MORGAN STANLEY BANK ASIA LIMITED

Unaudited Quarterly Financial Disclosure Statement

As at 31 March 2022

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UNAUDITED QUARTERLY FINANCIAL DISCLOSURE STATEMENT
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1. PILLAR 3 DISCLOSURE

Corporate information

Morgan Stanley Bank Asia Limited ("MSBAL", or the "Company") is a private limited company incorporated in Hong Kong, with a head office in Hong Kong and a branch in Singapore.

On 15 March 2022, 260,000,000 ordinary shares were issued by the Company to Morgan Stanley Hong Kong 1238 Limited ("MSHK1238") for a cash consideration of US$260,000,000 (the "capital injection").

On 29 March 2022, the Company acquired all the ordinary shares of Morgan Stanley Bank International (China) Limited ("MSBIC", or the "subsidiary") from Morgan Stanley Bank International Limited ("MSBIL") at a consideration of US$262,347,618 (the "acquisition"). Post acquisition, MSBAL and its subsidiary together form the MSBAL Group (the "Group").

Basis of preparation

Upon completion of the acquisition, the Hong Kong Monetary Authority ("HKMA") required the Company to calculate its capital adequacy ratio on a consolidated basis. According to the Banking (Disclosure) Rules, starting from the reporting period ending 31 March 2022, the financial information contained in this document has been prepared on a consolidated basis (i.e. including the business of the subsidiary of the Company), unless otherwise indicated. For reporting periods on and before 31 December 2021 that were before the acquisition, the financial information includes the business of the Company only.

The capital adequacy ratios of the Company and the Group (where applicable) were calculated in accordance with Banking (Capital) Rules. The following approaches are used to calculate its capital charge for:

(a) credit risk: Standardised (Credit Risk) Approach ("STC approach");
(b) counterparty credit risk: Standardised (Counterparty Credit Risk) Approach ("SA-CCR approach");
(c) operational risk: Basic Indicator Approach ("BIA approach"); and
(d) market risk: Standardised (Market Risk) Approach ("STM approach") [(1)].

Note 1: Applicable to reporting periods on and after 31 March 2022.

For reporting periods ending on and before 31 December 2021, there was no risk-weighted amount ("RWA") for market risk for the Company because the Company was exempted by the HKMA from the calculation of market risk. Upon completion of the acquisition, the HKMA has revoked the exemption as the Group will no longer meet the threshold and conditions required for the exemption under the Banking (Capital) Rules. As a result, starting from the reporting period ending 31 March 2022, market risk is calculated for the Group.

This document shows the standard disclosure templates specified by the HKMA in relation to the Pillar 3 disclosure under the Banking (Disclosure) Rules. Other specified templates or tables not disclosed below either are not applicable to the Company and the Group or have no reportable amount for the period.

1. PILLAR 3 DISCLOSURE (CONTINUED)

a. Template KM1: Key Prudential Ratios

		The Group	The Company			
		As at 31 March 2022	As at 31 December 2021	As at 30 September 2021	As at 30 June 2021	As at 31 March 2021
		USD'000	USD'000	USD'000	USD'000	USD'000
	Regulatory capital (amount)					
1	Common Equity Tier 1 ("CET1") (1)	1,409,697	1,133,128	1,098,634	1,077,800	1,052,371
2	Tier 1 (1)	1,409,697	1,133,128	1,098,634	1,077,800	1,052,371
3	Total capital (1)	1,426,854	1,149,042	1,119,380	1,095,391	1,068,460
	RWA (amount)					
4	Total RWA (2)	2,391,293	2,149,094	2,543,315	2,218,121	2,059,890
	Risk-based regulatory capital ratios (as a percentage of RWA) (1)					
5	CET1 ratio (%)	59%	53%	43%	49%	51%
6	Tier 1 ratio (%)	59%	53%	43%	49%	51%
7	Total capital ratio (%)	60%	53%	44%	49%	52%
	Additional CET1 buffer requirements (as a percentage of RWA)					
8	Capital conservation buffer requirement (%)	2.500%	2.500%	2.500%	2.500%	2.500%
9	Countercyclical capital buffer requirement (%)	0.393%	0.473%	0.481%	0.542%	0.613%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	0%	0%	0%	0%	0%
11	Total Authorised Institution ("AI")-specific CET1 buffer requirements (%)	2.893%	2.973%	2.981%	3.042%	3.113%
12	CET1 available after meeting the AI's minimum capital requirements (%)	52%	45%	36%	41%	44%
	Basel III leverage ratio					
13	Total leverage ratio ("LR") exposure measure (3)	10,572,757	9,875,839	10,631,640	9,396,269	9,900,101
14	LR (%) (1)	13%	11%	10%	11%	11%
	Liquidity Maintenance Ratio ("LMR")					
17a	LMR (%) (4)	69%	67%	66%	63%	63%
	Core Funding Ratio ("CFR")					
20a	CFR (%) (4)	260%	235%	225%	226%	237%

Note 1: Increase in regulatory capital, capital adequacy ratios and leverage ratios in the first quarter of 2022 is mainly due to the capital injection in March 2022.

Note 2: Refer to template OV1 for details.

Note 3: Refer to template LR2 for details.

Note 4: The LMR and CFR disclosed above represent the arithmetic mean of the average LMR and average CFR of the 3 calendar months within each quarter respectively. The Company and the Group are not required, under the Banking (Liquidity) Rules, to calculate Liquidity Coverage Ratio or Net Stable Funding Ratio for its liquidity risk.

1. PILLAR 3 DISCLOSURE (CONTINUED)

b. Template OV1: Overview of RWA

		RWA		Minimum capital requirements[1]
		The Group	The Company	The Group
		As at 31 March 2022 USD'000	As at 31 December 2021 USD'000	As at 31 March 2022 USD'000
1	Credit risk for non-securitization exposures	1,380,039	1,261,868	110,403
2	Of which Standardised (Credit Risk) Approach ("STC approach")	1,380,039	1,261,868	110,403
2a	Of which Basic Approach ("BSC approach")	-	-	-
3	Of which foundation Internal Ratings-Based ("IRB") Approach	-	-	-
4	Of which supervisory slotting criteria approach	-	-	-
5	Of which advanced IRB approach	-	-	-
6	Counterparty default risk and default fund contributions	40,607	11,290	3,249
7	Of which Standardised (Counterparty Credit Risk) ("SA-CCR") Approach	21,325	9,130	1,706
7a	Of which Current Exposure Method ("CEM")	-	-	-
8	Of which Internal Models (Counterparty Credit Risk) Approach ("IMM(CCR) approach")	-	-	-
9	Of which others	19,282	2,160	1,543
10	Credit Valuation Adjustment ("CVA") risk	9,167	4,150	733
11	Equity positions in banking book under the simple risk-weight method and internal models method	-	-	-
12	Collective investment scheme ("CIS") exposures – Look-Through Approach ("LTA")	Not applicable		
13	CIS exposures – Mandate-Based Approach ("MBA")	Not applicable		
14	CIS exposures – Fall-Back Approach ("FBA")	Not applicable		
14a	CIS exposures – combination of approaches	Not applicable		
15	Settlement risk	-	-	-
16	Securitization exposures in banking book	-	-	-
17	Of which Securitization Internal Ratings-Based Approach ("SEC-IRBA")	-	-	-
18	Of which Securitization External Ratings-Based Approach ("SEC-ERBA") (including Internal Assessment Approach ("IAA"))	-	-	-
19	Of which Securitization Standardised Approach ("SEC-SA")	-	-	-
19a	Of which Securitization Fall-Back Approach ("SEC-FBA")	-	-	-
20	Market risk	53,669	-	4,294
21	Of which Standardised (Market Risk) Approach ("STM approach")	53,669	-	4,294
22	Of which Internal Models Approach ("IMM approach")	-	-	-
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)	Not applicable		
24	Operational risk	883,922	876,238	70,714
24a	Sovereign concentration risk	23,889	-	1,911
25	Amounts below the thresholds for deduction (subject to 250% Risk-Weight ("RW"))	-	-	-
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	-	4,452	-
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	-	4,452	-
26c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	-	-	-
27	**Total [2]**	**2,391,293**	**2,149,094**	**191,304**

Note 1: The disclosure on minimum capital requirement is made by multiplying the Company's RWA derived from the relevant calculation approach by 8%, not the Company's actual "regulatory capital".

Note 2: Increase in total RWA during the first quarter in 2022 was US$242,199,000, mainly due to the inclusion of the subsidiary's RWA from credit risk and market risk as at 31 March 2022, upon the change in basis of preparation subsequent to acquisition of the subsidiary.

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1. PILLAR 3 DISCLOSURE (CONTINUED)

c. Template LR2: Leverage Ratio

		The Group	The Company
		As at 31 March 2022	As at 31 December 2021
		USD'000	USD'000
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral) (1)	8,423,586	9,414,760
2	Less: Asset amounts deducted in determining Tier 1 capital	(31,708)	(35,989)
3	**Total on-balance sheet exposures (excluding derivative contracts and SFTs)**	8,391,878	9,378,771
Exposures arising from derivative contracts			
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	50,573	11,242
5	Add-on amounts for potential future exposure ("PFE") associated with all derivative contracts	46,877	18,159
6	Gross-up for collateral provided in respect of derivative contracts where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	-	-
8	Less: Exempted Central Counterparty ("CCP") leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit-related derivative contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit-related derivative contracts	-	-
11	**Total exposures arising from derivative contracts**	97,450	29,401
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions (1)	2,082,835	466,245
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	Counterparty Credit Risk ("CCR") exposure for SFT assets	1,966	1,422
15	Agent transaction exposures	-	-
16	**Total exposures arising from SFTs**	2,084,801	467,667
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	-	-
18	Less: Adjustments for conversion to credit equivalent amounts	-	-
19	**Off-balance sheet items**	-	-
Capital and total exposures			
20	**Tier 1 capital (2)**	1,409,697	1,133,128
20a	**Total exposures before adjustments for specific and collective provisions**	10,574,129	9,875,839
20b	**Adjustments for specific and collective provisions**	(1,372)	-
21	**Total exposures after adjustments for specific and collective provisions (3)**	10,572,757	9,875,839
Leverage ratio			
22	**Leverage ratio (2)**	**13%**	**11%**

Note 1: Increase in Gross SFT assets is mainly supported by a reduction in investment securities (included in on-balance sheet exposures) as part of the liquidity management activities of the Company.

Note 2: Refer to template KM1 for details.

Note 3: Increase in total exposures mainly due to the inclusion of the subsidiary's exposures as at 31 March 2022, upon the change in basis of preparation subsequent to acquisition of the subsidiary.