For the period from 19 May 2014 (date of incorporation) to 31 December 2014, all of the profit and loss, assets and liabilities were managed and booked in Hong Kong.

There are no contingent liabilities and commitments as at 31 December 2015 (31 December 2014: Nil).

(b) By class of business

The main business segments of the Company are as follows:
(i) Wealth Management: the Company engages in the business of banking including deposit taking and lending. It also acts as introducing broker for other Morgan Stanley subsidiaries in connection with the provision of general investment, securities dealing, and custody services, as well as discretionary management.
(ii) Treasury and others: includes treasury operations and back office activities.

The Company's business segment results for the year ended 31 December 2015 are as follows:

2015	**Wealth Management US$'000**	**Treasury and others US$'000**	**Total US$'000**
Total operating income/ (loss) (net of interest expense)	225,654	(2,855)	222,799
Profit/ (loss) before income tax	55,761	(13,180)	42,581
Total assets	1,033,622	4,842,669	5,876,291

For the period from 19 May 2014 (date of incorporation) to 31 December 2014, the Company had not commenced business. The profit and loss and operating assets of the Company were mainly contributed by the Treasury and Corporate activities including overhead expenses which could not be reasonably allocated to specific business segments. All of the profit and loss, assets and liabilities were managed and booked in Hong Kong for the period.

D. SEGMENTAL INFORMATION (CONTINUED)

(b) By class of business (continued)

2014	Treasury and others US$'000	Total US$'000
Total operating income/ (loss) (net of interest expense)	-	-
Loss before income tax	(24)	(24)
Total assets	13,050	13,050

There are no impairment losses, specific provision and collective provision for impaired assets for the year (for the period from 19 May 2014 (date of incorporation) to 31 December 2014: Nil).

During the year, there was no fee and commission income and expense arisen from financial assets or financial liabilities that has not been measured at fair value through profit or loss (for the period from 19 May 2014 (date of incorporation) to 31 December 2014: Nil).

During the year, there was no fee and commission income and expense on trust and other fiduciary activities where the Company holds or invests on behalf of its customers (for the period from 19 May 2014 (date of incorporation) to 31 December 2014: Nil).

E. LOAN AND ADVANCES – SECTOR INFORMATION

	As at 31 December 2015 US$'000	As at 31 December 2014 US$'000
Sector classification		
Loans and advances for use in Hong Kong		
Industrial, commercial and financial:		
- Others	345,930	-
Individuals		
- Others	86,346	-
Loans and advances for use outside Hong Kong	599,677	-
Total	1,031,953	-

The total loans are fully secured by collateral as at 31 December 2015 (31 December 2014: Nil).

	As at 31 December 2015 US$'000	As at 31 December 2014 US$'000
Geographical Areas		
Hong Kong	432,276	-
Mainland China	214,851	-
Taiwan	144,528	-
Others	240,298	-
Total	1,031,953	-

E. LOAN AND ADVANCES – SECTOR INFORMATION (CONTINUED)

Loan and Advances are exposures of counterparties based on the location of the counterparties after taking into account any risk transfer. The risk transfers have been made if the claims are guaranteed by a party in a geographical area which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another geographical area.

F. INTERNATIONAL CLAIMS

International claims are on-balance sheet exposures of counterparties based on the location of the counterparties after taking into account any risk transfer. The risk transfers have been made if the claims are guaranteed by a party in a geographical area which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another geographical area.

			Non-bank private sector		
	Bank	Official sector	Non-bank financial institutions	Non-financial private sector	Total
31 December 2015	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Developed countries	715,900	2,104,095	858	11,233	2,832,086
United States	107,457	2,104,095	756	-	2,212,308
Offshore centres	79,019	-	37,992	456,721	573,732
Hong Kong	35,716	-	30,556	402,382	468,654
Developing Asia and Pacific	-	-	1,934	519,281	521,215

	Bank	Total
31 December 2014	**US$'000**	**US$'000**
Offshore centres	13,000	13,000
Hong Kong	13,000	13,000

G. OVERDUE AND RESCHEDULED ASSETS

There were no impaired, overdue or rescheduled assets as at 31 December 2015 and 31 December 2014.

H. MAINLAND ACTIVITIES

There were no mainland exposures on the Hong Kong office of the Company as at 31 December 2015 and 31 December 2014.

I. CURRENCY RISK

The currency risk arising from the Company's operation for those individual currencies which each constitutes more than 10% of the total net positions in all foreign currencies are as follows:

As at 31 December 2015	SGD HK$'000	USD HK$'000
Spot assets	15,190,282	28,378,991
Spot liabilities	(2,080,798)	(37,049,729)
Forward purchases	1,093,764	16,160,422
Forward sales	(14,218,935)	(7,419,766)
Net (short)/ long position	(15,687)	69,918

As at 31 December 2014	USD HK$'000
Spot assets	100,800
Spot liabilities	(100,807)
Net short position	(7)

The Company had no option and structural positions in any particular foreign currency as at 31 December 2015 (31 December 2014: Nil).

There were no forward purchases and sales in any particular foreign currency as at 31 December 2014.

J. LIQUIDITY

	For the period from 9 February 2015 (date of business commencement) to 31 December 2015
Average liquidity maintenance ratio for the period	66%

The average liquidity maintenance ratio is calculated as the arithmetic mean of each calendar month's average liquidity maintenance ratio. The liquidity maintenance ratio is computed in accordance with Banking (Liquidity) Rules.

As at 31 December 2014, the Company had not commenced its business. The Company was not required to maintain liquidity maintenance ratio (formerly known as liquidity ratio) for the period from 19 May 2014 (date of incorporation) to 31 December 2014. Therefore, no comparative information is disclosed in this note.

K. DERIVATIVE TRANSACTIONS

	2015			
		Fair Value		
	Notional Amount US$'000	Assets US$'000	Liabilities US$'000	Risk-weighted amount US$'000
Exchange rate swap contracts	2,874,841	9,036	7,197	8,793
Interest rate swap contracts	3,300,000	522	666	-
	6,174,841	9,558	7,863	8,793

There were no derivative transactions for the period ended 31 December 2014.

The notional amounts of these instruments indicate the volume of outstanding transactions and do not represent amounts at risk.

The above derivative assets and liabilities are computed at a transaction level and shown on a gross basis with no offsetting presentation due to bilateral netting agreements (31 December 2014: Nil). The risk-weighted amount has taken into account the effect of valid bilateral netting agreement.

L. CAPITAL CHARGE FOR CREDIT, MARKET AND OPERATIONAL RISKS

The capital adequacy ratios as at 31 December 2015 and 31 December 2014 were calculated in accordance with Banking (Capital) Rules of the Banking Ordinance. The Company uses the Standardized Approach ("STC approach") to calculate its credit risk.

Standard & Poor's Rating Services, Moody's Investors Service and Fitch Ratings are the external credit assessment institutions (the "ECAIs") that the Company has used to determine the risk weight of the exposures. The Company follows the process as prescribed in Part 4 of the Banking (Capital) Rules to map ECAI issuer ratings to exposures booked in its banking book.

The disclosure is made by multiplying the Company's risk-weighted amount derived from the relevant calculation approach by 8%, not the Company's actual "regulatory capital".

(a) Capital charge for credit risk

		Exposures after Recognised Credit Risk Mitigation(1)		**Risk-Weighted Amounts**			
As at 31 December 2015	**Total exposures US$'000**	**Rated(2) US$'000**	**Unrated (3) US$'000**	**Rated(2) US$'000**	**Unrated (3) US$'000**	**Total Risk-Weighted Amounts US$'000**	**Capital Requirement US$'000**
On-balance sheet							
Sovereign exposures	4,035,816	4,035,816	-	-	-	-	-
Bank exposures	788,851	788,851	-	157,827	-	157,827	12,626
Securities firm exposures	443	434	-	217	-	217	17
Corporate exposures	886,002	-	266,701	-	266,701	266,701	21,336
Other exposures which are not past due exposures	153,884	-	26,896	-	26,896	26,896	2,152
	5,864,996	4,825,101	293,597	158,044	293,597	451,641	36,131
Off-balance sheet							
OTC derivative Transactions(4)	17,585	17,585	-	8,793	-	8,793	703
Credit valuation adjustments	17,585	17,585	-	3,997	-	3,997	320
	5,900,166	4,860,271	293,597	170,834	293,597	464,431	37,154
As at 31 December 2014							
On-balance sheet							
Bank exposures	13,000	13,000	-	2,600	-	2,600	208
Other exposures	46	-	46	-	46	46	4
	13,046	13,000	46	2,600	46	2,646	212

(1) As at 31 December 2015, the amount and type of collateral required by the Company depends on an assessment of the credit risk of the obligor. Collateral held is managed in accordance with the Company's guidelines and the relevant underlying agreements. Collaterals are primarily publicly traded debt and equity securities, as well as other collaterals including unlisted securities, notes, mutual funds and insurance policies that fulfill the risk management requirement of being valuable and realisable at the earliest. The market value of securities received as collateral is monitored on a daily basis and securities received as collateral generally are not recognised in the statement of financial position. Haircuts are applied to the recognised collateral according to the Banking (Capital) Rules. There were no exposures which were covered by recognised collateral for the period ended 31 December 2014.

(2) exposures with ECAI issue specific rating and exposures which have an inferred rating (i.e. exposures which do not have an issue-specific rating but whose risk-weights are determined under the Banking (Capital) Rules by reference to an ECAI issuer rating assigned to the obligor of the exposure or to an ECAI issue rating of any other exposures of the obligor).

(3) exposures which do not have ECAI issue specific rating, nor inferred rating.

(4) There are no recognized collateral for the OTC derivative transactions as at 31 December 2015 (2014: Nil).

L. CAPITAL CHARGE FOR CREDIT, MARKET AND OPERATIONAL RISKS (CONTINUED)

There were no exposures which were covered by recognized guarantees or recognized credit derivative contracts for the year ended 31 December 2015 and for the period ended 31 December 2014.

There were no credit exposures which were risk-weighted at 1250% for the year ended 31 December 2015 and for the period ended 31 December 2014.

There were no counterparty credit-risk related exposures for securities financing transactions for the year ended 31 December 2015 and for the period ended 31 December 2014.

(b) Capital charge for market risk

The Company uses the Standardized Approach (“STM approach”) to calculate its market risk. The Company’s capital charge for market risk included currency risk of US$174,000 as at 31 December 2015 (2014: Nil).

(c) Capital charge for operational risk

The Company uses the Basic Indicator Approach (“BIA approach”) to calculate its operational risk. The Company’s capital charge for operational risk was US$29,937,000 as at 31 December 2015 (2014: Nil).

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M. CAPITAL ADEQUACY RATIO

	At 31 December 2015	At 31 December 2014
Common Equity Tier 1 ("CET1") capital ratio	24%	490%
Tier 1 capital ratio	24%	490%
Total capital ratio	24%	490%

The capital adequacy ratio as at 31 December 2015 was not comparable to that of 31 December 2014 as the Company had not commenced business as at 31 December 2014.

<u>Component of capital base</u>

Total capital after deductions used in the calculation of capital adequacy ratios as at 31 December 2015 and 31 December 2014 are analyzed as follows:

	At 30 December 2015 US$'000	At 31 December 2014 US$'000
CET1 capital instruments		
Paid up ordinary share capital	170,000	13,000
Retained earnings/(accumulated losses)	36,105	(20)
Available-for-sale assets reserve	(400)	-
CET1 capital before deductions	205,705	12,980
Deductions:		
Deferred tax assets net of deferred tax liabilities	(1,868)	(4)
Regulatory reserve for general banking risks(1)	(5,160)	-
Valuation adjustments	(222)	-
CET1 capital after deductions	198,455	12,976
Additional tier 1 capital	-	-
Tier 2 capital		
Regulatory reserve for general banking risks(1)	5,160	-
Total capital	203,615	12,976

(1) The Company has earmarked part of its retained earnings for maintaining its regulatory reserve for general banking risks to satisfy the provisions of the Banking Ordinance for prudential supervision purposes.

Information relating to the disclosure of the full terms and conditions of the Company's capital instruments can be viewed on the website: http://www.morganstanley.com/about-us/global-offices/hong-kong.

N. CAPITAL DISCLOSURE TEMPLATE

(a) Capital Disclosure Template

The following table shows the capital disclosure template specified by the HKMA in relation to the elements of the Company's regulatory capital.

(in thousands of US dollars)			Cross reference to Balance Sheet
	CET1 capital: instruments and reserves		
1	Directly issued qualifying CET1 capital instruments plus any related share premium	170,000	(1)
2	Retained earnings	36,105	(2)
3	Disclosed reserves	(400)	(3)
4	*Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)*	Not applicable	
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	0	
6	**CET1 capital before regulatory deductions**	205,705	
	CET1 capital: regulatory deductions		
7	Valuation adjustments	222	
8	Goodwill (net of associated deferred tax liability)	0	
#9	Other intangible assets (net of associated deferred tax liability)	0	
#10	Deferred tax assets net of deferred tax liabilities	1,868	(4)
11	Cash flow hedge reserve	0	
12	Excess of total EL amount over total eligible provisions under the IRB approach	0	
13	Gain-on-sale arising from securitization transactions	0	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	0	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	0	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	0	
17	Reciprocal cross-holdings in CET1 capital instruments	0	
#18	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0	
#19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0	
20	Mortgage servicing rights (amount above 10% threshold)	Not applicable	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable	
22	Amount exceeding the 15% threshold	Not applicable	
23	of which: significant investments in the common stock of financial sector entities	Not applicable	
24	of which: mortgage servicing rights	Not applicable	
25	of which: deferred tax assets arising from temporary differences	Not applicable	
26	National specific regulatory adjustments applied to CET1 capital	0	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	0	
26b	Regulatory reserve for general banking risks	5,160	
26c	Securitization exposures specified in a notice given by the Monetary Authority	0	

N. CAPITAL DISCLOSURE TEMPLATE (CONTINUED)

(a) Capital Disclosure Template (continued)

(in thousands of US dollars)			Cross reference to Balance Sheet
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	0	
26e	Capital shortfall of regulated non-bank subsidiaries	0	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	0	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	0	
28	**Total regulatory deductions to CET1 capital**	7,250	
29	**CET1 capital**	198,455	
	AT1 capital: Instruments		
30	Qualifying AT1 capital instruments plus any related share premium	0	
31	of which: classified as equity under applicable accounting standards	0	
32	of which: classified as liabilities under applicable accounting standards	0	
33	*Capital instruments subject to phase out arrangements from AT1 capital*	0	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	0	
35	*of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements*	0	
36	**AT1 capital before regulatory deductions**	0	
	AT1 capital: regulatory deductions		
37	Investments in own AT1 capital instruments	0	
38	Reciprocal cross-holdings in AT1 capital instruments	0	
#39	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0	
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0	
41	National specific regulatory adjustments applied to AT1 capital	0	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	0	
43	**Total regulatory deductions to AT1 capital**	0	
44	**AT1 capital**	0	
45	**Tier 1 capital (Tier 1 = CET1 + AT1)**	198,455	
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	0	
47	*Capital instruments subject to phase out arrangements from Tier 2 capital*	0	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	0	
49	*of which: capital instruments issued by subsidiaries subject to phase out arrangements*	0	
50	Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	5,160	
51	**Tier 2 capital before regulatory deductions**	5,160	

N. CAPITAL DISCLOSURE TEMPLATE (CONTINUED)

(a) Capital Disclosure Template (continued)

(in thousands of US dollars)			Cross reference to Balance Sheet
	Tier 2 capital: regulatory deductions		
52	Investments in own Tier 2 capital instruments	0	
53	Reciprocal cross-holdings in Tier 2 capital instruments	0	
#54	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0	
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0	
56	National specific regulatory adjustments applied to Tier 2 capital	0	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	0	
57	**Total regulatory deductions to Tier 2 capital**	0	
58	**Tier 2 capital**	5,160	
59	**Total capital (Total capital = Tier 1 + Tier 2)**	203,615	
60	**Total risk weighted assets**	840,824	
	Capital ratios (as a percentage of risk weighted assets)		
61	CET1 capital ratio	24%	
62	Tier 1 capital ratio	24%	
63	Total capital ratio	24%	
64	Institution specific buffer requirement (minimum CET1 capital requirement as specified in s.3B of the BCR plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB or D-SIB requirements)	0%	
65	*of which: capital conservation buffer requirement*	0%	
66	*of which: bank specific countercyclical buffer requirement*	0%	
67	*of which: G-SIB or D-SIB buffer requirements*	0%	
68	CET1 capital surplus over the minimum CET1 requirement and any CET1 capital used to meet the Tier 1 and Total capital requirements under s.3B of the BCR	0%	
	National minima (if different from Basel 3 minimum)		
69	National CET1 minimum ratio	Not applicable	
70	National Tier 1 minimum ratio	Not applicable	
71	National Total capital minimum ratio	Not applicable	
	Amounts below the thresholds for deduction (before risk weighting)		
72	Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0	
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0	
74	Mortgage servicing rights (net of related tax liability)	Not applicable	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	Not applicable	

N. CAPITAL DISCLOSURE TEMPLATE (CONTINUED)

(a) Capital Disclosure Template (continued)

(in thousands of US dollars)			Cross reference to Balance Sheet
Applicable caps on the inclusion of provisions in Tier 2 capital			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the basic approach and the standardized (credit risk) approach (prior to application of cap)	0	
77	Cap on inclusion of provisions in Tier 2 under the basic approach and the standardized (credit risk) approach	0	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	0	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach	0	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	*Current cap on CET1 capital instruments subject to phase out arrangements*	Not applicable	
81	*Amount excluded from CET1 capital due to cap (excess over cap after redemptions and maturities)*	Not applicable	
82	*Current cap on AT1 capital instruments subject to phase out arrangements*	0	
83	*Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)*	0	
84	*Current cap on Tier 2 capital instruments subject to phase out arrangements*	0	
85	*Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)*	0	

Footnote:

# Indicates elements where a more conservative definition has been applied in the BCR relative to that set out in the Basel III capital standards.

N. CAPITAL DISCLOSURE TEMPLATE (CONTINUED)

(a) Capital Disclosure Template (continued)

Notes to the template

<table>
<tr><th>Row No.</th><th>Description</th><th>Hong Kong basis</th><th>Basel III basis</th></tr>
<tr><td rowspan="2">#9</td><td>Other intangible assets (net of associated deferred tax liability)</td><td>0</td><td>0</td></tr>
<tr><td colspan="3"><u>Explanation</u>
As set out in paragraph 87 of the Basel III text issued by the Basel Committee (December 2010), mortgage servicing rights (MSRs) may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to follow the accounting treatment of including MSRs as part of intangible assets reported in the AI's financial statements and to deduct MSRs in full from CET1 capital. Therefore, the amount to be deducted as reported in row 9 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 9 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of MSRs to be deducted to the extent not in excess of the 10% threshold set for MSRs and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.</td></tr>
<tr><td rowspan="2">#10</td><td>Deferred tax assets net of deferred tax liabilities</td><td>1,868</td><td>1,868</td></tr>
<tr><td colspan="3"><u>Explanation</u>
As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs that rely on future profitability of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III.

The amount reported under the column "Basel III basis" in this box represents the amount reported in row 10 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities and other credit exposures to connected companies) under Basel III.</td></tr>
<tr><td rowspan="2">#18</td><td>Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)</td><td>0</td><td>0</td></tr>
<tr><td colspan="3"><u>Explanation</u>
For the purpose of determining the total amount of insignificant capital investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the Monetary Authority that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business.

Therefore, the amount to be deducted as reported in row 18 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 18 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.</td></tr>
</table>

N. CAPITAL DISCLOSURE TEMPLATE (CONTINUED)

(a) Capital Disclosure Template (continued)

Notes to the template (continued)

<table>
<tr><th>Row No.</th><th>Description</th><th>Hong Kong basis</th><th>Basel III basis</th></tr>
<tr><td rowspan="2">#19</td><td>Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)</td><td>0</td><td>0</td></tr>
<tr><td colspan="3"><u>Explanation</u>
For the purpose of determining the total amount of significant capital investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the Monetary Authority that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business.

Therefore, the amount to be deducted as reported in row 19 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 19 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.</td></tr>
<tr><td rowspan="2">#39</td><td>Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)</td><td>0</td><td>0</td></tr>
<tr><td colspan="3"><u>Explanation</u>
The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant capital investments in AT1 capital instruments may be smaller. Therefore, the amount to be deducted as reported in row 39 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 39 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.</td></tr>
<tr><td rowspan="2">#54</td><td>Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation</td><td>0</td><td>0</td></tr>
<tr><td colspan="3"><u>Explanation</u>
The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant capital investments in Tier 2 capital instruments may be smaller. Therefore, the amount to be deducted as reported in row 54 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 54 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.</td></tr>
<tr><td colspan="4">Remarks:
The amount of the 10%/15% thresholds mentioned above is calculated based on the amount of CET1 capital determined under Banking (Capital) Rules.</td></tr>
</table>

Abbreviations:

CET1: Common Equity Tier 1

AT1: Additional Tier 1

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N. CAPITAL DISCLOSURE TEMPLATE (CONTINUED)

(b) Balance Sheet Reconciliation

The following table shows a reconciliation of amounts shown in the balance sheet of the Company to the capital components of regulatory capital:

	Balance sheet as in published financial statements	**Under regulatory scope of consolidation**	**Cross reference to Definition of Capital Components**
As at December 31, 2015	**US$'000**	**US$'000**	**US$'000**
ASSETS			
Cash and short-term deposits	798,943	798,943	
Trade receivables	553	553	
Loan and advances to customers	1,031,953	1,031,953	
Other receivables	1,914	1,914	
Financial assets classified as held for trading	9,558	9,558	
Available-for-sale financial assets	4,031,391	4,031,391	
Deferred tax assets	1,868	1,868	(4)
Prepayments	111	111	
TOTAL ASSETS	**5,876,291**	**5,876,291**	
LIABILITIES			
Deposits	5,439,241	5,439,241	
Trade payables	150,770	150,770	
Other payables	63,403	63,403	
Financial liabilities classified as held for trading	7,863	7,863	
Current tax liabilities	8,619	8,619	
Accruals	690	690	
TOTAL LIABILITIES	**5,670,586**	**5,670,586**	
SHAREHOLDERS' EQUITY			
Share capital	170,000	170,000	(1)
Available-for-sale reserves	(400)	(400)	(3)
Retained earnings	36,105	36,105	(2)
TOTAL SHAREHOLDERS' EQUITY	**205,705**	**205,705**	
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**5,876,291**	**5,876,291**	

N. CAPITAL DISCLOSURE TEMPLATE (CONTINUED)

(c) Main Features of Capital Instruments

The following table shows the main features of outstanding capital instruments issued.

1	Issuer	Morgan Stanley Asia International Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	Not applicable
3	Governing law(s) of the instrument	Hong Kong Law
	Regulatory treatment	
4	Transitional Basel III rules#	Not applicable
5	Post-transitional Basel III rules+	Common Equity Tier 1
6	Eligible at solo*/group/group & solo	Solo
7	Instrument type (type to be specified by each jurisdiction)	Ordinary shares
8	Amount recognized in regulatory capital (Currency in million, as of most recent reporting date)	US$170 million
9	Par value instrument	Not applicable
10	Accounting classification	Shareholders' equity
11	Original date of issuance	• 1 share issued on May 19, 2014 • 13,000,000 shares issued on July 11, 2014 • 156,999,998 shares issued on January 13, 2015 • 1 share issued on February 9, 2015
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	No
31	If write-down, write-down trigger(s)	Not applicable

N. CAPITAL DISCLOSURE TEMPLATE (CONTINUED)

(c) Main Features of Capital Instruments (continued)

32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable

Footnote:

Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules.
+ Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H of the Banking (Capital) Rules.
* Included solo-consolidated

O. LEVERAGE RATIO DISCLOSURE TEMPLATE

Summary Comparison Table

	Item	**Leverage ratio framework US$'000**
1	Total consolidated assets as per published financial statements	5,876,291
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	8,027
5	Adjustments for securities financing transactions (i.e. repos and similar secured lending)	-
6	Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	-
7	Other adjustments	(7,250)
8	**Leverage ratio exposure**	**5,877,068**

MORGAN STANLEY ASIA INTERNATIONAL LIMITED

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O. LEVERAGE RATIO DISCLOSURE TEMPLATE (CONTINUED)

Leverage Ratio Common Disclosure Template		
	Item	**Leverage ratio framework US$'000**
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	5,866,733
2	Less: Asset amounts deducted in determining Basel III Tier 1 capital (reported as negative amounts)	(7,250)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	5,859,483
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	1,839
5	Add-on amounts for PFE associated with all derivatives transactions	15,746
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions (reported as negative amounts)	-
8	Less: Exempted CCP leg of client-cleared trade exposures (reported as negative amounts)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivatives (reported as negative amounts)	-
11	Total derivative exposures (sum of lines 4 to 10)	17,585
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets (reported as negative amounts)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	-
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	-
18	Less: Adjustments for conversion to credit equivalent amounts (reported as negative amounts)	-
19	Off-balance sheet items (sum of lines 17 and 18)	-
	Capital and total exposures	
20	Tier 1 capital	198,455
21	Total exposures (sum of lines 3, 11, 16 and 19)	5,877,068
	Leverage ratio	
22	**Basel III leverage ratio**	**3.38%**