Pillar 3

Regulatory Disclosure (UK)

Morgan Stanley International Limited Group

As at 31 March 2017

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1. Morgan Stanley International Limited Group

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

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

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

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

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

On 1 February 2017, MSIP transferred the assets and liabilities of its French Branch to Morgan Stanley (France) S.A. ("MSFSA"), an entity regulated by the Autorité de contrôle prudentiel et de résolution ("ACPR"). On transfer, the branch was dissolved.

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

Parent Relationship

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

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

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

2. Capital Summary

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

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

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

The Firm's Own Funds consist of the following:

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

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

Table 1: Capital Summary

	MSI GROUP[1] $MM	MSIP[2] $MM
CET1 Capital before Regulatory Adjustments	18,192	14,405
Regulatory Adjustments	(1,115)	(1,092)
CET1 Capital	**17,077**	**13,313**
Additional Tier 1 Capital	1,300	1,284
Tier 1 Capital	**18,377**	**14,597**
Tier 2 Capital before Regulatory Adjustments	6,915	6,833
Tier 2 Capital	**6,915**	**6,833**
Total Own Funds	**25,291**	**21,430**
RWAs	130,547	127,314
CET1 Ratio	13.1%	10.5%
Tier 1 Capital Ratio	14.1%	11.5%
Total Capital Ratio	19.4%	16.8%

1. MSI Groups Own Funds as at 31 December 2016 were $24,344MM, with CET1, Tier 1 and Total Capital Ratios of 15.4%. 16.5% and 21.9% respectively.
2. MSIP's Own Funds as at 31 December 2016 were $23,091MM with CET1, Tier 1 and Total Capital Ratios of 13.6%. 14.8% and 22.6% respectively.

Capital Management

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

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

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

Capital Resources ratios for MSI Group and MSIP have decreased over the period from 31st December 2016 to 31st March 2017 mainly driven by an increase in RWA. Both MSI Group and MSIP remain well capitalised and in compliance with the PRA capital requirements as defined by the CRR.

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

3. Capital Requirements

The MSI Group calculates Pillar 1 capital requirements as 8% of RWAs in accordance with CRDIV. As at 31 March 2017, the MSI Group and MSIP had the following capital requirements as detailed in Table 2.

Table 2: Capital Requirements

	MSI GROUP		MSIP	
	RWA[1] $MM	CAPITAL REQUIREMENT $MM	RWA[2] $MM	CAPITAL REQUIREMENT $MM
Credit and Counterparty Credit Risk	51,007	4,081	49,607	3,969
Market Risk	50,282	4,022	47,736	3,819
Operational Risk	10,350	828	7,035	563
Credit Valuation Adjustment	9,826	786	9,530	762
Large Exposures in the Trading Book	9,072	726	13,396	1,071
Settlement and Delivery Risk	10	1	10	1
Total	**130,547**	**10,444**	**127,314**	**10,185**

1. MSI Groups RWA's as at 31 December 2016 were $111,080MM.

2. MSIP RWA's as at 31 December 2016 were $102,350MM.

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

Market Risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio. The Market Risk capital requirements of the MSI Group comprise of capital associated with the Internal Modelling Approaches ("IMA") approved by the PRA and those associated with the Standardised Approach. Operational Risk refers to the risk of loss or damage to Morgan Stanley's reputation, resulting from inadequate or failed processes, people and systems or from external events. This definition includes legal risk, but excludes strategic risk. Capital requirements for operational risk are currently calculated under the Basic Indicator Approach.

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

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

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

Additional Capital Buffer Requirements

The capital requirements quoted in table 2 are based on Basel solvency standard of 8%. The capital requirements have been supplemented with the following additional buffers to ensure the firm has sufficient capital to meet the minimum requirements.

Countercyclical Capital Buffer ("CCyB"); was introduced to ensure that excess growth in specific countries is accounted for and increases the minimum capital ratios by between 0% and 2.5% and must be met with CET1 Capital. As at 31 March 2017, it was in place for Sweden set at a rate of 2.0%, Norway, at a rate of 1.5%, Iceland at a rate of 1.0%, Czech Republic at a rate of 0.5% and for Hong Kong at a rate of 1.25%. CCyB have also been announced for Slovakia from 1 August 2017 at a rate of 0.5%.

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

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

4. Leverage

The Basel III framework introduced a simple, transparent, non-risk based leverage ratio to act as a credible supplementary measure to the risk-based capital requirements. The leverage ratio is expressed as a percentage and calculated as Tier 1 capital divided by total exposure. The total exposure measure is the sum of the exposure values of all assets and off-balance sheet items not already deducted from Tier 1 capital. There is no current binding leverage requirement under the CRR.

The information in the table below has been made in accordance with the EU Delegated Act and is disclosed on a fully phased in basis.

Table 3 : Leverage Ratio

	MSI GROUP $MM	MSIP $MM
Tier 1 Capital	18,377	14,597
Leverage Ratio Exposure	418,617	417,133
Leverage Ratio	**4.4%**	**3.5%**

1. MSI Group Leverage Exposure and Ratio as at 31 December 2016 was $382,464MM and 4.8% respectively.

2. MSIP Leverage Exposure and Ratio as at 31 December 2016 was $379,464MM and 4.0% respectively.