

Morgan Stanley

Morgan Stanley Europe SE
Group Annual Report 2025

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⁽¹⁾ Please note that the English version of the Consolidated Financial Statements and Combined Management Report as at 31 December 2025 is a convenience translation. Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, issued the Independent Auditors' Report only for the German version of the Consolidated Financial Statements and the Combined Management Report as at 31 December 2025. Therefore, the German version prevails.

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COMBINED MANAGEMENT REPORT

Group Overview

Economic Report

Risk Report

Opportunities and Outlook

Parent Company Standalone
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Sustainability Report

Group Overview

The Management Report of Morgan Stanley Europe SE (“MSESE” or the “Company”) is combined with the Group Management report of Morgan Stanley Europe SE Group (the “Group” or the “MSESE Group”) in accordance with Section 315 (5) in conjunction with Section 298 (2) of the German Commercial Code (*Handelsgesetzbuch* or “HGB”). All financial figures in this Combined Management Report are presented in accordance with International Financial Reporting Standards (“IFRS”), except for the disclosures presented in the section “Parent Company Standalone Information according to HGB”.

Principal Activity

The Group is Morgan Stanley’s primary hub to facilitate European Union clients’ (“EU27 clients”) business. The Group’s business strategy is closely integrated into the global strategy of Morgan Stanley’s Institutional Securities Group (“ISG”). The Group’s principal business units within ISG are the Institutional Equities Division (“IED”), the Fixed Income Division (“FID”), the Investment Banking Division (“IBD”) and Global Capital Markets (“GCM”).

In executing Morgan Stanley’s ISG strategy, the Group is a key contributor in the following areas:

- sales, trading, financing and market-making activities in equity and fixed income products, including foreign exchange and commodities;
- financial advisory services, including advice on mergers, acquisitions and restructurings;
- corporate lending; and
- capital raising.

Additionally, in 2025 the Group commenced taking retail deposits.

The Group’s business strategy remains in line with the Global and Europe, Middle East and Africa (“EMEA”) ISG strategies, supporting the Morgan Stanley Group’s overarching objective to act as a trusted advisor to clients, helping them raise, manage and allocate capital they need to achieve their goals.

Corporate Structure

Morgan Stanley Europe SE, Frankfurt am Main is a European Company (*Societas Europaea*), registered with the Commercial Register of the Local Court (*Amtsgericht*). In 2025, MSESE merged with its parent entity, Morgan Stanley Europe Holding SE (“MSEHSE”), with MSESE as surviving entity¹.

MSESE directly holds 100% of the shares in Morgan Stanley Bank AG, Frankfurt am Main (“MSBAG”) and operates branches in France, Italy, the Netherlands, Poland, Spain, Sweden and Denmark. MSESE together with its subsidiary, MSBAG, form the MSESE Group.

There is a control agreement (*Beherrschungsvertrag*) in place between MSESE and MSBAG. A Letter of Comfort has been provided by MSESE for the benefit of MSBAG. Furthermore, a Profit and Loss Transfer Agreement exists between MSESE and MSBAG. As a result, MSESE and MSBAG form an income tax group (*Ertragsteuerliche Organschaft*) in accordance with the Corporation Tax Act (*Körperschaftsteuergesetz*).

As at 31 December 2025, MSESE was a wholly owned subsidiary of Morgan Stanley International Limited, London, United Kingdom (“MSI”). On 14 March 2026, the Company was acquired by Morgan Stanley Bank, N.A. (“MSBNA”). MSBNA is a United States of America (“U.S.”) national bank with its headquarters and main office in Salt Lake City, Utah.

The Group’s ultimate parent undertaking and controlling entity is Morgan Stanley, Delaware, United States of America (“U.S.”). Morgan Stanley is a global financial services firm authorised as a Financial Holding Company and regulated by the Board of Governors of the Federal Reserve System in the U.S. All companies of the Group are fully integrated into the global Morgan Stanley Group (the “Morgan Stanley Group”).

¹ For the first part of the financial year, references to the “Group” or the “MSESE Group” shall be deemed to include the MSEHSE Group. The merger became legally effective upon registration in the commercial register on 23 September 2025.

Supervision and Authorisations

MSESE is authorised as a Capital Requirements Regulation (“CRR”) credit institution. In January 2026, MSESE obtained additional permissions related to lending and deposit taking activities.

Following its merger with MSEHSE, MSESE became the Intermediate Parent Undertaking (“IPU”).

MSBAG is also authorised as a CRR credit institution. MSBAG is an integral part of the Morgan Stanley Group’s Euro liquidity management, operates MSESE Group’s lending business, acts as a securities settlement service provider for the Group and serves as the client assets custodian bank.

The Group is under direct prudential supervision of the European Central Bank (“ECB”), Federal Financial Supervisory Authority (“BaFin”) and the Deutsche Bundesbank in the context of the Single Supervisory Mechanism and supervision of the BaFin for other aspects.

As of December 31, 2025, MSESE was conditionally registered with the Securities and Exchange Commission (“SEC”) as a Securities

Based Swap Dealer (“SBSD”) and registered with the Commodity Futures Trading Commission (“CFTC”) as a Swap Dealer (“SD”). After becoming a fully licensed credit institution under the EU Capital Requirements Regulation in January 2026, MSESE became a Regulation K subsidiary of the Morgan Stanley Group and is no longer subject to the SEC and CFTC substituted compliance rules for capital requirements.

Sustainability Overview

Morgan Stanley’s sustainability strategy is focused on helping clients achieve their own sustainability-related ambitions by providing advice, products and solutions. For further information on its approach to, and performance on sustainability-related topics, refer to the Morgan Stanley Group’s Sustainability Report, available at <https://www.morganstanley.com/about-us/sustainability-reports-research>.

The Group’s approach to sustainability is provided in the “Sustainability Report” section, and is consistent with that of the Morgan Stanley Group.

Economic Report

Business Environment

The Combined Management Report contains certain forward-looking statements. These statements are made by the Management Board in good faith, based on the information available at the time of the approval of this report. Such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

The economic environment demonstrated resilience in 2025 as client and investor confidence and market sentiment improved and markets rebounded from early-year uncertainty. The year was characterised by increased momentum in capital markets activity and lower interest rates. The rate of economic growth, elevated geopolitical uncertainty, as well as central bank actions have impacted and could continue to impact capital markets.

The performance of the Group remained strong in 2025, see section “Financial Performance and Condition”.

Global Markets and Economic Conditions

Growth in global Gross Domestic Product (“GDP”) was broadly stable in 2025. The Euro area economy saw relatively strong growth in 2025 but with considerable heterogeneity across countries. Strong activity in the first quarter of 2025 was due to exceptional factors related to investments and exports front-loading expected U.S. tariffs. Private consumption was robust in 2025, driven by a reduction in the saving rate, real income gains and demographic changes. Euro area trade continues to move at a slow pace in historical terms, dampened by U.S. tariffs, challenging developments around competitiveness and the significant appreciation of the Euro since the start of 2025.

The Group estimates that fiscal deficits decline to 2.9% of Euro area aggregate GDP in 2025, and fiscal consolidation to be a drag on the economy. The ECB lowered policy rates down to 2.0% by June 2025, a rate which a majority of Council members considers neutral. As inflation remained close to the ECB’s target and there were both upside and downside risks, the ECB

kept the rates unchanged for the remainder of 2025.

Euro area inflation declined to 2.1% in 2025 driven by a gradual decline in core inflation and a strong negative contribution from energy inflation.

Financial Performance and Condition

Consolidated Income Statement

Set out below is an overview of the financial results for the years 2025 and 2024.

in € millions	2025	2024	Increase/ (decrease)	Variance %
Sales and trading	1,014	890	124	14%
Investment banking	222	122	100	82%
Lending	171	138	33	24%
Other	41	32	9	28%
Net revenues	1,448	1,182	266	23%
Staff related expenses	487	374	113	30%
Non-staff related expenses	455	430	25	6%
Operating expenses	942	804	138	17%
Net impairment reversal / (loss)	(6)	1	(7)	>100%
Profit before tax	500	379	121	32%
Income tax expense	149	98	51	52%
Profit after tax	351	281	70	25%

Net revenues

Sales and trading

Sales and trading revenues are comprised of commission and trading income. Commission income arises from arrangements in which the client is charged commission for executing and clearing transactions related to securities and other listed products. Trading income is derived from client activity and can be affected by a variety of interrelated factors, including market volumes, bid-offer spreads and the impact of market conditions on inventory held to facilitate client activity.

Sales and trading revenues in 2025 increased compared to 2024 primarily from increased client activity within the Equity business.

Investment banking

Investment banking revenues are derived from client engagements in which the Group acts as an advisor in relation to mergers and acquisitions, divestitures and corporate

restructurings, underwriter of equity and debt products or distributor of capital.

Investment banking revenues increased in 2025 compared to 2024, reflecting an increase in advisory and debt underwriting revenues.

Lending

Lending income is generated by extending loans and credit commitments to clients as well as by loan trading. The Group's lending revenues in 2025 increased compared to 2024 as the business benefited from higher core lending activities.

Other

Other revenues result primarily from net interest earned on deposits from other Morgan Stanley Group undertakings which are subsequently deposited at the Deutsche Bundesbank. Other revenues increased in 2025 compared to 2024 due to higher deposit balances.

Operating expenses

Staff related expenses

Staff related expenses include base salaries and fixed allowances, discretionary incentive compensation, amortisation of deferred cash and equity awards, severance costs and other items including health and welfare benefits.

Staff-related expenses increased in 2025, as the merger of Morgan Stanley France S.A. into MSESE on 1 December 2024 resulted in only one month of associated costs being recognised in 2024.

Non-staff related expenses

Non-staff related expenses include brokerage fees, administration and corporate services, professional services, transaction taxes and management charges from other Morgan Stanley Group undertakings.

Non-staff related expenses increased in 2025 compared to 2024, driven by increased transaction-related expenses.

Net impairment loss

Net impairment loss in 2025 was primarily driven by an increase in unfunded lending commitments and higher provisions on trade receivables.

Income tax expense

The effective tax rate in 2025 is higher compared to the prior year, primarily due to the

jurisdictional mix of profits, prior year adjustments and the recognition of additional tax reserves.

Consolidated Statement of Financial Position

Set out below is an overview of the consolidated statement of financial position for the years 2025 and 2024.

in € millions	2025	2024	Increase/ (decrease)	Vari- ance %
Cash and short term deposits	12,458	10,945	1,513	14%
Trading financial assets	56,042	51,124	4,918	10%
Secured financing	21,924	19,005	2,919	15%
Trade and other receivables	13,027	15,809	(2,782)	(18%)
Other assets	305	562	(257)	(46%)
TOTAL ASSETS	103,756	97,445	6,311	6%
Deposits	7,369	4,641	2,728	59%
Trading financial liabilities	48,055	48,715	(660)	(1%)
Secured borrowing	15,125	12,419	2,706	22%
Trade and other payables	17,223	16,101	1,122	7%
Debt and other borrowings	2,313	4,138	(1,825)	(44%)
Subordinated debt	5,609	3,800	1,809	48%
Other liabilities	43	76	(33)	(43%)
TOTAL LIABILITIES	95,737	89,890	5,847	7%
TOTAL EQUITY	8,019	7,555	464	6%
TOTAL LIABILITIES AND EQUITY	103,756	97,445	6,311	6%
Contingent liabilities and Commitments	149,356	121,372	27,984	23%

Cash and short-term deposits

Cash and short term deposits consist of the Group's own liquidity deposits and deposits received from other Morgan Stanley Group undertakings which are deposited at the Deutsche Bundesbank. The increase in Cash and short term deposits is mainly driven by an increase in deposits from other Morgan Stanley Group undertakings which are reported within Deposits.

Trading financial assets and liabilities

Trading financial assets and Trading financial liabilities primarily consist of derivatives and government bonds. The increase in Trading financial assets compared to the prior year is

primarily driven by an increase in government bonds inventory.

Secured financing and borrowing

The increase in Secured financing and Secured borrowing is primarily driven by an increase in securities sourcing for the Group's own use, and on behalf of other Morgan Stanley Group undertakings.

Trade and other receivables and payables

Trade and other receivables and Trade and other payables primarily consist of cash collateral pledged and received in relation to derivatives. The decrease in Trade and other receivables is primarily driven by lower amounts of cash collateral pledged in relation to fair value movements in over-the-counter ("OTC") derivatives.

Deposits

Deposits consists of retail deposits and deposits from other Morgan Stanley Group undertakings. The Group started to take retail deposits in 2025.

Debt and other borrowings

Debt and other borrowings consists of funding from other Morgan Stanley Group undertakings and structured notes issued by MSESE to external parties. The decrease in debt and other borrowings is driven by increases in other funding sources.

Subordinated debt

The increase is driven by the issuance of senior subordinated debt and Tier 2 subordinated debt.

Total Equity

Total Equity increased from €7,555 million to €8,019 million during the financial year and primarily consists of ordinary shares issued totalling €3,901 million, Additional Tier 1 ("AT1") instruments issued of €1,000 million, capital reserves of €2,211 million and retained earnings of €906 million.

Contingent liabilities and Commitments

The increase in Contingent liabilities and Commitments is mainly due to an increase in forward-starting repurchase ("repo") and reverse repo transactions compared to the prior year.

Capital Management

The Group actively manages and monitors its capital in line with established policies and procedures and in compliance with current and incoming local regulatory requirements.

MSBAG has been granted a capital waiver in accordance with Article 7 of the CRR. Therefore, its capital requirements are met at the Group level.

Consistent with the Morgan Stanley Group's capital management policies, the Group manages its 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.

Regulatory Capital

The Group is subject to minimum capital requirements as calculated in accordance with the CRR and the Capital Requirements Directive (Directive 2013/36/EU or "CRD") as transposed into German Law.

The Group conducts an Internal Capital Adequacy Assessment Process ("ICAAP") at least quarterly in order to meet its obligations under CRD and the requirements of the ECB. The ICAAP is a key management information tool for the Group's Management Boards to approve capital adequacy targets and limits, establish ongoing monitoring processes and internal thresholds, and review identified risks in line with the business strategy. Refer to the section "Risk Report" for further information on the ICAAP.

The Joint Supervisory Team ("JST") with representatives of the ECB, BaFin and Deutsche Bundesbank reviews the ICAAP through its Supervisory Review and Evaluation Process ("SREP") and sets a Total SREP Capital Requirement ("TSCR"), comprising of Pillar 1 and Pillar 2 Requirements ("P2R") and Pillar 2 Guidance ("P2G"), which establishes the minimum level of regulatory capital for the Group. As at 31 December 2025, the TSCR of the Group was 10.5% of Risk Weighted Assets ("RWAs") (2024: 10.75%) excluding capital buffers, with the individual P2R set at 2.5% (2024: 2.75%).

The Countercyclical Capital Buffer ("CCyB") was introduced to ensure that excessive growth in specific countries is accounted for by increasing minimum capital ratios by between 0% and

2.5% and must be met with Common Equity Tier 1 ("CET1") capital. As at 31 December 2025, the CCyB for the Group was 0.89% (2024: 0.83%).

The Capital Conservation Buffer ("CCB") requires credit institutions to build up a capital buffer to absorb losses during periods of stress, whilst remaining compliant with minimum requirements, and must be met with CET1 capital. As at 31 December 2025, the CCB was 2.5% (2024: 2.5%).

MSESE is subject to an additional capital buffer to be met with CET1 capital as it is categorised by the BaFin in consultation with the Deutsche Bundesbank as an Other Systemically Important Institution ("O-SII"). As at 31 December 2025 the O-SII buffer was 0.25% (2024: 0.25%).

Expected changes in the regulatory capital requirements are incorporated as part of the Group's capital planning and target setting processes.

Refer to the section "Risk Report" for further details of the Group's Capital Resources.

The Pillar 3 Regulatory Disclosure Report of the MSESE Group as of 31 December 2025 is available at: <https://www.morganstanley.com/about-us-ir>.

Liquidity and Funding Management

The primary goal of the Group's liquidity and funding management framework is to ensure that the Group has sufficient liquidity to cover its business operations and regulatory requirements, as well as access to adequate funding across a wide range of market conditions and time horizons. The Group manages resources mainly based on business opportunities, risks, availability and rates of return, which are driven by internal policies, regulatory requirements and rating agency guidelines.

MSESE and MSBAG have been granted a waiver in accordance with Article 8 of the CRR which permits liquidity requirements to be managed at the MSESE Group level.

Liquidity Resources, Funding and Balance Sheet Management

The Group maintains sufficient Liquidity Resources to comply with internal and regulatory requirements. The total amount of Liquidity Resources is actively managed considering the following components:

- balance sheet size and composition;

- funding needs in a stressed environment inclusive of contingent cash outflows;
- collateral requirements; and
- regulatory requirements.

The amount of Liquidity Resources held is based on the Group's risk tolerance and is subject to change dependent on market and Group-specific events.

The Liquidity Resources consist of cash at central banks and high-quality unencumbered assets. Eligible unencumbered highly liquid securities include primarily Level 1 (as defined in the Commission Delegated Regulation (EU) 2015/61) government bonds.

Refer to the section "Risk Report" for further information on the Liquidity Risk framework, Liquidity framework and Liquidity Stress Tests.

Credit Ratings

The cost and availability of financing and cash collateral are impacted by the credit ratings of MSESE and MSBAG, among other variables. In addition, credit ratings can impact trading revenues, particularly in those businesses where longer-term counterparty performance is a key consideration, such as certain OTC derivative transactions. When determining credit ratings, rating agencies consider both company-specific and industry-wide factors. The Group's senior unsecured ratings are provided in the section "Non-financial key performance indicators".

Recovery and Resolution Planning ("RRP")

The Group prepares a recovery plan which identifies mitigation tools available to the Group in times of severe stress. The recovery plan is updated on an annual basis and submitted to the ECB.

In terms of resolution planning, the Single Resolution Board ("SRB") as well as the BaFin as the national resolution authority are the responsible authorities for the Group. The Group produces resolution planning information for the aforementioned authorities in accordance with the relevant EU statutory and regulatory requirements. This includes, amongst others, deliverables for particular SRB Working Priorities as well as the annual provision of resolution reporting data.

The Morgan Stanley Group has developed a resolution plan in accordance with the requirements of Section 165(d) of Title I of the Dodd-Frank Wall Street Reform and Consumer Protection Act and its implementing regulations adopted by the Federal Reserve Board and the Federal Deposit Insurance Corporation. The resolution plan presents the Morgan Stanley Group's strategy for resolution of the Morgan Stanley Group upon material financial distress or failure. Both MSESE and MSBAG are considered Material Operating Entities of the Morgan Stanley Group and are within the scope of the resolution strategy adopted by the Morgan Stanley Group.

Minimum Requirement for own funds and Eligible Liabilities ("MREL") and Total Loss Absorbing Capacity ("TLAC")

The Group is subject to MREL requirements which ensures that the Group has sufficient eligible liabilities to absorb losses and safeguard existing capital requirements in a resolution scenario. The BaFin, as the Group's national resolution authority, shares the responsibility to determine MREL requirements with the SRB. As of 31 December 2025, the MREL requirement for the Group was 23.2%¹ of RWAs (2024: 21.5%).

The Group is also subject to TLAC requirements with a similar objective which is to ensure that the Group has sufficient resources to absorb losses.

In 2025, the Group undertook further actions to ensure compliance with MREL and TLAC requirements: In January 2025, the Group drew down an additional €1.3 billion from the existing multi currency Subordinated Loan Facility and issued €0.5 billion Tier 2 to its ultimate parent undertaking Morgan Stanley in November 2025.

¹ This reflects minimum regulatory MREL requirements and does not consider combined capital buffer requirements.

Financial and Non-financial Key Performance Indicators

The financial and non-financial key performance indicators (“KPIs”) of the Group are aligned to its objective to be structurally profitable and capital accretive through the cycle as well as ensure sound and sustainable execution of the business strategy in compliance with regulatory requirements. To assess the effective execution of the Group’s strategy, a broad range of KPIs were set by the Group’s Management Boards which are assessed on a quarterly basis.

Financial Key Performance Indicators

The primary financial KPIs used to assess the performance of the Group include Profit before Tax (“PBT”), Return on Equity (“ROE”), Operating Expenses and Tier 1 Capital Ratio.

As of 31 December 2025, the list of the primary KPIs was revised and now includes Operating Expenses. Liquidity Coverage Ratio (“LCR”) and Net Stable Funding Ratio (“NSFR”) are no longer reported as primary KPIs and are disclosed within the Risk Report.

ROE represents profit for the year in relation to year-to-date average equity.

Tier 1 Capital Ratio is the sum of CET1 and AT1 capital of the Group expressed as a percentage of the total RWAs.

The Group’s primary financial KPIs at 31 December 2025 and 31 December 2024 are as follows:

	2025	2024
PBT (€ millions)	500	379
ROE	4.2%	3.9%
Operating Expenses (€ millions)	942	804
Tier 1 Capital Ratio	20.0%	24.3%

Forecast expectations for primary financial KPIs in 2025 were disclosed in the 2024 Management Report. Actual PBT and ROE exceeded forecast due to higher client activity in the Equity Sales and Trading business and strong Lending activity. The actual Tier 1 Capital Ratio remained largely in line with forecast for year-end 2025. Refer to the section “Opportunities and Outlook” for the forecast expectations in 2026.

Non-financial Key Performance Indicators

Credit Ratings

The credit ratings of the Group’s operating entities, MSESE and MSBAG, were stable and have not changed in the financial year.

		2025	2024
Moody’s	Short Term	P-1	P-1
Investor	Long Term	Aa3	Aa3
Service, Inc (“Moody’s”)	Outlook	Stable	Stable
Standard & Poor’s Rating	Short Term	A-1	A-1
Service (“S&P”)	Long Term	A+	A+
	Outlook	Stable	Stable
Fitch	Short Term	F1+	F1+
Ratings ⁽¹⁾	Long Term	AA-	AA-
	Outlook	Stable	Stable

⁽¹⁾ MSESE only

Risk Report

During 2025, the Group's Risk Division and Non-Financial Risk organisation continued to enhance the Group's Risk Management Framework and focus on regulatory engagements. Key areas included:

- evolution of the Risk Management Framework to support business expansion;
- supporting regulatory reviews / inspections (e.g. European Banking Authority ("EBA") 2025 Stress Test) and continuing to deliver against regulatory expectations; and
- enhancements to internal capital models

Risk Management Framework

Risk taking is an inherent part of the Group's business activities and effective risk management is vital to the success of the Group.

Consistent with the waivers granted, capital requirements are only monitored at the Group level, and as described in the "Capital Management" and "Liquidity and Funding Management" sections, the Group's Risk Management Framework has been established at the Group level, encompassing the risk management culture, risk governance, approach and practices that support risk identification, measurement, monitoring, reporting, challenge and escalation.

The Group's Risk Management culture is rooted in the following key principles: integrity, comprehensiveness, independence, accountability and transparency. The Group's Management Boards are responsible for overseeing the adoption of the Morgan Stanley Group's risk culture.

The Group's Management Boards have established a Risk Management Framework, including a Committee Structure and a "Three Lines of Defence" framework. The framework creates a clear delineation of responsibilities between risk owners and independent risk control functions with a view to addressing potential conflicts of interest. The structure applies to all legal entities and branches within the Group. The functions responsible for carrying out the activities across the Three Lines of Defence are summarised below:

- First Line of Defence: Business units are responsible for managing their strategy and

business activities in accordance with the Group's Risk Strategy and Risk Appetite. This includes the consideration of risks arising from climate change and environmental degradation. Support functions are independent of the business units and support strategy execution of the Group's revenue-generating activities.

- Second Line of Defence: Responsible for independent identification, measurement, monitoring, reporting, challenge and escalation of risks arising from the Group's activities, including the risks from climate change and environmental degradation. It further sets policies and monitors adherence with these policies. This includes (but is not limited to) the below:

- The Risk Division is responsible for the independent identification, measurement, monitoring, reporting, challenge and escalation of credit, market, liquidity and model risks arising from the Group's business activities. It reports to the MSESE Group Chief Risk Officer ("CRO") and operates independently from the business units and support functions.
- The Compliance Department, the Global Financial Crimes Department and the Operational Risk Department form the Non-Financial Risk ("NFR") organisation, all of which operate independently from the business units and report to the MSESE Group Head of NFR and ultimately to the MSESE Group Management Board member responsible for Legal and NFR.
- The Compliance Department maintains an enterprise-wide Compliance Risk Management Programme and is responsible for the design and development of an overall Group Conduct Risk Framework.
- The Operational Risk Department is responsible for the independent identification, measurement, monitoring, reporting, challenge and escalation of non-financial risks arising from the Group's business activities.

- The Global Financial Crimes Department is responsible for the Financial Crimes Risk Management Framework covering money laundering as well as fraud and other relevant criminal offences.
- The Group's Central Outsourcing Control Office ("COCO") is independent of individual business divisions and is responsible for ensuring the execution of outsourcing frameworks and guidelines, working closely with divisional management accountable for supervising any outsourcings by their division to ensure outsourcing regulatory requirements are maintained on a continuous basis. COCO reports to the MSESE Group Chief Operating Officer.
- Third Line of Defence: The Internal Audit Department ("IAD") is independent of the First and Second Lines of Defence. The IAD provides an independent assessment of the Group's control environment and risk management processes and further reviews and tests the Group's compliance with internal guidelines set for risk management and risk monitoring, as well as external rules and regulations governing the Group.

The Morgan Stanley Group has several well-established policies and procedures which set out the standards that govern the identification, measurement, monitoring, reporting, challenge and escalation of the various types of risk involved in its business activities. The Group has implemented specific risk management policies to address local business and regulatory requirements, where appropriate. These policies are approved by the Group's Management Boards, as required, and reviewed at least annually.

Committee Governance

The Group's Management Boards have established a committee structure for the governance of material risks. This includes the cross-divisional MSESE Executive Risk Committee ("ERC"), which is chaired by the CRO and assists the Group's Management Boards in the oversight of the Group's management of financial and non-financial risks. The Committee is responsible for overseeing:

- (i) the development and implementation of the risk strategy, including the risk appetite statement;

- (ii) risk identification and measurement;
- (iii) risk framework and policies;
- (iv) risk culture;
- (v) financial resource management and capital; and
- (vi) assessment of recovery and/or resolution limits.

The ERC has established a series of sub-committees with dedicated responsibilities for particular risk matters directly reporting to the ERC. The following provides an overview of these sub-committees:

- MSESE Credit Risk Committee: Reviews, approves and recommends actions on matters related to Credit Risk Management ("CRM") as well as provides oversight of policies, procedures and frameworks.
- MSESE Market Risk Committee: Provides oversight of the risk profile, control and governance framework on matters related to the Market Risk Department ("MRD") as well as provides oversight of policies, procedures and frameworks.
- MSESE Operational Risk Oversight Committee: Assists the ERC to discharge its responsibilities in relation to Operational Risk.
- MSESE Stress Testing Committee: Reviews all aspects of the MSESE Stress Testing Framework.
- MSESE Model Oversight Committee: Provides the Group with oversight of the development, validation, performance and management of the Market, Credit, Operational, Liquidity Risk and Stress Testing models.
- MSESE Data Governance Forum: Reviews and monitors data quality issues impacting the Group, reviews consolidated data quality reporting and data quality KPIs for the MSESE Group critical reports and assists in the oversight and management of the Group impacting data initiatives such as Global Data Quality Policy implementation.

In addition to the Committees directly reporting to the ERC outlined above, the MSESE Risk Governance Committee ("RGC") provides the CRO with oversight of the control framework

within the Risk Division and the MSESE Risk Capital Committee (“RCC”) provides the CRO with oversight of the calculations under advanced capital models for the Normative Perspective and the capital assessment under the Economic Perspective.

Furthermore, the MSESE Asset and Liability Committee assists the Group’s Management Boards in the oversight of the capital adequacy, funding and liquidity risk management.

Risk Identification, Risk Appetite and Risk Limits/Tolerances

Risk Identification

The Group has established a framework to identify and assess material risks and risk factors stemming from the Group’s business activities. The materiality of risks is assessed at least quarterly on a quantitative and qualitative basis, using risk specific stress tests where possible. In addition, other risk management processes such as regular risk reviews, horizon scanning and ad-hoc stress tests are conducted to assess impacts of potential market events, regulations and to identify potential business model vulnerabilities, thereby supporting the continuous process of risk identification. Material risks identified through these processes inform the design of key risk, capital and liquidity management processes, including the Group’s Risk Strategy and Risk Appetite Statement, individual risk management frameworks, macroeconomic and reverse stress testing scenarios, as well as the Group’s Internal Capital and Liquidity Adequacy Assessment Processes (“ICAAP” / “ILAAP”).

The following risk types involved in the Group’s business activities were assessed as material as determined through the Group’s Risk Identification Framework.

Financial Risks

- Credit Risk;
- Market Risk;
- Liquidity Risk;
- Model Risk;
- Valuation Risk;
- Leverage Risk;

Non-Financial Risks

- Operational Risk;
- Compliance Risk (including Conduct Risk);

- Financial Crimes Risk

Other Risks

- Strategic Risk (including Earnings at Risk);
- Reputational Risk.

For information on the incorporation of climate and environmental risks into the Risk Management Framework, please refer to the “Sustainability Report”.

The Group’s Management Boards have established frameworks to identify, measure, monitor, report, challenge and escalate these risks. Information on how these risks are managed is summarised in the respective sections of this Risk Report.

Risk Appetite

The Group’s Management Boards determine the Risk Strategy of the Group consistent with the business strategy and the risks stemming from it. The Risk Strategy sets the framework for how risks will be identified, measured, monitored, reported, challenged and escalated.

The centrepiece of the Risk Strategy is the Risk Appetite Statement (“RAS”) for the Group, which articulates the aggregate level and type of risk that the Group is willing to accept in executing the business strategy while protecting the capital and liquidity resources. The RAS consist of both qualitative and quantitative statements.

To remain adequate in a changing environment, the RAS and the underlying limits and tolerance frameworks are reviewed by the Group’s Management Boards when required, but at least annually. This review takes into account changes in the Group’s business strategy, financial resources and plans as well as any anticipated changes in risk appetite.

Risk Limits / Tolerances

The Risk Appetite of the Group is translated into a comprehensive set of risk limits and risk tolerances across Credit Risk, Market Risk, Operational Risk and Liquidity Risk, each at different granularity levels to manage risk taking in line with the Group’s Risk Appetite.

The Group’s aggregate Risk Appetite for Market Risk and Credit Risk is expressed as a percentage of Total Capital Resources. It is operationalised through the Macroeconomic Stress Loss Limit (“MSLL”) and monitored through a suite of severe, but plausible macroeconomic stress scenarios, designed to

capture key portfolio vulnerabilities of the Group, as well as current and emerging macroeconomic and geopolitical themes. The Credit Risk and Market Risk limits are further calibrated to reflect the Group's Risk Appetite. As at 31 December 2025, the stress loss in the Group's binding macroeconomic stress scenario was €376 million.

Stress Testing

Stress testing is a key risk management tool for the Group, and informs risk and capital management processes and decisions, and is performed in line with internal and external regulatory requirements. It provides an understanding of the aggregate financial risk for the Group and an assessment of the Group's resilience to different scenarios over a range of severities. At a more granular level, stress tests provide detailed assessments of potential vulnerabilities at the business area and individual risk level, respectively. The Group conducts both cross-risk stress tests and risk specific stress tests with the following objectives:

- Risk Identification: Identification of material risk concentrations and vulnerabilities in adverse scenarios;
- Risk Aggregation: Estimation of aggregate size of exposures and losses in adverse shocks;
- Risk Management: Management of tail risks or vulnerabilities against risk appetite;
- Capital and Liquidity Management: Informing capital and liquidity risk assessment processes and plans (ICAAP, ILAAP);
- Recovery and Resolution Planning: As a key component of the Recovery and Resolution Planning exercises; and
- Regulatory Requirements: Meeting relevant regulatory requirements for stress testing.

Stress testing results are communicated to the ERC, the Group's Management Boards, the Supervisory Boards and the Supervisory Board Risk Committees on a regular basis.

Cross-risk Stress Tests

Cross-risk stress tests ensure that concentration risks are captured and measured across the material risk areas. Cross-risk stress tests can be classified into macroeconomic stress tests,

Reverse Stress Tests ("RST") and topical stress tests.

Macroeconomic stress scenarios are the Group's primary stress testing tool to monitor, assess and manage the Group's portfolio-wide vulnerability to downside risk. The Group runs a suite of macroeconomic stress test scenarios on a regular basis to measure its market and credit risk loss potential and monitor those against the MSLL. Each scenario is supported by a macroeconomic narrative, a detailed set of macroeconomic projections and calibrated market shocks, downgrade assumptions and selected credit risk defaults as appropriate.

There are internal models in place to quantify stress losses for credit risk, market risk and risks from Derivative Valuation Adjustments ("xVA").

- Stress losses for credit risk are calculated as the sum of expected losses and unexpected losses (concentration add-on supplemented with idiosyncratic default losses).
- Stress losses for market risk (including xVA) are calculated by applying risk factor shocks across all asset classes, either using full revaluation or a combination of full revaluation and a sensitivities based approach.

The potential impact of climate-related risks on credit and market risk is assessed through a specific transition risk/carbon repricing scenario and is managed via the Climate Stress Loss Limit ("CSLL"). For more information refer to the "Sustainability Report: Climate and Environmental Risk Management" section.

Key vulnerabilities to the Group's business model are assessed through the Group's RST. The scenarios used in RST are extreme and are designed to test a pre-defined outcome, for example the viability of the Group's business model. RSTs are used to inform capital and liquidity planning and are a key input for recovery planning.

Specific market events or portfolio vulnerabilities are assessed through Topical Stress Tests to evaluate the possible impact of "downside" scenarios on the Group's risk profile.

Risk-specific Stress Tests

Risk-specific stress tests identify, measure and monitor more granular vulnerabilities and concentrations in a particular risk area, country or industry, as appropriate. The Group conducts

risk-specific stress tests for operational risk, market risk, credit risk and liquidity risk.

Risk Reporting

The Group has established a Risk Reporting Framework to monitor and report the Group's risk profile against set risk limits and tolerances, and to provide timely risk information and/or escalation to responsible limit owners, relevant Group governance forums and the Group's Management Boards, as appropriate. The Group's Risk Reporting Framework covers all material risks, it identifies matters for escalation and decisions and highlights emerging risks, mitigating actions and other risk matters that are deemed significant to the Group's risk committees and/or the Group's Management Boards.

The key purpose of risk reporting is to provide decision makers and risk managers with an accurate and timely representation of risk exposures, including risk concentrations, at the group level, across business lines and between legal entities. To provide this information, the Group generates various risk reports across individual risk functions at different frequencies (e.g., daily, weekly).

In addition, the Group has established a set of overarching principles for risk reports which are applied to risk reporting, such as the appropriate level of aggregation, balance between qualitative and quantitative information or implementation of controls to ensure reported information is complete and accurate. The Group's Data Quality ("DQ") monitoring and reporting processes are integrated into the Morgan Stanley Group's global DQ management processes. The DQ for risk-related data is reviewed through defined KPIs which are summarised in respective DQ Dashboards for certain risk areas. At the Group level, any material data limitations/issues on risk data go through governance and are escalated to the ERC and the Group's Management Boards if necessary.

Detailed information about the reporting for each risk type is included in the respective risk sections on the following pages.

Internal Capital Adequacy Assessment Process

The ICAAP is a critical framework in the context of risk management and capital adequacy and serves as a fundamental tool for the Group's

Management Boards to plan the Group's capital actions, approve capital adequacy targets and limits, establish ongoing monitoring processes and internal thresholds and review identified risks in line with the business strategy. As such, the ICAAP is designed to ensure that all material risks, which the Group is exposed to, are appropriately capitalised. The ICAAP is updated at the beginning of each year in line with the annual strategic planning process as well as quarterly for material changes.

The ICAAP comprises of two capital assessment perspectives, the "Normative Perspective" and the "Economic Perspective". While methodologies differ in forecasting horizon and objectives, the two perspectives complement and inform each other.

Normative Perspective

The assessment under the Normative Perspective is conducted over a three-year planning horizon, assessing the Group's ability to fulfil all its capital-related supervisory requirements. It assesses the Group's capital adequacy under baseline and stressed operating environments. It uses stress testing to size capital buffers aimed at ensuring the Group will continue to operate above regulatory requirements under a range of severe but plausible stress scenarios. The Normative Perspective takes into account all material risks affecting the relevant regulatory ratios, over the planning horizon. It is also used as a basis to set and review internal capital targets and related risk appetite thresholds.

The Group's base scenario considers the main macroeconomic variables, including GDP growth, inflation rate changes, interest rates and currency market movements. These variables are applied on the business growth laid down in the Group's Business Strategy. In addition to the base forecast, the Group assesses its capital-related supervisory requirements in two macroeconomic stress scenarios. These scenarios comprehensively and conservatively stress the relevant risks for the Group.

To model stress capital impacts under the Normative Perspective, the Group uses internal models (refer to the "Stress Testing" section) that appropriately cover all material risks.

Capital requirements are calculated in accordance with regulatory requirements, taking into account the Group's permissions to use internal models. In addition to capital-related supervisory requirements, internal capital ratio

minima are set to ensure the Group has sufficient capital to meet its regulatory requirements at all times.

The table below sets out details of the Group's Capital Resources.

in € millions	2025	2024
<i>Normative Perspective</i>		
CET1 Capital	6,133	5,929
AT1 Capital	1,000	1,000
Tier 1 Capital	7,133	6,929
Tier 2 Capital	1,509	1,008
Total Own Funds	8,642	7,938
Risk Weighted Assets ("RWAs")	35,722	28,541
CET1 Capital Ratio	17.2 %	20.8 %
Tier 1 Capital Ratio	20.0 %	24.3 %
Total Capital Ratio	24.2 %	27.8 %

The Group's Tier 1 Capital Ratio decreased from 24.3% as at 31 December 2024 to 20.0% as at 31 December 2025 due to an increase in RWAs over the year following the Capital Requirements Regulation III ("CRR III") implementation of the Basic Approach to Credit Valuation Adjustment ("CVA") Risk.

Additional information is presented in the "Capital Management" section.

Economic Perspective

In the Economic Perspective, the Group assesses its capital adequacy by ensuring that all material risks that could cause losses or have other material impacts on its capital position are quantified and adequately covered by its internal capital ("Risk Bearing Capacity" or "RBC"). In line with the ECB ICAAP guidelines, capital requirements are assessed using internal methodologies, which generally target a 99.9% loss severity over a time horizon of one year.

Credit Risk: For the calculation of credit risk capital requirements, the Group employs a multifactor credit concentration model, using internal credit risk parameters for Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD"). The model simulates the asset returns of the individual counterparties in a correlated manner to capture the dependency between the defaults. The default triggers are derived from the PDs of the counterparties and internal downturn LGDs are used to quantify the default losses. Counterparty credit risk ("CCR") exposures are quantified

using Morgan Stanley's global Internal Model Method ("IMM") model for the calculation of own funds requirements, which has a wider product scope than the Group's regulatory IMM model. Default events are simulated using a Monte-Carlo model, and capital requirement is determined as the tail loss at a 99.9% confidence level. Additional capital add-ons are used to capture risks not fully catered for within the credit concentration model.

Market Risk: Market risk capital is primarily calculated using the Group's Economic Value-at-Risk ("EVaR") and Incremental Risk Charge ("IRC") models. The EVaR is calculated using historical simulation and includes xVA risk factors in its scope. The EVaR is derived as the 99.9% percentile of a loss distribution calculated using historical returns beginning in 2006. A six-month liquidity horizon is used for portfolios with low market depth or hedging ability (such as xVA), while a three-month liquidity horizon is applied to portfolios with higher market activity and ability to hedge, such as market making portfolios. The IRC is calculated at 99.9% confidence level over a one-year time horizon. Additional capital add-ons are used to capture risks not fully catered for within the market risk models. Refer to the "Market Risk" section for more information.

Operational Risk: To calculate the capital requirements related to operational risk, the Group utilises an internal model. Under this model, operational risk capital is calculated for each of the Group's Risk Segments, some of which are designated as Priority Non-Financial Risks ("PNFRs"). Standalone capital is calculated for each of the Risk Segments by fitting parametric distributions to Scenario Analysis loss estimates. The aggregate loss distribution for the Group is derived from the marginal loss distributions of the Risk Segments. The 99.9% percentile of the final distribution is chosen as the loss estimate.

Other risks under the Economic Perspective include Interest Rate Risk in the Banking Book and Credit Spread Risk in the Banking Book ("IRRBB" and "CSRBB"), pension risk, valuation risk, strategic risk and taxation risk.

Capital requirements are conservatively aggregated without diversification benefits. Total internal capital requirements are then compared with available internal capital resources, i.e., the RBC. The RBC is based on Regulatory Own Funds (CET1 capital) with minor adjustments made to reflect other risks.

The Group aims to maintain an Economic Capital Adequacy Ratio (RBC divided by Economic Capital requirements) of at least 100%. Economic Capital Adequacy is assessed on a quarterly basis.

The table below presents a comparison of internal capital (RBC) and economic capital requirements for year-end 2024 and 2025.

in € millions	2025	2024
<i>Economic Perspective</i>		
Risk Bearing Capacity	6,307	6,260
Capital Requirements	4,076	3,535
Credit risk	2,503	2,082
Market risk	553	449
Operational risk	625	657
Other	394	347
Economic Capital Adequacy Ratio	155 %	177 %

As at 31 December 2025, the Group was adequately capitalised. Capital requirements increased by €541MM, predominantly driven by credit risk due to the overall exposure increase in 2025. Under the Economic Perspective, the Group has performed stress testing to understand sensitivities of the capital assessment to severe, but plausible macroeconomic stress scenarios.

Financial Risks

Credit Risk

Credit risk is an inherent part of the Group's business activities. Credit risk refers to the risk of loss arising when an obligor, i.e., a borrower, counterparty or issuer, does not meet its financial obligations. Credit risk includes country risk, i.e., the risk that economic, social and political conditions and events in a country will adversely affect an obligor's ability and/or willingness to fulfil its obligations. Credit concentration risk refers to the risk of loss due to an outsized exposure to a Counterparty, group of connected counterparties and/or counterparties in the same industry or geographic region. The assessment of credit risk also considers climate risk, in particular the credit exposure to obligors and counterparties highly vulnerable to transition and/or physical climate risks. Respective definitions and further information are disclosed in the "Sustainability

Report: Climate and Environmental Risk Management" section.

The CRM Department reports to the MSESE CRO and is independent from the business units. It is responsible for managing and overseeing the credit risk profile of the Group. CRM has established a Risk Management Framework to identify, measure, monitor, report, challenge and escalate credit risks. Key components of the Credit Risk Framework include:

- (1) Risk Identification: To identify and assess credit risks, CRM monitors significant changes in the credit risk profile on an ongoing basis, including key portfolio sensitivities, limit usage, risk concentrations, stress testing results, exposure to climate risks as well as any new product initiatives.
- (2) Risk Measurement: Single name and portfolio risks are measured by means of the Total Net Exposure, which is the sum of Treasury Placements, Counterparty Risk, Lending, Inventory, and Collateral-at-Risk exposure, and includes the benefit of hedges.
- (3) Risk Appetite and Limits: In order to ensure that credit losses remain within the defined risk appetite, CRM has implemented a Credit Limits Framework for the Group to manage credit risk on a single name and portfolio level, including limits on country, industry (including sub-industries such as shadow banks and climate segments), and product concentrations. The Credit Limit Framework also includes a credit limit specific for Morgan Stanley Affiliates. The limits are subject to different levels of governance comprising the Group's Management Boards, the MSESE ERC, the MSESE Credit Risk Committee and CRM.
- (4) Risk Reporting: CRM uses a set of comprehensive reports of key credit risk exposures that are produced regularly as well as on an ad-hoc basis. The reports encompass all significant credit risk exposures and concentrations across the Group and provide visibility to senior management. Significant changes in the credit risk exposures and utilisations are reported to the ERC, the Group's Management Boards and other management stakeholders.

The Group's credit risk results mainly from:

- **Treasury Placements:** Credit risk arising from Treasury activities primarily relates to deposit placements at the ECB via the Deutsche Bundesbank.
- **Counterparty Risk:** Counterparty risk arises from the Group's sales and trading business. The Group offers clients a wide spectrum of traded products, including listed and OTC derivatives, foreign exchange, secured financing transactions, all of which give rise to counterparty credit risk.
- **Lending:** Lending risk arises from extending loans in the form of relationship or event loans.
- **Inventory:** Inventory risk arises from secondary trading activity and is primarily driven by European government bonds and bonds issued by investment grade corporates and financial institutions.
- **Morgan Stanley Affiliates:** Credit risk to Morgan Stanley Affiliates results from counterparty risk from market hedges, indirect clearing activity with clearing houses via Affiliates, and loan sub-participations or guarantees.

To reduce credit and counterparty risks, CRM relies on standard risk mitigants including netting provisions and the provision of collateral, including with Morgan Stanley Affiliates.

Collateral for derivatives are mostly cash and liquid securities. Lending risk may be mitigated through the transfer of risk to Morgan Stanley Affiliates, for example to reduce concentrations.

The Group's issuer risk exposures are managed within the market risk limits framework and feed into aggregated credit risk exposure metrics.

Consistent with its business and risk strategy, the Group's credit risk portfolio is dominated by investment grade quality obligors in the EEA.

The Group has established processes to calculate the Expected Credit Loss ("ECL") for provisions in accordance with IFRS 9 "Financial Instruments". The Group's provisioning levels are not material which is a reflection of the high credit quality of the Group's loan book.

The below table shows RWAs and EADs for credit risk as at 31 December 2025 and 31 December 2024, including Credit Valuation Adjustment risk ("CVA risk"). The RWAs calculated via the advanced capital models (IMM and Foundation Internal Ratings Based or "F-IRB" approach) and under the standardised approach are shown separately. Consistent with its regulatory approvals, the Group calculates its own fund requirements for credit risk with an IMM and F-IRB approach. For counterparty credit risk, the EADs, which serve as an input for the calculation of the own funds requirements, are calculated with the IMM approach.

in € millions	2025		2024	
	RWA	EAD	RWA	EAD
Credit risk ⁽¹⁾	3,150	17,315	3,239	15,122
<i>Of which, internal models (F-IRB)</i>	<i>2,547</i>	<i>4,041</i>	<i>2,562</i>	<i>3,488</i>
Counterparty credit risk (excluding CVA risk) ⁽²⁾	11,694	24,231	10,917	25,474
<i>Of which, internal models (IMM)</i>	<i>7,591</i>	<i>11,051</i>	<i>6,705</i>	<i>10,263</i>
Total (excluding CVA and Settlement risk)	14,844	41,545	14,156	40,596
Credit Valuation Adjustment (CVA risk)	7,969	13,616	4,700	8,399
Settlement risk	9	7	4	14
Total	22,822	55,168	18,860	49,009

⁽¹⁾ Credit risk from lending, Treasury and other sources of credit risk.

⁽²⁾ Exposures subject to Equity IRB approach are reported under Credit Risk. Exposures to central counterparties are reported under Counterparty credit risk.

The Group has implemented a Credit Limits Framework to monitor credit concentration risk. Credit risks are primarily concentrated in lending, counterparty and treasury exposures with regional focus on EU27-countries. The Lending and Counterparty portfolio is primarily concentrated with Financials and Corporates. From a country perspective exposure is mainly in France, U.S., Germany and Italy while Treasury exposures are mostly driven by cash balances placed at the ECB via the Deutsche Bundesbank. The country risk evaluation includes a determination of Country of Risk and Country of Jurisdiction. The Country of Risk is the country whose political, economic and commercial environment most affects an entity's ability to meet its obligations. The Country of Jurisdiction is defined as the country of registered incorporation or formation of the obligor. For calculation purposes, the breakdown in the following table is based on the Country of Risk whilst the Industry classifications are based on the Global Industry Classification Standards ("GICS"). The exposure metric was amended to remain aligned with internal credit risk management reporting methodology. This metric captures exposure from Treasury placements, lending commitments and trading activities, offset by credit risk mitigants such as collateral.

Breakdown per industry

Exposure in € millions	2025	2024
Sovereigns	14,953	10,658
Financials	6,554	7,582
All others	8,208	6,630
Total	29,715	24,869

Breakdown per country

Exposure in € millions	2025	2024
Supranational	12,139	10,420
France	6,954	4,462
U.S.	4,397	5,462
Germany	2,071	575
Italy	969	1,480
All others	3,185	2,470
Total	29,715	24,869

Geopolitical events were a key focus through 2025 and are expected to remain relevant into 2026. The Group's credit risk remained within risk appetite for 2025.

Market Risk

Market risk is an inherent part of the Group's business activities. Market risk is the risk that a change in the level of one or more market prices, rates, indices, implied volatilities, correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio. This includes risks from xVA, which refers to the risk of changes in derivative valuation adjustments due to changes in credit spreads and other market factors. In addition, market risk includes the consideration of financial risk arising from climate change (transition, physical and environmental risk) as well as non-traded market risk such as Interest Rate and Credit Spread risk in the Banking Book ("IRBB and CSRB").

Price risk may arise in derivatives and securities trading portfolios as well as lending portfolios measured at fair value together with their associated mark-to-market derivatives hedges.

The Group operates primarily in liquid markets, though certain less liquid exposures may introduce additional market-risk considerations. Liquidity risk is embedded within the market risk framework through conservative valuation adjustments and liquidity-horizon assumptions. PruVal reflects asset-liquidity effects by capturing close-out costs and market price uncertainty, increasing capital requirements for less liquid instruments (see Chapter 16 of Pillar III disclosures for details). Under the Pillar 2 Economic VaR methodology, liquidity horizons are calibrated to asset liquidity: liquid positions supported by market-making activity use a conservative medium-term horizon, while less liquid exposures—such as CVA, FVA, discounting adjustments and specific traded loan positions—are assigned longer horizons to reflect extended unwind periods. Although these horizons remain below one year, all risks are ultimately assessed over a 1-year period, consistent with the assumption that sustained losses would limit the rebuilding of similar exposures within the same year.

MRD reports to the CRO and is independent from the business units. It is responsible for managing and overseeing the market risk profile of the Group and has established a Risk Management Framework to identify, measure, monitor, report, challenge and escalate market

risks. Key components of the Market Risk Framework include:

- (1) **Risk Identification:** To identify and assess emerging and existing market risks, MRD monitors significant changes in the market risk profile on an ongoing basis, including key risk factor sensitivities, limit usage, risk concentrations, stress testing results, and exposure to climate risk as well as any new products initiatives.
- (2) **Risk Measurement:** Market risks are measured by applying shocks to a selection of input market parameters from securities and derivatives valuation models, the result of which is used as standard risk sensitivities and stress testing measures. A proprietary Value-at-Risk ("VaR") Model is used to assess market risk against risk appetite limits as well as measure market risk regulatory capital requirements. VaR represents a maximum potential loss over a given time horizon (1 day usually) at a given confidence interval (95% or 99%). In addition, an IRC model is used to measure potential loss from default and migration risk of non-securitised credit products in the trading book over a one-year time horizon and 99.9% level of confidence.
- (3) **Risk Appetite and Limits:** To ensure that market risk losses remain within risk appetite, MRD has established a comprehensive market risk limit framework, which includes VaR limits, exposure limits and stress exposure limits at legal entity and business unit level. These limits are subject to different levels of approval comprising the Group's Management Boards, the ERC, the CRO and MRD.
- (4) **Risk Reporting:** All significant changes in market risk exposures, market risk concentrations and market risk limit utilisations are reported on a regular and ad-hoc basis to the ERC, the Group's Management Boards and other management stakeholders.

Interest Rate and Credit Spread risk in the Banking Book are defined as the risk of losses arising from adverse changes in these risk factors within the banking book scope either from a present value (Economic Value of Equity, "EVE") or Net Interest Income ("NII") perspective. Interest Rate and Credit spread risks arise from exposures derived from

traditional treasury and banking activities such as wholesale lending, retail deposits, structured notes issuances as well as inter-affiliate borrowing and lending. The Group's Treasury Department and MRD are responsible for the monitoring and control of these exposures through the calculation of relevant risk sensitivity measures (Delta EVE and Delta NII). As at 31 December 2025, IRRBB and CSRBB exposures were a small component of the Group's market risk profile. Delta EVE and NII are monitored daily and monthly, respectively, and reported at least quarterly to senior management. Both, Delta EVE and NII are subject to risk limits to ensure they remain within the Group's Risk Appetite.

The following table presents the results for the regulatory prescribed scenarios as at 31 December 2025:

in € millions	2025 Delta EVE
Parallel shock down	(19.0)
Parallel shock up	9.5
Flattener shock	4.1
Steeper shock	(4.8)
Short rates shock down	(13.6)
Short rates shock up	6.8

As at 31 December 2025, IRRBB was approximately 0.27% of CET1 capital under the Delta EVE perspective with "Parallel shock down" as the scenario resulting in the highest loss.

The following table presents the Delta NII results for the regulatory prescribed scenarios with a base NII of €100 million as at 31 December 2025:

in € millions	2025 Delta NII
200 bps up	175
200 bps down	(172)

Market risk from trading in EUR Interest Rate Swaps, EUR Inflation, European Government Bonds, Covered Bonds, Traded Loans and Credit Corporate Bonds, Cash Equity products and Equity Derivative Index Trading is retained and managed by the Group.

Risk from xVA exposures is also hedged by a dedicated trading desk managing market risk coming from counterparties such as credit and funding spread risks.

The Group uses both Management and Regulatory VaR to assess and contain portfolio market risk. The Regulatory VaR is calibrated and scoped using approved model requirements to capitalise for market risk and is subject to daily backtesting controls helping to assess the model accuracy. In addition, the Management VaR is used for internal risk management purposes to ensure the Group's risk appetite stays within approved limits. The average Management VaR of the Group for the year 2025 was €3.9 million (2024: €3.4 million), driven by credit, interest rate, basis and equity risk sensitivities from equity derivatives, fixed income trading activities and xVA.

The following table shows the market risk RWAs as at 31 December 2025 and 31 December 2024, calculated using the advanced capital model (Internal Model Approach, "IMA") and the standardised approach, where applicable. Consistent with its regulatory approvals, the Group currently uses the advanced capital model for the calculation of own funds requirements for market risk.

RWAs in € millions	2025	2024
Standardised approach	35	99
Internal model approach ⁽¹⁾	10,717	8,051
Total	10,752	8,150

(1) Including RWAs for Risks not in VaR

Geopolitical events were a key focus through 2025 and are expected to remain relevant into 2026. The Group's market risk remained within risk appetite throughout 2025.

Liquidity Risk

Liquidity risk is an inherent part of the Group's business activities. Liquidity risk is the risk that the Group's financial condition or overall soundness is adversely affected by an inability or perceived inability to meet its financial obligations in a timely manner. Liquidity risk encompasses the associated funding risk triggered by stress events which may cause unexpected changes in funding needs or an inability to raise new funding.

Liquidity risks from the Group's business activities primarily arise from listed and OTC derivatives as well as its lending and secured funding activities. Intraday risk continues to be a key driver of liquidity risk for the Group and remains a core focus area. Liquidity risk is

mitigated through a comprehensive liquidity management and oversight framework.

The Treasury department is responsible for daily liquidity management activities in their capacity as the First Line of Defence, while the Liquidity Risk Department ("LRD"), as the Second Line of Defence, is responsible for the independent oversight of liquidity risk. LRD has a Risk Management Framework to identify, measure, monitor, report, challenge and escalate liquidity risks. Key components of the Liquidity Risk Framework include:

- (1) Risk Identification: The identification and assessment of liquidity risks forms an integral part of the Group's liquidity risk management and is performed on an ongoing basis, considering risks to the financial condition or overall soundness in a business-as-usual environment and in stress conditions. To identify and assess liquidity risks, LRD uses ongoing monitoring of limit utilisations, regulatory as well as internal liquidity risk metrics, including the Internal Liquidity Stress Test ("ILST") results.
- (2) Risk Measurement: Liquidity risks are measured using established methods and processes for the assessment of current and projection of future cash and securities flows over various time horizons, including intraday, in base and stress scenarios. Key metrics include the LCR, the NSFR and the coverage of assumed cash outflows under internally developed liquidity stress scenarios as part of the ILST, which consider market wide, idiosyncratic as well as combined stress scenarios.
- (3) Risk Appetite and Limits: Risk Appetite for liquidity risk is expressed via Liquidity and Funding Limits, which are owned by the Group's Management Boards and are established at the Group level. These limits consider the ILST scenarios for a period of one day up to 12 months, the LCR and NSFR. The Group maintains limits, Key Risk Indicators ("KRIs"), targets and thresholds at various levels of the governance structure to support links between the liquidity risk appetite and more granular risk-taking decisions and activities.
- (4) Risk Reporting: LRD uses a set of comprehensive reports of key liquidity risk exposures that are produced on a regular basis. Significant changes in liquidity risk

exposures and liquidity risk limit utilisations are reported on a regular and ad-hoc basis to the ERC and the Group's Management Boards.

The LCR, per the Delegated Act (EU) 2015/61 as a supplement to the CRR, is a regulatory stress test with the objective of promoting short-term resilience of the Group's liquidity risk profile by ensuring that it has sufficient high-quality liquid assets ("HQLA") to withstand a significant stress scenario lasting 30 days. The Group's LCR exceeded the regulatory minimum requirement as at 31 December 2025. The details of the Group's LCR are presented in the following table:

in € millions	2025	2024
HQLA	21,188	16,047
Cash Outflows	20,696	15,977
Cash Inflows	6,756	6,040
Net Outflow	13,941	9,937
LCR Ratio	152%	161%

Net outflows increased during 2025, primarily due to an increase in cash outflows. As at 31 December 2025, the Group's HQLA comprised of cash balances as well as central bank and government bonds.

The NSFR measures the stability of the Group's funding profile over a one-year time horizon, as determined by the prescribed factors assigned to on-balance sheet and specific off-balance sheet assets (Required Stable Funding or "RSF") and liabilities (Available Stable Funding or "ASF"). It complements the LCR by requiring the Group to maintain minimum amounts of stable funding to support the Group's assets, commitments and derivatives exposures over the one-year horizon. The Group's NSFR ratio exceeded the regulatory minimum requirement as at 31 December 2025.

The Group further uses Liquidity Stress Tests to model external and intercompany liquidity flows across multiple scenarios over a range of time horizons. The ILST is designed to simulate severe but plausible stress conditions with eligible liquidity resources having to exceed ILST requirements for a period of one day up to 12 months with limited reliance on parent support beyond month one.

Geopolitical events were a key focus through 2025 and are expected to remain relevant into 2026. As at 31 December 2025, the Group maintained sufficient liquidity to meet current

and contingent funding obligations as modelled in its Liquidity Stress Tests.

Model Risk

Model risk is the potential for adverse consequences from decisions based on incorrect or misused model outputs. Model risk can lead to financial loss, poor business and strategic decision-making, non-compliance with applicable laws and/or regulations or damage to the Group's reputation.

The independent Model Risk Management ("MRM") department performs the Second Line of Defence function with the objective that all models in use are fit for purpose. MRM establishes the standards, principles, practices, governance processes, definitions, and roles and responsibilities for sound model risk management. Key components of the Model Risk Framework include:

- (1) Risk Identification: MRM employs model identification and tiering frameworks, aligning model risk management activities with the level of models' inherent risk.
- (2) Risk Management and Monitoring: MRM conducts independent review and validation of models to verify that the models are performing as expected and in line with their designed objectives and intended use(s), and to ensure that the models meet both internal model standards and regulatory requirements. Ongoing monitoring ensures that models continue to perform consistently with their intended purpose and that the outputs of models remain reliable.
- (3) Risk Appetite and Tolerances: To ensure that model risk does not pose a material risk to capital adequacy, reputation and regulatory standing, model governance and control processes have been established.
- (4) Risk Reporting: MRM reports on model risk to the MOC and provides a quarterly report on model risk to the ERC and the Group's Management Boards.

The Group uses internal models for valuation, risk management and capital calculations. Valuation models include models that are used to produce valuation and/or risk measures for end of day books and records related to a position and models that are used to adjust a portfolio's value. Risk models are used for the

measurement and management of credit risk, market risk, counterparty risk, operational risk and liquidity risk, for stress testing, and for the calculation, planning and management of regulatory and internal capital requirements. Algorithmic trading models are in use for electronic trading activities.

Other Financial Risks

In addition to the above financial risks, the Group has put in place a framework to identify, measure, monitor and report on the following material financial risks:

- **Leverage Risk** is defined as the risk resulting from an institution's vulnerability due to leverage or contingent leverage that may require unintended corrective measures to its business plan, including distressed selling of assets that might result in losses or in valuation adjustments to its remaining assets.
- **Valuation Risk** represents the possibility that a valuation estimate of a position would differ from the price in an actual close-out transaction due to uncertainty around the actual price that could be obtained.

Non-Financial Risks

Operational Risk

Operational risk is defined as the risk of loss, or damage to the Group's reputation, resulting from inadequate or failed processes or systems, from human factors or from external events (e.g., fraud, theft, compliance risks, cyber-attacks or damage to physical assets).

Business units, support and control functions and the business managers therein are primarily responsible for the management of operational risk. The business managers maintain processes and controls designed to identify, assess, manage, mitigate and report operational risk. In the event of a new product or a business activity, operational risks are considered and any necessary changes in processes or controls are implemented.

The Operational Risk department reports to the MSESE Group Head of NFR and ultimately to the MSESE Group Management Board member responsible for Legal and NFR. The Group may incur operational risk across the full scope of its business activities. The Group has established a non-financial risk framework (the Framework) to identify, measure, monitor, report, challenge and escalate non-financial risks across the Group.

This framework is consistent with the framework established by the Morgan Stanley Group and includes escalation to the Group's Management Boards and appropriate senior management personnel. Effective operational risk management is essential to reducing the impact of operational risk incidents and mitigating legal and reputational risks. The Framework is continually evolving to reflect changes in the Group and to respond to the changing regulatory and business environment. Key components of the Framework include:

- (1) **Risk Identification:** As part of a broader Non-Financial Risk Identification Framework, ORD contributes to identifying, assessing and quantifying material operational risks inherent in the Group's business activities under normal and stressed conditions. Operational risk data and assessment systems are employed to identify operational risk, they include: internal and external operational risk events, which are captured in dedicated databases; internal control factors; and scenario analysis. Internal operational risk events are captured in the Morgan Stanley Group's internal loss database and include legal reserves. Non-Financial Risk Assessments ("NFRA") are a key instrument for operational risk identification. NFRAs are executed by the business units while the ORD oversees the process and challenges the results. Additionally, the NPA process is leveraged to identify operational risks arising from new activities.
- (2) **Risk Measurement:** The Group has implemented operational risk data and assessment systems to monitor and analyse internal and external operational risk events, to assess business environment and internal control factors and to perform scenario analysis. Legal risk is assessed as part of scenario analysis accounting for potential multi-year nature of legal proceedings and levels of uncertainty of legal matters. The collected data elements are incorporated in the operational risk capital model. The model encompasses both quantitative and qualitative elements. Internal loss data, which include legal reserves and scenario analysis results are direct inputs to the capital model, while external operational incidents, business environment and internal control factors are evaluated as part of the scenario analysis process.

- (3) Risk Appetite and Tolerances: To ensure that potential losses remain within the defined Non-Financial Risk appetite the Group's Management Boards have set risk tolerance levels for the Group in aggregate and for all PNFs. ORD monitors that tolerance levels are not exceeded through a combination of loss projections from scenario analysis and realised operational risk losses. As at 31 December 2025, the largest scenario loss was €273 million.
- (4) Risk Reporting: All significant operational risk incidents and the operational risk profile relative to the tolerance level are reported on a regular and ad-hoc basis to the ERC, the Group's Management Boards and other management stakeholders.

Regulatory own funds requirements for operational risk are currently calculated under the Standardised Approach ("SA-OR") as defined in the CRR III. As at 31 December 2025, operational risk RWAs were €2,149 million (2024: €1,709 million). The Group recognises that the SA-OR is not a risk-based measure and therefore uses an operational risk modelling approach to calculate internal operational risk capital requirements (refer to the operational risk figure disclosed in the table in the "Internal Capital Adequacy Assessment Process" section, "Economic perspective" sub-section).

The Group holds sufficient capital to cover the incremental capital requirement calculated from economic perspective, which is over and above regulatory requirement for operational risk.

The ORD scope also includes oversight of technology risk, cybersecurity risk and information security risk. ORD partners with the Group's Anti Money Laundering and Fraud Prevention Officer to oversee fraud risk. ORD, in conjunction with the COCO, oversees third party risk (supplier and affiliate risk).

Cybersecurity

The Group's Cybersecurity and Information Security Framework, which includes policies, procedures and technologies, is designed to protect the Group's technology environment from operational risk failures due to the actions of a malicious cyber actor. This includes protecting the Group's own data, client data and the Group's employee data against unauthorised disclosure, modification or misuse, and is also designed to address regulatory requirements. This Framework covers a broad range of areas including the following:

identification of internal and external threats, access control, data security, protective controls, detection of malicious or unauthorised activity, incident response as well as recovery and resolution planning.

Business Continuity Management and Disaster Recovery

The Group's critical processes and businesses could be disrupted by events including cyberattacks, failure or loss of access to technology and/or associated data, military conflicts, acts of terror, natural disasters, severe weather events and infectious disease. Morgan Stanley maintains a firmwide resilience programme that is designed to provide for operational resilience and enable it to respond to disruptions impacting our people, technology, facilities and third parties and recover critical processes and supporting assets. The key elements of the Group's resilience programme include business continuity management, technology disaster recovery, third party resilience and key business service resilience. Resilience testing is performed both internally and with critical third parties to validate recovery capability in accordance with business requirements.

Morgan Stanley Group's Firm Resilience organisation is responsible for maintaining global programmes for Business Continuity Management and Disaster Recovery. The programmes are designed to identify key risks and threats to the Group's operational resiliency to ensure that recovery strategies and required resources are in place for the resumption of critical business functions following a disaster or other business interruption. Disaster recovery plans are in place for critical technology assets and resources on a Group-wide basis, and redundancies are built into the systems as deemed appropriate.

Third Party Risk Management

In connection with its ongoing operations, the Group utilises the services of third party suppliers which include other Morgan Stanley Group undertakings as well as external third party vendors. The Group mostly utilises the services of other Morgan Stanley Group undertakings as they are subject to the same global standards and frameworks. These services include, for example, outsourced processing and support functions and other professional services.

The Group's risk-based approach to managing exposure to these services includes the execution of due diligence, risk assessments, implementation of service level and other contractual agreements as well as consideration of operational risks and performance of ongoing monitoring and supervision of the third party suppliers' performance. In addition, a dedicated Second Line of Defence control function (COCO) reviews adherence to applicable regulatory requirements. The Group maintains a third and fourth party inventory and an Outsourcing and Sourcing Framework which includes governance through policies, procedures, templates and technology and is designed to meet applicable regulatory requirements and be in line with the Morgan Stanley Group's third party risk management programme.

Compliance Risk

Compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss or damage to reputation resulting from the failure to comply with laws, rules, regulations, related self-regulatory organisation standards and codes of conduct applicable to the Group's activities.

Compliance risk includes conduct risk, which is defined as the risk arising from misconduct by individual employees or contingent workers (collectively, "Personnel") or groups of Personnel, or the risk arising from conduct by the Morgan Stanley Group where the outcome has an adverse impact on clients, markets or the Group's reputation. Conduct risk includes both intentional and unintentional behaviours.

The Group's independent Compliance Department is headed by the MSESE Group Chief Compliance Officer (who is also the MSESE Group Head of NFR) and ultimately reports to the MSESE Group Management Board member responsible for Legal and NFR. Compliance is responsible for identifying applicable compliance and conduct risks and obligations relevant to the Group, as well as maintaining a Compliance Risk Management Programme. Key components of the Compliance Risk Management Programme and the Conduct Risk Framework include:

- (1) Risk Identification: Business units as well as support and control functions are responsible for identifying, assessing, managing and reporting compliance risk, including conduct risks, which arise from

their current or planned strategies and activities. As part of the broader Non-Financial Risk Identification Framework, the Group's Compliance Department completes an annual Compliance Risk Assessment for the Group to identify material compliance risk.

- (2) Risk Management and Monitoring: The annual Compliance Risk Assessment for the Group evaluates compliance risks and is reported to the Group's Management Boards. In addition, the Compliance Department subsequently develops an Annual Compliance Plan for the Group that prioritises department activities (including monitoring) based on the Compliance Risk Assessment and other inputs, as appropriate. Internal controls and processes have been established to manage conduct risks identified. Conduct risk incidents are identified and escalated through a range of processes within the Three Lines of Defence.
- (3) Risk Appetite and Tolerances: The Group seeks to comply with applicable laws, rules and regulations. The Group has no appetite for transactions, business activities, or conduct by employees, contingents or counterparties that give rise to a significant breach of the Group's compliance obligations.
- (4) Risk Reporting: The Group's Compliance Department reports to the ERC and Group's Management Boards on a quarterly basis on compliance risk, conduct matters, significant regulatory compliance- and conduct-related developments and the progress of the Annual Compliance Plan. The Group's Compliance Department also produces an annual Compliance Report which is reviewed by the Group's Management Boards.

Financial Crimes Risk

In addition to the above non-financial risks, the Group has established a framework to identify, measure, monitor and report on Financial Crimes Risk, which refers to failing to manage money laundering, terrorist financing, circumvention of economic sanctions, facilitation of tax evasion, or commitment of bribery and corruption or other criminal offences risks the Group is exposed to. Compliance with the relevant laws, regulations, guidelines, and supervisory expectations adequately mitigates

the risk of regulatory sanctions and reputation damage.

Other Material Risks

In addition to the above Financial and Non-financial risks, the Group has put in place a framework to identify, measure, monitor and report on the following other material risks:

- **Strategic Risk (including Earnings at Risk)** is defined as risk to baseline earnings from misaligned design and implementation of the Group's overall strategic objectives and the associated business unit strategic initiatives required to enable them, and any threat to the effective and efficient execution of the Group's strategic business initiatives.
- **Reputational Risk** (also referred to as Franchise Risk) refers to potential risks associated with the way in which the Group conducts its business and the perception of the Group by external parties including its shareholders, clients, regulators and the public. Reputational risks may be triggered by either the nature of the transaction (e.g., unusual complexity) or business practice (e.g., a transaction without appropriate economic substance or business purpose) or by the identity or reputation of the client or counterparty (e.g., a client linked to alleged corruption or other improper activities).

Risk Summary

The Group's Risk Strategy and Risk Appetite are aligned with the Group's business strategy as well as capital and liquidity resources and are embedded into risk management processes. The Group remained within the set Risk Appetite throughout 2025 and the Group's risk bearing capacity was sufficient at each quarter-end during 2025. Adequate capital and liquidity were maintained as at 31 December 2025, sufficiently exceeding regulatory minimums under normal and stressed market conditions. The Group's Risk Management Framework and the Group's Risk Governance structures are effective and commensurate with the size and complexity of the Group's risk profile and the Group's Risk Division is appropriately staffed with experienced risk managers.

Opportunities and Outlook

The outlook for global markets and economic environment, summarised in this section, represents the Group's internal projections and expectations based upon proprietary models and research as of March 2026. The assumptions underpinning particular forward-looking statements are disclosed where appropriate.

Global Markets and Economic Outlook

In 2026, the Group anticipates the global economy to slightly slowdown its growth pace to 3.3% as economies adjust to trade and policy headwinds. In the Euro area, the Group forecasts a slowdown in annual growth to 1.1% for 2026, as the drag from trade tensions persists in the beginning of the year. As 2026 progresses, stronger investment activity driven by prior ECB rate cuts and increasing public spending, mainly in Germany, begins to support growth more firmly. Private consumption should continue to support growth, as a result of slowing but positive real income growth and a further reduction in the saving rate. Less trade uncertainty can be expected to have a positive growth impact over time.

U.S. Inflation is expected to increase because of tariffs in early 2026. Afterwards, a gradual deceleration in inflation is likely, but the Group expects it to remain above Fed's target until the end of 2027. In the Euro area, the disinflation process is more advanced. The Group anticipates inflation remaining above ECB's target in 2026 due to energy commodity prices, but to decline just below ECB's target in 2027. Meanwhile, central banks around the world are expected to continue their cutting cycle. The Group expects the ECB to remain on hold in 2026 but to cut twice in 2027 and reach the terminal rate of 1.5% by September 2027.

The recent military escalation in the Middle East may however change this economic outlook. The impact of the conflict on the Euro area economy is materially dependent on the potential for extended disruption to energy commodity flows which may result in higher inflation and reduced growth.

Business Priorities

The Group will continue to align to the global Morgan Stanley strategy by prioritising long-term

revenue growth and wallet share expansion. In executing the global ISG priorities with the EU27 clients, local and regional collaboration and efficient resource deployment, leveraging the global Morgan Stanley Group, will be the main growth drivers. The Group aims to achieve durable revenues supported by a robust and effective risk and control framework that evolves in line with the business strategy.

The Group will focus on further developing its banking activities following MSESE receiving additional regulatory permissions related to lending and deposit taking activities.

Financial Projections

Based on the global outlook, the Group is currently forecasting a moderate increase in PBT and Operating Expenses, and a slight increase in ROE in 2026 in comparison to 2025. These changes are driven by higher client activity and associated transaction-linked expenses, as well as higher lending volumes.

Tier 1 Capital Ratio is expected to moderately decrease in 2026 primarily due to an increase in RWAs linked to business growth and higher lending volumes.

The Group will continue to closely monitor and manage the potential risks arising from the evolving geopolitical environment which could impact business performance, counterparties, and the Group's risk profile including its liquidity and capital base.

Regulatory Developments

Finalising Basel III Reforms

The Basel Accords were initially implemented in the EU via the Capital Requirements Directive and Capital Requirements Regulation, both as amended. The remaining standards of the Basel III reform package (referred to as "Finalisation of Basel III") include revisions that cover Risk Weighted Exposure Amounts requirements for Credit, Market, Credit Valuation Adjustment, Operational Risk and an increased focus on Environmental, Social and Governance ("ESG") risks. These revisions were implemented via the CRR III and CRD VI, with an effective date of 1 January 2025, with the exception of the Fundamental Review of the Trading Book ("FRTB") own funds requirements that has been delayed to 1 January 2027 on account of

uncertainty around international jurisdictions' implementation timelines.

CRD VI Article 21c

New rules amending CRD VI entered into force on 9 July 2024. CRD VI includes provisions which will restrict certain non-EU entities from providing core banking services, including lending, to EU investors. All EU Member States were required to have transposed the Directive's minimum requirements into their national laws by 10 January 2026, with the provisions taking effect from 11 January 2027. The Group is analysing and monitoring the impact of these changes, and expects the volume of lending by the Group to increase as a result.

The above developments have been considered in the capital planning, funding plan, ICAAP and ILAAP of the Group.

Events after the Reporting Period

For further information which relates to events after reporting period refer to Note 34 "Events after the Reporting Period" of the Morgan Stanley Europe SE Group Consolidated Financial Statements.

Parent Company Standalone Information According to HGB

General Information

The Company's strategic initiatives and objectives are closely aligned with those of the Group. The Company's performance is key in contributing to the Group's overall success. As a result, the information contained in the Group Management Report is integral to the Company and should be considered alongside the information presented in the following sections.

The financial information in the following sections has been prepared in accordance with HGB.

Financial Performance and Condition

The Group's regulatory reporting and internal management reporting are both based upon IFRS. The Company is also principally managed using IFRS.

Reconciliation from IFRS to HGB

The following table shows profit after tax and total assets under IFRS for the Group and the Company:

€ in millions		Profit after tax	Total assets
MSESE Group	2025	351	103,756
	2024	281	97,445
Thereof:			
MSESE	2025	348	103,485
	2024	281	96,986

The following tables provide a reconciliation from IFRS to HGB of profit after tax and total assets of the Company for the years 2025 and 2024:

€ in millions	2025	2024
PROFIT AFTER TAX (IFRS)	348	281
Risk valuation adjustments according to Section 340e (3) and (4) HGB	(69)	(62)
Coupon payment for AT1 capital instruments	(44)	(48)
Measurement differences of deferred taxes	1	27
Goodwill depreciation	(5)	(5)
Others	2	(4)
PROFIT AFTER TAX (HGB)	233	189

€ in millions	2025	2024
TOTAL ASSETS (IFRS)	103,485	96,986
Derivatives and related cash collateral netting	(33,207)	(34,560)
Secured financing netting	3,735	1,804
Others	(1,450)	(797)
TOTAL ASSETS (HGB)	72,563	63,433

Income Statement

The table below provides an overview of the financial results of the Company according to HGB for the years 2025 and 2024:

in € millions	2025	2024	Increase/ (decrease)	Variance %
Net interest expense	(165)	(190)	25	13%
Income from profit sharing, profit transfer or partial profit transfer agreements	184	122	62	51%
Net commission income	439	317	122	38%
Net trading result	673	602	71	12%
Other operating income	16	17	(1)	(6%)
Personnel expenses	406	318	88	28 %
Other administrative expenses	245	210	35	17 %
Other operating expenses	113	88	25	28 %
Income from ordinary activities	383	252	131	52 %
Income taxes	150	63	87	>100%
Net profit	233	189	44	23%

Net interest expense

Net interest expense mainly improved due to lower interest rates.

Income from profit sharing, profit transfer or partial profit transfer agreements

Relates to income recognised from the Profit and Loss Transfer agreement with MSBAG. The increase is driven by higher lending activity in 2025.

Net commission income

Net commission income increased mainly driven by an increase in advisory and debt underwriting revenues.

Net trading result

Net trading result increased in 2025 due to increased client activity within the Equity business.

Personnel expenses/Other administrative expenses/Other operating expenses

Personnel, other administrative and other operating expenses increased in 2025, as the merger of Morgan Stanley France S.A. into MSESE on 1 December 2024 resulted in only one month of associated costs being recognised in 2024.

Income taxes

The higher effective tax rate in 2025 compared to the prior year is primarily due to the initial recognition of deferred tax assets in the prior year.

Balance Sheet

The table below provides an overview of the balance sheet according to HGB for the years 2025 and 2024:

in € millions	2025	2024	Increase/ (decrease)	Variance %
Cash reserve	379	373	6	2%
Receivables from credit institutions and customers	27,497	27,048	449	2%
Trading assets	43,339	34,874	8,465	24%
Investments in affiliated companies	603	603	–	–%
Other assets	745	535	210	39 %
Total assets	72,563	63,433	9,130	14%
Liabilities to credit institutions and customers	17,050	20,390	(3,340)	(16%)
Debt issuances	2,082	278	1,804	>100%
Trading liabilities	39,197	31,040	8,157	26%
Other liabilities	669	417	252	60%
Subordinated debt	5,609	3,809	1,800	47%
Fund for general banking risks	203	144	59	41%
Instruments for Additional Tier 1 Regulatory Capital	1,000	1,000	–	–%
Equity capital	6,753	6,355	398	6%
Total liabilities and equity	72,563	63,433	9,130	14%

Trading assets and liabilities

The increase in trading assets and trading liabilities in 2025 is primarily driven by an increase in government bond inventory and an increase in the volume of secured financing transactions within the trading book, partially offset by a decrease in derivatives.

Liabilities to credit institutions and customers

Liabilities to credit institutions and customers decreased compared to prior year mainly driven by lower secured financing transactions within the banking book.

Debt issuances

The increase in debt issuances in 2025 is driven by the issuance of structured notes to non-affiliated companies.

Subordinated debt

The increase in subordinated debt compared to prior year is driven by the issuance of senior subordinated debt and Tier 2 subordinated debt.

Fund for general banking risks

In accordance with Section 340e (4) HGB, the Company allocated €59 million (2024: €67 million) to the fund for general banking risks in the financial year 2025.

Equity capital

Equity capital consists of share capital, capital and earnings reserves, retained earnings and profit for the year. The increase in equity in 2025 is driven by profit for the year and the effect of the merger of MSESE and MSEHSE.

In 2025, the return on investment pursuant to Section 26a (1) Sentence 4 KWG is positive 0.33% (2024: positive 0.31%).

Risk Management

The Risk Management Framework and Risk Strategy are established and executed at the Group level, defining how risks are identified, measured, monitored, reported, challenged and escalated across the Group, supported by Group policies and procedures that ensure adherence to applicable legal and regulatory requirements.

The framework is underpinned by the Group Risk Appetite Statement, which defines the aggregate level and types of risk the Group is willing to assume in delivering its business

strategy while safeguarding capital and liquidity resources.

For additional details, refer to the "Risk Report" section.

Outlook

The outlook and forward looking statements, including forecast of key performance indicators, are defined at the Group level and are disclosed in the "Opportunities and Outlook" section.

Sustainability Statement for Morgan Stanley Europe SE

Information pursuant to the requirements of Section 340a (1a) HGB in conjunction with Sections 289b to 289e, Sections 315b and 315c HGB is included in the Sustainability Report section of this Combined Management Report.

Relations with affiliated companies

The Management Board of the Company prepared a separate report on the Company's relations with affiliated companies in the financial year 2025, which contains the following statement pursuant to Section 312 (3) of the German Stock Corporation Act ("AktG"):

In respect of the Legal Transactions and measures listed in the Report on relations with affiliated companies for the financial year 2025, Morgan Stanley Europe SE has received appropriate considerations for each Legal Transaction in accordance with the circumstances known to us at the time when the Legal Transactions were entered into, and the measures taken were not disadvantageous to the Company.

Sustainability Report

The sections 'Climate and Environmental Risk Management' and 'Climate Risk Metrics' are part of the risk reporting within the Combined Management Report pursuant to sentence 4 of Section 315 (1) HGB and have therefore been audited. All other sections of the Sustainability Report are unaudited.

In this Sustainability Report, the Group uses the terms "ESG" and "sustainability" interchangeably.

General Information (unaudited)

About this Sustainability Report

This Sustainability Report provides an annual overview of the Group's approach to and performance on sustainability topics.

The Group's Sustainability Report is prepared in accordance with the requirements of Section 340i (5) and Sections 315c and 289b - 289e HGB, collectively known as the Non-financial Reporting Directive ("NFRD"). Due to evolving sustainability-related regulation, the Group has elected not to employ an existing sustainability reporting framework as permitted by Section 289d HGB.

The Group is making use of the optional relief to exclude disclosures required by Article 8 of Regulation (EU) 2020/852 on the basis that it does not claim that its activities are associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of Regulation (EU) 2020/852 (Taxonomy Regulation).

The Group's approach to sustainability is consistent with that of the Morgan Stanley Group. The Morgan Stanley Group is committed to transparent disclosure, and its latest sustainability-related disclosures can be found in the Morgan Stanley Group's Sustainability Report. The Report's data, content and narrative are informed by the Sustainability Accounting Standards Board ("SASB") standards for Investment Banking and Brokerage, Asset Management Custody Activities, and Commercial Banking. The climate section is informed by the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"). Both frameworks are now part of the International Sustainability Standards Board ("ISSB") under the International Financial Reporting Standards ("IFRS") Foundation.

Morgan Stanley is a member of the IFRS Sustainability Alliance and monitors the standards being developed by the ISSB.

The Morgan Stanley Group's Sustainability Report is available at <https://www.morganstanley.com/about-us/sustainability-reports-research>.

As at publication date of this Group Management Report, the latest Morgan Stanley Group Sustainability Report is the 2024 Report. The 2025 Report will be available at this site when published.

Evolving Regulatory Developments

On 28 November 2022, the European Commission adopted the Corporate Sustainability Reporting Directive ("CSRD") which replaces the existing reporting requirements of the NFRD. The CSRD requirements apply to financial years commencing on or after 1 January 2024, subject to transposition into EU member state law.

The CSRD has not been transposed into German law, therefore the Group is not subject to the CSRD requirements for the financial year ended 31 December 2025.

On 9 December 2025, provisional political agreement of the European Commission Omnibus Sustainability package was formally approved by the European Parliament and Council of the European Union. The Group continues to monitor the finalisation of the Omnibus Sustainability package for impact on future sustainability reporting.

Approach to Sustainability

Business Model and Sustainability Matters

As set out in the 'Group Overview' section, the Group is Morgan Stanley's primary hub to facilitate EU27 client business. The Group's business strategy is closely integrated into the global strategy of ISG. Revenue generation from these activities is set out in the section 'Financial Performance and Condition'.

The Morgan Stanley Group and the Group raise, manage and allocate capital to help clients achieve their goals, including in relation to sustainability. The Group takes an integrated approach to creating sustainable value for its clients, shareholders, communities, and employees. It does so by leveraging the expertise, networks and resources of the Morgan Stanley Group.

Sustainable Finance

The Morgan Stanley Group strives to be the financial services partner of choice for clients by offering solutions and advisory services designed to help deliver competitive returns and environmental or social outcomes. For more information, refer to the Morgan Stanley Group's Sustainability Report.

The Morgan Stanley Group is committed to mobilising \$1 trillion in sustainable finance by 2030 which includes \$750 billion to support low-carbon and green solutions. Progress toward this goal is guided by the Sustainable Finance Framework (the "Framework") and tracked at the global Morgan Stanley Group level. As of year-end 2024, over \$815 billion¹ in sustainable finance has been mobilised through commercial work with clients and strategic partners².

The Framework is maintained by the Global Sustainability Office ("GSO") and evaluated in consideration of market practices and global frameworks, such as the United Nations Sustainable Development Goals ("UN SDGs") and the International Capital Markets Association's ("ICMA") Green and Social Bond Principles. Relevant business units and relevant committees across the Morgan Stanley Group review the Framework to ensure it remains aligned with the Morgan Stanley Group sustainability priorities and changes in its business activities and products. Additionally, the underlying data is subject to internal review and verification.

Relevant business segments, units and programmes contributing to the target include IBD, GCM, FID and Inclusive & Sustainable Ventures. Business activities that make up the eligible themes and products under the Framework are reported in the Morgan Stanley Group Sustainability Report.

The Morgan Stanley Institute for Sustainable Investing

Established in 2013, the Morgan Stanley Institute for Sustainable Investing ("ISI") aims to accelerate sustainable finance by driving innovation, empowering investors with insights and supporting the development of the next generation of sustainable investing leaders. The ISI is guided by an Advisory Board, which is chaired by Morgan Stanley's Chief Sustainability

Officer, and composed of prominent leaders from business, academia and non-governmental organisations. It publishes regular thought leadership on sustainable finance trends and themes, and runs several initiatives, including the Kellogg-Morgan Stanley Sustainable Investing Challenge, and the Sustainable Investing Fellowship.

Morgan Stanley Inclusive & Sustainable Ventures ("MSISV")

MSISV provides early-stage innovators with access to capital and resources to help them develop and scale through an in-house accelerator designed for startup founders and emerging non-profits. Morgan Stanley provides participating companies with capital (as equity investment for startups and grants for non-profits), a five-month curated programme, mentorship, networking, office space for the duration of the programme and access to certain external advisors. The programme supports each founder's growth and development through much-needed access to investors, along with the tools, resources, and connections to grow and thrive. The programme culminates in a showcase presentation and Demo Day to the investor community.

MSISV EMEA has invested in 39 high-potential companies to date that have raised approximately €31 million during and after the accelerator programme, 5 of which are based in Continental Europe.

Double Materiality Assessment

In 2024, the Group performed a Double Materiality Assessment ("DMA") to identify the sustainability-related matters material to it and to its wider stakeholders. The assessment enabled the evaluation of sustainability-related financial materiality as well as impact materiality, assessing the impacts of the Group on people and the environment, that are linked to its activities and relationships through the value chain. The DMA has not been refreshed for 2025, as identified sustainability matters remain relevant to the Group and the external environment.

The DMA concluded that the most material sustainability matters to the Group are Climate Change, Governance and Workforce. The table below maps these material issues to each of the

¹ This compares to over \$820 billion disclosed as of year-end 2023. This reduction is due to a detailed review of historical transactions offsetting progress in 2024. Refer to the Morgan Stanley 2024 Group Sustainability Report for further information.

² Refer to the "Sustainable Finance" section in the Morgan Stanley 2024 Group Sustainability Report for further information.

sustainability aspects as required by Section 289c HGB.

Sustainability Aspect according to Section 289c HGB	Material issue(s)	Section reference
Environmental matters	Climate Change	Environmental Information
Employee matters	Workforce	Social Information
Social matters	Workforce	Social Information
Respect for human rights	Human rights in the supply chain	Governance Information
Anti-corruption and bribery matters	Prevention and detection of corruption and bribery	Governance Information

Sustainability Governance

Board and Management's Roles and Responsibilities

Sustainability governance starts with leadership from the top and is embedded in committees and other governance bodies, policies and procedures across the Morgan Stanley Group as detailed below.

An EMEA Sustainability governance framework is in place which establishes clear escalation and reporting channels from dedicated sustainability working groups to sustainability specific committees, up to executive committees and then to the Group's Management Boards and Supervisory Boards. Prior to information on sustainability-related topics being brought to the Management Boards and the Supervisory Boards, it is subject to a review and challenge process.

A dedicated EMEA Sustainability Committee supports the Group's Management Boards and Supervisory Boards in their oversight of the relevant sustainability-related matters. The EMEA Sustainability Committee is in place to support the Group in the continued consideration, governance and oversight of the incorporation of sustainability risks, impacts and opportunities into strategy, business processes and risk management. In particular, the EMEA Sustainability Committee advises on the integration of sustainability considerations into the regional business strategy, oversees the embedding of sustainability risks into the risk and control framework and oversees the tracking, analysis and implementation of key regulatory requirements related to sustainability.

The EMEA Sustainability Committee reports on at least an annual basis to the Morgan Stanley Group Sustainability Committee. The EMEA CRO Co-Chairs the EMEA Sustainability Committee with the EMEA Chief Administrative Officer. The EMEA Head of Climate Risk, the Group Chief Finance Officer, and the Group Board Member responsible for Legal and Non-Financial Risk, are members of the Committee.

At least annually, the EMEA Sustainability Committee invites representatives from Human Resources and the EMEA Diversity Action Council to provide updates on regional diversity and inclusion matters to ensure the EMEA Sustainability Committee has transparency on how those activities impact wider sustainability matters.

The EMEA Sustainability Committee has been presented with the results of the DMA and has reviewed and approved the material issues set out in section 'Double Materiality Assessment'.

The Boards are briefed regularly on sustainability topics. The Group's Management Boards are responsible for approving the risk appetite statement, risk tolerance statements and limits, regulatory public disclosures and for determining the Group's business strategy, which include sustainability-related considerations as applicable.

During 2025, the Group's Management Boards and Supervisory Boards considered sustainability-related matters through regular Board reporting and focused updates. At the start of 2025 the Group's Management Boards and Supervisory Boards considered the annual Group Business Strategy and priorities. These included sustainability solutions as a strategic priority as well as supporting clients in their climate transition. The Group Business Strategy also includes a KPI to monitor alignment of lending exposure retained on the Group with Morgan Stanley Group's Net Zero commitments. The Group Management Board's receive quarterly Net Zero KPI reports to allow the Boards to monitor the contribution of lending commitments retained on the Group, to Morgan Stanley's Net Zero targets. This ensures the Management Board has full visibility of all activity in the lending portfolio.

The Group's Management and Supervisory Boards considered and agreed performance priorities including in relation to Morgan Stanley's Net Zero strategy, Culture, Conduct, and Diversity and Inclusion.

The Group's Management and Supervisory Boards received updates on material project initiatives which included the implementation of sustainability-related regulatory measures and disclosure requirements. The Group's Management Boards and Supervisory Boards also received updates from the Group COO on activities and key findings within the Group Culture Action Plan.

The Group's Management Boards are responsible for overseeing climate risk and strategy and as a result, climate-related risks are considered in the remuneration processes for the Group's Management Board members.

The Group's Management Boards reviewed and approved the Group Risk Strategy, including the Risk Appetite Statements which include climate change as a driver of existing risks. The Group's Management and Supervisory Boards received Climate Risk Training which focused on types of climate risk, the climate risk framework and a global Net Zero strategy update.

Climate transition risk is incorporated into the Group Risk Appetite and Limits Framework via a specific Climate Stress Loss Limit, that was set by the Group's Management Boards. On a monthly basis, the Group's Management Boards review the utilisation of the Climate Stress Loss Limit and the credit risk limits that are established for industries highly exposed to climate risk. Refer to the section 'Climate and Environmental Risk Management - Risk Appetite and Limit Framework' for further details. The Group Risk Committee assists and provides guidance to the Group's Supervisory Boards on the overall strategy and risk tolerance of the Group as well as the management of financial and non-financial risks, including sustainability risks. The Group Risk Committee receives updates on the Group's Risk Strategy, including the Climate Stress Loss Limit and Climate Credit Limit.

The Group Audit Committee assists and provides guidance to the Group's Supervisory Boards in monitoring financial reporting, internal controls, and legal and regulatory compliance, including in relation to sustainability-related matters. The Group Audit Committee received regular updates on the sustainability disclosures approach, the status of sustainability reporting and related regulatory requirements in relation to the Group Financial Statements.

The Group Nomination Committee assists and provides guidance to the Group's Supervisory Boards on succession planning, the recruitment of board members and considers climate- and environmental-related skills in its annual assessment of the Group's Management Boards.

Environmental Information

Climate and Environmental Strategy (unaudited)

Morgan Stanley leverages its expertise to help clients meet their transition and decarbonisation objectives, aiming to support the global economy's transition to a more sustainable future. The Morgan Stanley Group also considers the impact of climate risk on its business, and manages the carbon intensity of its own operations.

The Group's strategy is to support the Morgan Stanley Group in achieving the overall goal of net-zero financed emissions by 2050. It will contribute to each component of a four-part climate strategy.

- Finance – Morgan Stanley aims to reach net-zero financed emissions by 2050, with 2030 interim targets, and seeks to mobilise \$750 billion to support low-carbon and green solutions by 2030 (refer to 'General Information - Sustainable Finance');
- Risk – the Risk Division and the Operational Risk Department, in partnership with other areas of Morgan Stanley, identify, measure, manage and monitor climate-related financial and operational risks, respectively (refer to 'Environmental Information - Climate and Environmental Risk Management' section);
- Operations – Morgan Stanley Group has achieved carbon neutrality across its global operations since 2022 and maintained it through 2024¹;
- Reporting – Climate-related disclosures are published in Morgan Stanley Group's annual Sustainability Report (refer to 'General Information - About This Sustainability Report' section).

¹ For further information on how carbon neutrality is determined and has been achieved, refer to page 26 of the 2024 Morgan Stanley Group Sustainability Report. Morgan Stanley Group's 2025 carbon neutrality status will be addressed in the 2025 Morgan Stanley Group Sustainability Report.

Further detail on the approach to meeting its net-zero target is described in the Morgan Stanley Group's Sustainability Report and includes mobilising capital for low-carbon and green solutions, striving towards financed emissions targets, and maintaining carbon neutral status.

The Morgan Stanley Group remains focused on progressing toward its 2030 financed emissions targets covering its corporate relationship lending exposure within the Auto Manufacturing, Energy, Power, Chemicals, Mining and Aviation sectors. For more detail, refer to the 'Climate Metrics and Targets' section.

The Group maintains a KPI to monitor alignment of lending exposure retained on MSESE Group to Morgan Stanley Group's net-zero targets. Accountability for this KPI sits with the Group's Management Boards. The Morgan Stanley Group considers its clients' approaches to climate transition in its corporate relationship lending portfolio, using both physical intensity metrics and its proprietary Climate Strategy Assessment Framework ("CSAF"). The CSAF provides a data-driven assessment of clients' climate strategies to help Morgan Stanley better engage with its clients, inform business decisions and assess climate transition risk. The CSAF has been further embedded into business activities and risk management processes as set out in the Morgan Stanley Group's 2024 Sustainability Report.

Resilience of Strategy and Business Model to Climate Change

In 2025, the Group conducted an assessment of three long-term scenarios that considered both transition and physical risk. Refer to the 'Environmental Information - Climate and Environmental Risk Management' section for further details.

The impact on business activities was broadly assessed to be limited in most circumstances given the agility of the Group's business model to adapt to evolving market conditions. Insights were included as an input into business strategy and planning.

To estimate the impact of climate risk on strategic risk, the impact on the Group's revenues as a result of adverse client impacts in the short-term transition carbon repricing scenario were modelled. This analysis concluded that strategic risk under this scenario is non-material for the Group.

Operational Resilience

The Group's critical processes and businesses could be disrupted by multiple events, including natural disasters and severe weather events. Refer to 'Non-Financial Risks - Business Continuity Management and Disaster Recovery' for information on the Morgan Stanley Group's Firm Resilience programme that is designed to provide for operational resilience.

Climate and Environmental Risk Management (audited)

The Group's risk management framework, processes and policies cover climate and environmental risks.

Climate and environmental risks include negative potential impacts to biodiversity, pollution of land, water or air, climate change, deforestation and forest degradation, and other negative impacts on the environment as a result of human activities. Within climate and environmental risks, the risks arising from climate change are a particular area of focus.

The Group considers climate and environmental risks through two main categories: transition risks and physical risks.

- **Transition Risks:** Transitioning to a low-carbon and more environmentally sustainable economy will entail extensive regulatory, policy, legal, technology and market initiatives as society adapts to climate change, mitigates its causes and promotes a more sustainable environment. Depending on the nature, speed and focus of these changes, transition risks may pose varying types and levels of financial and reputational risk to businesses and other organisations.
- **Physical Risks:** These risks include both acute physical events such as flooding, and chronic physical risks related to longer-term shifts in climate patterns such as more frequent and prolonged drought and progressive shifts like biodiversity loss, land use change, habitat destruction and resource scarcity. Financial implications for organisations can range from direct damage to assets to indirect impacts from supply chain disruption, driven by factors such as changes in water availability, food security and agricultural productivity. Extreme temperature changes may affect an

organisation's physical locations, operations, supply chain, transport needs and employee safety.

The Group may also be exposed to litigation risk or reputational risk losses arising from compliance risks related to increasing and evolving sustainability-focused regulation.

Managing Climate and Environmental Risks

The Central Climate Risk team within the Risk Division is responsible for working with stakeholders in the Risk Division and across the Morgan Stanley Group to identify, monitor, mitigate and report on the climate and environmental financial risks it may face. The EMEA team is led out of the Group with primary responsibilities consisting of partnering with stakeholders to manage and embed climate and environmental risks in the risk management framework including regional regulatory requirements and with consideration of the Group's portfolio.

Climate and environmental risks are incorporated into the Group risk management framework. The Group risk management framework continues to be enhanced to meet requirements set out in new and evolving regulations.

Risk Identification and Materiality Assessment

As part of its risk identification and materiality assessment process, the Group conducts a granular risk assessment of climate and environmental risks across risk types.

The risk inventory captures climate and environmental risks as drivers of existing risks. Risk events assessed for their impact on credit, market, liquidity, and operational risks include:

- Transition risk driven by climate policy (carbon repricing) and other environmental policy (reduction of pollution);
- Physical risk driven by climate events (extreme temperature, wildfire, drought, riverine flood, coastal flood and storms) and other environmental events (biodiversity loss, water stress and marine resources).

In addition, the Group assessed ESG scenarios for litigation risk (refer to the 'Scenario Analysis and Stress Testing' section).

A quantitative assessment is performed on a quarterly basis across risk types to determine the materiality of the impact of short-term ESG risks. A risk is considered material if the estimated stress loss or liquidity outflow is above the existing risk identification materiality threshold.

The Group also performed a medium- and long-term assessment of climate risk based on 5 year and 30 year losses from long-term scenarios.

Materiality Assessment in the Short-Term

In 2025, climate transition risk was assessed as material for credit risk exposures. Climate physical risks were assessed as non-material for credit risk. Operational risk (business disruption and litigation risk), market risk and liquidity risk were assessed as non-material given estimated losses and liquidity outflows fell below respective materiality thresholds. Other environmental risks are assessed as non-material across risk types.

Credit climate transition risk was assessed as the only material risk in the Group's portfolio, in line with 2024 results.

Material identified risks inform risk measurement, monitoring, management, and the scenarios that support the Group's ICAAP. In addition, material risks guide the Group's risk appetite.

Materiality Assessment in the Medium- and Long-Term

The medium- and long-term assessments for credit and market risk consider results of the Net Zero by 2050, Fragmented World, and Hot House World scenarios. In 2025, the materiality assessment concluded that transition risk is material for credit risk in the long-term for the Group. Long-term scenarios are integrated into the business and resilience analysis (refer to 'General Information - Resilience of Strategy and Business Model to Climate Change'.)

Risk Appetite and Limit Framework

Credit and Market Risk Limits: Climate Risk

The Group Management Boards set a Climate Stress Loss Limit ("CSLL") across credit and market risks.

The CSLL is integrated into the Group's Risk Appetite Statement in the Group Risk Strategy, which is approved by the Group's Management Boards on an annual basis.

In addition to the CSLL, climate risk is incorporated into the credit risk management framework through industry sector limits as well as country and obligor ratings.

- **Climate Stress Loss Limit:** The Group's Management Boards express risk appetite via the CSLL. To monitor potential credit and market risk losses against this limit, the Group runs a short-term transition risk 'Carbon Repricing' scenario (refer to 'Scenario Analysis and Stress Testing' section). The results of this scenario are reported to the Group's Management Boards on a monthly basis.
- **Industry Sector Limits:** Credit risk limits are established for industries that are highly exposed to climate risk. This process includes a portfolio segmentation of industries into groups with common climate risk profiles. These limits enable the Group to monitor and manage credit risk arising from climate change.
- **Country Ratings:** ESG considerations are incorporated into the internal sovereign credit rating assessment. The sovereign rating is an important input in determining country limits, therefore ESG considerations influence risk appetite at the country level.
- **Obligor Ratings:** Climate risk is incorporated into the rating assessment for corporates. The corporate rating is an important input in determining single name limits, therefore climate risk influences risk appetite at a single name level.

In addition to the credit limits, the Group includes an assessment of ESG risks in the lending transaction approval documentation in line with the European Banking Authority's guidelines on loan origination and monitoring.

Liquidity and Operational Risk Limits: Climate Risk

In 2025, climate risks are assessed as non-material for liquidity and operational risk. Hence, the Group has not established specific climate risk limits for liquidity and operational risks.

Credit, Market, Liquidity and Operational Risk Limits: Other Environmental Risks

In 2025, other environmental risks were assessed as non-material for credit, market, liquidity and operational risk. Hence, the Group manages other environmental risks within the existing risk appetite and limit framework.

Scenario Analysis and Stress Testing

Scenario analysis is central to the Group's Climate Risk Management and supports the identification and measurement of potential financial vulnerabilities from climate-related risks.

Both transition and physical risks can materialise over different time horizons. For example, extreme flooding events present near-term physical risks to vulnerable regions and populations, while certain climate policy measures, particularly those implemented over several years, present longer-term challenges as economies adjust to increased costs and market or technological changes stemming from new policies.

Therefore, scenarios may be developed to assess potential losses or financial impact over the short-, medium- or long-term. Morgan Stanley defines these time horizons as set out below.

Short-term: 0 - < 1 year

Medium-term: 1 - < 5 years

Long-term: > 5 years

Scenario development is informed by the inventory of material risks, which is designed to stress key vulnerabilities within a portfolio.

The Group has implemented short-, medium- and long-term scenarios to assess the impact of climate risks. Short-term scenarios are considered in the capital planning process and prioritised to manage financial risk due to the short maturity of the business activities. Medium- and long-term scenarios are used to assess materiality and inform the business strategy.

Refer to the table below that covers the ESG scenarios implemented by the Group.

ESG Scenarios Implemented by MSESE Group

Scenario	Risk Types	Narrative & Assumptions
Carbon Repricing: Transition Risk Short-term (1 year) Internal scenario	<ul style="list-style-type: none"> • Credit Risk - Lending and Counterparty • Market Risk 	<ul style="list-style-type: none"> • Global effort to curb emissions leads to the implementation of climate policies • Sudden and sustained rise in carbon prices across countries
Net Zero by 2050: Transition Risk Medium- and Long-term (5 and 30 year) Based on NGFS ⁽¹⁾ , aligned to 1.5°C	<ul style="list-style-type: none"> • Credit Risk - Lending and Counterparty • Market Risk 	<ul style="list-style-type: none"> • Global ambitious plan to reach net zero by 2050 in an orderly fashion
Fragmented World: Transition and Physical Risk Medium- and Long-term (5 and 30 year) Based on NGFS ⁽¹⁾	<ul style="list-style-type: none"> • Credit Risk - Lending and Counterparty • Market Risk 	<ul style="list-style-type: none"> • Governments suddenly enact global carbon policies in 2030; policies vary among nations • Net zero is not achieved, leading to extreme weather events and increased physical risk
Hot House World: Physical Risk Medium- and Long-term (5 and 30 year) Based on NGFS	<ul style="list-style-type: none"> • Credit Risk - Lending and Counterparty • Operational Risk 	<ul style="list-style-type: none"> • No new climate policies are introduced • Substantial global warming leads to high physical risk
Continental Europe Flooding: Physical Risk Short-term (1 year) Internal scenario	<ul style="list-style-type: none"> • Credit Risk - Lending and Counterparty • Market Risk 	<ul style="list-style-type: none"> • Heavy flooding across the EU
Climate Physical Events Impacting Morgan Stanley Operations: Short-term (1 year) Range of scenarios specific to Physical events impacting operations in each of our geographic locations	<ul style="list-style-type: none"> • Operational Risk 	<ul style="list-style-type: none"> • Heavy flooding across London impacting transport links • Severe flooding across Mumbai resulting in infrastructure damage and power outage • Severe heatwave impacting India resulting in a power outage
Litigation Risk: Short-term (1 years) Range of ESG scenarios such as Greenwashing, Product Mis-selling and Reporting Errors	<ul style="list-style-type: none"> • Operational Risk 	<ul style="list-style-type: none"> • Misstatements in sustainability disclosures • Misstatement of sustainability objectives linked to a product

(1) Network for Greening the Financial System ("NGFS") is a group of Central Banks and Supervisors willing, on a voluntary basis, to share best practices and contribute to the development of environment and climate risk management in the financial sector.

Climate Metrics and Targets (unaudited)

Metrics and targets are important to Morgan Stanley's climate strategy and help track progress towards Morgan Stanley's climate-related goals. Targets have not been set at the legal entity level, however, the Group maintains a KPI to monitor alignment of lending exposure retained on the Group to Morgan Stanley Group's net-zero targets for six sectors: Auto Manufacturing, Energy, Power, Chemicals, Mining and Aviation. Refer to the 'Environmental Information - Climate and Environmental Strategy' section for further information.

These targets are designed to strike an appropriate balance between being ambitious and credible while also being realistic about present near-term global challenges. For all sectors, a target range has been established, with the upper bound target referencing science based climate scenarios that are in line with a 1.5°C outcome, and the lower bound referencing a 1.7°C scenario outcome. For further detail, refer to Morgan Stanley's 2030 Interim Financed Emissions Targets Report, available at <https://www.morganstanley.com/about-us/sustainability-at-morgan-stanley/net-zero-financed-emissions>.

Financed Emissions (unaudited)

The Morgan Stanley Group's absolute financed emissions are disclosed in the Morgan Stanley Group Sustainability Report for corporate relationship lending activities in the sectors for which interim 2030 net zero targets have been established. These emissions calculations are informed by guidance from the Partnership for Carbon Accounting Financials ("PCAF") Global Greenhouse Gas Accounting and Reporting Standard.

A portfolio carbon lending intensity metric is also calculated for MSESE Group. In prior years, a revenue-based intensity metric was reported based on the ECB 2022 Climate Risk Stress Test methodology. From this year, the Group reports a physical intensity metric, which represents a portfolio-weighted view of the Group's clients' own carbon intensity, as measured by a common sector activity unit, such as production or generation.

The data table below summarises the Group's portfolio physical intensity for the six sectors that the Morgan Stanley Group has set 2030 interim financed emissions targets for.

The MSESE Group exposure and Sector Lending Intensity is based on the corporate relationship lending portfolio using committed amounts as of the year-end stated. It includes in-scope clients for each sector metric as defined by Morgan Stanley's portfolio intensity methodology. For further detail, refer to Morgan Stanley's 2030 Interim Financed Emissions Targets Report, available at <https://www.morganstanley.com/about-us/sustainability-at-morgan-stanley/net-zero-financed-emissions>.

Greenhouse gas emissions information from clients is subject to a data lag, which can be 12-18+ months after the underlying emission-generating activities have taken place. To enhance data availability and support more consistent year-over-year analysis, the most recent full year of emissions data available as at the time of reporting is selected. This includes emissions data associated with client activities undertaken in financial year 2023, for both reporting years 2024 and 2025.

As presented in the following table, the Group's share of lending to the six 2030 interim target sectors decreased approximately 2% from 31 December 2024 to 31 December 2025. Year-on-year sector lending intensities were consistent for the Auto Manufacturing and Aviation sectors,

with a minor decrease in the Energy End Use sector intensity and a minor increase in the Energy Operational sector intensity.

The year-on-year increase in the Chemicals sector intensity is primarily driven by new lending to a client with a higher physical intensity relative to other clients in that sector, while the decrease in the Power sector intensity is primarily driven by increased lending to clients with lower physical intensities relative to other clients in that sector.

This disclosure is subject to the data limitations outlined below the table.

MSESE Group GHG Portfolio Intensity

Sector	In-scope emissions	Metric	2025			2024		
			Exposure (%)	Number of counter-parties	Sector Lending Intensity	Exposure (%)	Number of counter-parties	Sector Lending Intensity
Auto Manufacturing	Scope 1, 2 and Scope 3 Category 11	gCO ₂ e/vehicle km	6 %	2	164	8 %	2	164
Aviation	Scope 1	gCO ₂ e/revenue tonne km	1 %	1	745	1 %	1	745
Chemicals	Scope 1 and 2	kgCO ₂ e/tonne produced	3 %	4	781	2 %	3	665
Energy - End Use	Scope 3 Category 11	gCO ₂ e/MJ			56.4			56.6
Energy - Operational	Scope 1 and 2	gCO ₂ e/MJ	5 %	2	5.3	7 %	2	5.1
Mining	Scope 1 and 2	tCO ₂ e/tonne CuEq	n/a	—	n/a	n/a	—	n/a
Power	Scope 1	kgCO ₂ e/MWh	13 %	5	115	12 %	5	126
Other	n/a	n/a	72 %	81	n/a	70 %	58	n/a

The above table:

- Was calculated using third-party data inputs, which include estimates, and the Group does not guarantee the accuracy of such information. While the Group believes the data has been reasonably determined based on current practices, methodologies and standards in this area continue to evolve and may change. Third-party data providers may revise such information from prior years which may cause the Group to recalculate prior-period emissions in accordance with its policies
- Is not comparable to financed emissions data of other financial institutions, which may have different business models and lending practices, and may use different accounting methodologies and data to determine financed emissions
- May vary from year to year based on many factors, some of which are beyond the Group's control. Readers are cautioned not to use year-over-year results to make conclusions on future progress, but to consider trends over a longer period of time

Climate Risk Metrics (audited)

The section 'Environmental Information - Risk Appetite and Limit Framework' describes the limits established to manage climate risk in the Group and the exposures that are monitored against those limits.

Climate Stress Loss Limit

The Group remained within its portfolio CSLL throughout 2025.

Exposure to climate risk

Exposure to industries with high climate transition or physical risk comprises 13% and 10% of the Group's aggregate risk exposure, respectively. In 2025, exposure to high climate risk industries as a percentage of aggregate exposure decreased compared to 2024. Although the exposure to industries with high physical risk is 10% of the aggregate exposure, climate physical risk is assessed as non-material. Credit climate transition risk was assessed as the only material climate risk in the Group's portfolio. The risk identification process is supported by a more granular assessment of physical risk, considering geographic locations (refer to 'Environmental Information - Risk

Identification and Materiality Assessment'). The exposure metric was amended to remain aligned with internal credit risk management reporting methodology. Exposures to climate risk in the table below include treasury placements, lending commitments and trading activities, offset by credit risk mitigants such as collateral.

Exposure to High Climate Risk Industries

	2025	
	Exposure in €	% of Exposure
Group total net exposure	29,715	
of which transition risk	3,753	13 %
of which physical risk	3,002	10 %

	2024	
	Exposure in €	% of Exposure
Group total net exposure	24,869	
of which transition risk	3,593	14 %
of which physical risk	3,088	12 %

Note: The table includes the exposure to sectors highly vulnerable to climate transition and climate physical risks. The vulnerability of obligors is assessed based on a segmentation approach which differentiates between low, medium, high and very high (high and very high presented in the table). The segments are sub-industries with consistent climate risk profile. The assessment considers expert credit

assessment, greenhouse gas emissions data and external physical risk scores.

Expected Credit Loss (“ECL”)

Corporate credit ratings include a climate risk adjustment, which assesses the impact of climate risk on the obligor’s creditworthiness. Climate risk is therefore reflected in the obligor’s PD, which is used to calculate the ECL.

As at 31 December 2025, the estimated impact of climate risk on the ECL charge was less than 5% and therefore remains limited (refer to Note 24.3 Financial Risk Management - Credit Risk).

Disclosures Pursuant to Article 8 of Regulation (EU) 2020/852 (“Taxonomy Regulation”) (unaudited)

During 2025, the European Commission introduced a two-year optional relief for financial undertakings from the detailed disclosure requirements of the EU Taxonomy, covering the years ended 31 December 2025 and 31 December 2026. Use of the relief is conditional and available to financial undertakings that do not claim that they have economic activities that qualify as environmentally sustainable under the Taxonomy Regulation.

In respect of the Group’s activities during 2025, no activities are claimed as being associated with economic activities that qualify as environmentally sustainable under Articles 3 and 9 of Regulation (EU) 2020/852 (Taxonomy Regulation). The Group has therefore elected to make use of the optional relief for the year ended 31 December 2025 and has not included detailed disclosures pursuant to the Taxonomy Regulation.

Social Information (unaudited)

Workforce Strategy

The Group continues to invest in its most valuable asset, its talent. To do so, it is focused on building, developing and investing in a world-class workforce by attracting strong talent at all levels while providing opportunities for employees to develop.

The results of the most recent biennial employee engagement survey demonstrate the strength of the Group’s commitment to its culture and employees, with 93% of Group employees being proud to work at Morgan Stanley.

Building Our Workforce

The Group’s recruitment efforts are driven by a commitment to attract top talent across a variety of disciplines.

With a global presence and a reputation for excellence in the financial services industry, the Group employs a multifaceted approach to recruitment that connects it with candidates at all levels of their career journey. The Group partners closely with schools and universities, professional and community-based organisations and leverages job boards, social media, targeted outreaches and digital recruitment platforms to identify and cultivate prospective candidates. Additionally, the Group engages with potential candidates through career fairs, events, programmes and conferences. Individuals at all levels and from all backgrounds contribute to a dynamic work environment. Through rigorous and tailored selection processes, and comprehensive training and development programmes, the Group builds a workforce equipped to tackle the challenges of the ever-evolving financial landscape and drive tangible results for clients.

Investing In Our Workforce

Employees have access to an array of resources to support their personal and professional wellbeing. From comprehensive benefits to employee networks, the Group prioritises the needs of its people to ensure they thrive. These opportunities are delivered through a variety of offerings, including a competitive rewards programme, award-winning benefits, and a wealth of intellectual capital and thought leadership resources. Supporting the diverse backgrounds and perspectives of employees is central to Morgan Stanley’s culture of belonging - one that encourages innovation and values the rich heritage and global viewpoints employees bring to work each day.

Compensation

Compensation programmes are designed to attract, retain and motivate top talent, and are driven by a philosophy that focuses on responsibility, rewarding sustainable performance, aligning pay with shareholder interests, and supporting long-term success.

Health and Wellbeing

The health and wellbeing of the workforce is critical to the Group’s success, and the Group is committed to providing resources that help its employees and their families thrive. To ensure the workforce’s needs are met, the Group has a

three-pronged wellbeing strategy - awareness, prevention and access to quality care - that is informed by employee feedback, programme outcomes, benchmarking and research. This translates into a comprehensive benefits and engagement programme that supports the physical, mental and financial wellbeing of employees and helps attract and retain top talent.

Employee Networks and Forums

Employee networks and forums provide employees with a sense of community, and opportunities to come together to learn and give back. They are an important part of the Group's culture, driving engagement, cross-business connectivity and idea sharing. Active engagement and dialogue with network members are also invaluable in helping better understand the needs of employees and broader communities. There are several networks in EMEA, and all employee networks are open to all colleagues.

Developing Our Workforce

Promoting Training and Skills Development

The Group is deeply committed to the continuous growth and development of its employees.

A robust performance management process enables goal-setting, supports feedback, and empowers employees to take ownership of their professional journey. The Group provides access to an extensive catalogue of professional development resources, and self-guided courses to meet a wide range of needs and interests. In addition, the Group offers structured leadership development programmes to support employees at various stages of their careers.

A Focus on Workforce Diversity

At Morgan Stanley, diversity is an opportunity for clients, employees and the Group. By valuing diverse perspectives, the Group can better serve clients while helping employees achieve their professional objectives. A corporate culture in which everyone feels they belong is fundamental to Morgan Stanley's role as a global leader constantly striving for excellence in all that it does.

Morgan Stanley brings its employees, communities and clients together in a shared commitment to creating a more equitable society. The Institute for Inclusion supports those efforts with investments in underserved

communities through products, services, data and insights; philanthropic efforts to help promote equity; and thought leadership in workplace diversity, equity and inclusion.

The Group will leverage its philanthropic efforts to help promote equity and inclusion for underrepresented groups and do its part to help eradicate systematic bias and promote workforce diversity and inclusion. The Group strives to lead the way in attracting, developing, and retaining individuals with diverse backgrounds and perspectives, and to drive a culture of inclusion for all colleagues.

The Continental Europe Diversity Action Council provides thought leadership and acts as a catalyst in advancing the diversity and inclusion strategy for the Group. Established by the Group's Management Boards, the Council supports the implementation of global and EMEA diversity priorities by defining Continental Europe-focused actions, setting milestones, and ensuring clear task ownership across divisions. Working through dedicated sub-committees and in close partnership with Human Resources - including Talent, Diversity and Inclusion - the Council drives progress through quarterly strategic dialogues, regular reporting to Company management and in coordination with the EMEA Diversity and Talent Action Council to ensure alignment of goals and priorities.

Supporting Communities

The Group is committed to giving back to the communities in which it operates through working in partnership with charitable organisations and engaging its employees to support a range of philanthropic programmes. The scope of these philanthropic initiatives includes:

Volunteering

In 2025, as part of Morgan Stanley's annual Global Volunteer Month, 96% of the Group's employees dedicated approximately 4,200 volunteer hours to support local community organisations where they live and work.

In Frankfurt 18 employees spent 216 hours providing pro bono advice to partner charity Kinderschutzbund as part of the Make a Difference programme.

Giving

In the second year of its five-year commitment, the Morgan Stanley International Foundation granted €2.7 million to its partner charities in

London, Budapest, Glasgow, Frankfurt and Paris. Through these partnerships, Morgan Stanley is on track to meet its aim to positively impact the health and education outcomes of children and young people in communities.

In addition, employee giving and fundraising, along with matching from the Morgan Stanley International Foundation, totalled over €1.2 million across EMEA.

Frankfurt employees are supporting Die Arche and Kinderschutzbund, while Paris employees are supporting Alliance pour l'éducation and Restos du Coeur. Through giving and fundraising efforts, along with matching from the Morgan Stanley International Foundation, €72,000 and €59,000 have been raised for these charities in 2025, respectively.

Community Impact

The aftermath of the pandemic and continuing cost of living crisis has deeply affected the life outcomes of children in local communities. To respond to this increasing need, the Morgan Stanley International Foundation has partnered with ten charities across EMEA to identify innovative ways to create better impact and build longer term sustainable change, supporting healthy starts and solid educations for the children in these communities.

The charities are Alliance pour l'éducation – United Way, Bagasz, Csadolampa, Kinderschutzbund, Die Arche, PEEK, Place2Be, Restos du Coeur, Save the Children UK and The Felix Project.

In Frankfurt, Kinderschutzbund supports disadvantaged families navigate the early years of parenthood and ensure their children have access to vital services for a stronger start in life. In 2025, the partnership has enabled the charity to increase its reach through family support services, child development classes and community-based activities. This aims to increase the number of children starting school at a level comparable to their more affluent peers, creating opportunity and inclusion from the start.

In Paris, Restos du Coeur increases the quality and quantity of food provided to disadvantaged children. It aims to reduce the impact of food poverty on the youngest in society, ensuring that parents have access to essential provisions for their children. In 2025, the partnership enabled the charity to expand its support through the provision of food aid and essential items.

Beyond meeting immediate needs, they also ran a cultural programme for families, fostering intellectual curiosity and understanding within the community.

In 2025, Morgan Stanley launched its inaugural EMEA Impact Through Innovation Awards, which aims to seed-fund innovative solutions that address health, mental wellbeing or educational outcomes for children and young people. The Awards help scale pioneering projects, connect ideas with capital and build capacity for charitable organisations. Up to ten winners will be announced in 2026 and a broader group of applicants will be invited to join the expert-led Learning Series, to help improve the strength, growth and impact of the overall charity sector.

Governance Information (unaudited)

Addressing Environmental and Social Risk Management

Morgan Stanley's due diligence and risk management processes are designed to identify, assess and address, as appropriate, potentially significant environmental and social issues that may impact the Morgan Stanley Group, clients and other stakeholders. As outlined in the Environmental and Policy Statement ("ESPS"), the Morgan Stanley Group has tailored approaches to certain sectors and cross-sector environmental and social issues.

Morgan Stanley's Environmental and Social Risk Management Group ("ESRM") provides internal subject matter expertise on environmental and social risks and manages development and implementation of the Morgan Stanley Group's ESPS and related policies and procedures. ESRM also conducts diligence on relevant transactions, engages with stakeholders and monitors emerging risks and developments in partnership with the business units, GSO and other relevant control functions.

Transactions that carry potential franchise risk associated with environmental and social issues may be escalated to the Group's Global Franchise Committee, or Regional Franchise Committees such as the EMEA Franchise Committee, as well as business unit senior management. The ESPS is reviewed annually and updated as necessary to reflect strategy and key developments. For further detail, refer to Morgan Stanley's Environmental and Social Policy Statement which can be found at <https://www.morganstanley.com/content/dam/>

[msdotcom/en/about-us-governance/pdf/Environmental_and_Social_Policy_Statement.pdf](https://www.msdotcom/en/about-us-governance/pdf/Environmental_and_Social_Policy_Statement.pdf)

Human Rights in the Supply Chain

The Morgan Stanley Group is committed to being a responsible corporate citizen and fulfilling the important role business can play in protecting and advancing global standards for human rights including equal opportunity, the freedom to associate and bargain collectively, and the elimination of modern slavery, human trafficking and harmful or exploitative forms of child labour. Human rights considerations are incorporated into the transaction due diligence process, engagement with companies, supplier expectations, and own operations. Morgan Stanley Group is committed to complying with the laws and regulations of the countries in which it operates while simultaneously conducting business and encouraging the promotion of human rights through its policies, standards, and practices. Its approach is guided by leading frameworks, including the Universal Declaration of Human Rights, adopted by the UN General Assembly and the UN Guiding Principles on Business and Human Rights.

Morgan Stanley Group's Supplier Code of Conduct outlines expectations with regard to human rights, employment and non-discrimination practices, health and safety, and data protection, and is included in supplier agreements. As outlined in the Supplier Code of Conduct, suppliers must conduct their operations in full compliance with applicable laws including, but not limited to, those associated with child labour, human trafficking, modern slavery, forced or compulsory labour, working hours and compensation, freedom of association, collective bargaining and a harassment-free work environment. Morgan Stanley expects suppliers to adhere to ethical business practices, including environmental and social standards set by the Morgan Stanley Group.

In an effort to foster a culture of responsibility and transparency throughout its supply chain, Morgan Stanley will require certain suppliers to participate in a sustainability due diligence exercise. As part of Morgan Stanley's sustainability due diligence programme, suppliers will be expected to provide information regarding: 1) their sustainability practices; 2) labour conditions; and 3) overall corporate governance. The foregoing shall be expected during a competitive bid process, the supplier

risk review, or periodically throughout the lifecycle of the contract.

Each year, the Morgan Stanley Group publishes its Modern Slavery and Human Trafficking Statement that outlines the steps taken by Morgan Stanley during the preceding financial year to address the risk of modern slavery in its own operations and supply chain, as well as future plans in that regard. The Modern Slavery and Human Trafficking Statement is incorporated in the contractual supplier agreements. If the Group identifies a modern slavery issue with a supplier, it may take various steps to remediate the issue, including: working with the supplier to change its practices; terminating the agreement with the supplier; or working with the affected parties to address the issue or provide other forms of support.

For further detail, refer to the Human Rights Statement, Modern Slavery and Human Trafficking Statement, Environmental and Social Policy Statement, and Supplier Code of Conduct, which can be found at <http://www.morganstanley.com/about-us-governance>.

Prevention and Detection of Corruption and Bribery

The Group, principally through Morgan Stanley Group's Legal and Compliance Division, has established and implemented policies, procedures and internal controls reasonably designed to comply with applicable anti-corruption laws and regulations in the jurisdictions in which it operates, including Germany.

The Morgan Stanley Group's Global Anti-Corruption Policy, which is updated annually by the Morgan Stanley Group's Legal and Compliance Division and approved by the Morgan Stanley Audit Committee, address corruption risks and prohibit offering, promising, giving or authorising others to give anything of value, either directly or indirectly, to any party, to improperly obtain or retain business or gain an improper business advantage. The policies also prohibit receiving, or agreeing to receive, anything of value that results or may result in the improper performance of employees' duties at Morgan Stanley. These values are embedded within the Morgan Stanley Group's Code of Conduct and a local country supplement for Germany, which employees must attest their understanding of, and adherence to, on an annual basis. For details, refer to <https://>

www.morganstanley.com/about-us-governance/code-of-conduct.

An annual risk assessment is performed to consider key areas of potential corruption risk to the Group. Anti-corruption training is provided to all staff globally on an annual basis and targeted training is additionally conducted as necessary. In 2025 all eligible MSESE Group employees have completed corresponding annual training on financial crimes risk.

The Morgan Stanley Group maintains whistleblowing policies and procedures to ensure that individuals can confidentially report concerns when these arise. Management information regarding the anti-corruption programme is reported to appropriate senior management personnel through Legal and Compliance Division governance frameworks.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement

**Consolidated Statement of Comprehensive
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**Consolidated Statement of Changes in
Equity**

Consolidated Statement of Financial Position

Consolidated Statement of Cash Flows

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Statements**

MORGAN STANLEY EUROPE SE

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2025

in € millions	Note	2025	2024
Net gains from financial instruments at fair value through profit or loss	4	651	553
Fee and commission income	5	722	541
Other revenue		21	24
Total non-interest revenues		1,394	1,118
Interest income	6	2,803	3,615
Interest expense	6	(2,749)	(3,551)
Net interest income		54	64
Net revenues		1,448	1,182
Non-interest expense:			
Operating expense	7	(942)	(804)
Net impairment (charge)/ reversal on financial instruments		(6)	1
PROFIT BEFORE TAX		500	379
Income tax expense	8	(149)	(98)
PROFIT FOR THE YEAR		351	281

All operations were continuing in the current and prior year.

The notes on pages 54 to 105 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 Year ended 31 December 2025

in € millions	Note	2025	2024
PROFIT FOR THE YEAR		351	281
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of net defined benefit liability	8	5	7
Changes in fair value attributable to own credit risk on financial liabilities designated at fair value	8	(11)	–
OTHER COMPREHENSIVE INCOME AFTER INCOME TAX		(6)	7
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		345	288

The notes on pages 54 to 105 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 Year ended 31 December 2025

in € millions	Note	Equity instruments	Currency translation reserve ⁽¹⁾	Pension reserve ⁽¹⁾	Debt valuation adjustment reserve ⁽¹⁾	Capital contribution reserve	Retained earnings	Total equity
Balance at 1 January 2024		4,901	(1)	2	(1)	1,863	370	7,134
Profit for the year		–	–	–	–	–	281	281
Other comprehensive income for the year:								
Remeasurement of net defined benefit liability	8	–	–	7	–	–	–	7
Total comprehensive income for the year		–	–	7	–	–	281	288
Transactions with owners:								
Merger of MS France S.A. into MSESE		–	–	–	–	181	–	181
Coupons on Additional Tier 1 capital	20	–	–	–	–	–	(48)	(48)
Balance at 31 December 2024		4,901	(1)	9	(1)	2,044	603	7,555
Profit for the year		–	–	–	–	–	351	351
Other comprehensive income for the year:								
Remeasurement of net defined benefit liability	8	–	–	5	–	–	–	5
Changes in fair value attributable to own credit risk on financial liabilities designated at fair value	8	–	–	–	(11)	–	–	(11)
Total comprehensive income for the year		–	–	5	(11)	–	351	345
Transactions with owners:								
Merger of MSEHSE into MSESE		–	–	–	–	167	–	167
Coupons on Additional Tier 1 capital	20	–	–	–	–	–	(48)	(48)
Balance at 31 December 2025		4,901	(1)	14	(12)	2,211	906	8,019

⁽¹⁾ Included under 'Other reserves' in consolidated statement of financial position

The notes on pages 54 to 105 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2025

in € millions	Note	2025	2024
ASSETS			
Cash and short-term deposits	21	12,458	10,945
Trading financial assets (of which €13,090 million (2024: €8,233 million) were pledged to various parties)	10	56,042	51,124
Secured financing	9	21,924	19,005
Loans and advances	9	64	259
Trade and other receivables	12	13,027	15,809
Current tax assets		30	111
Deferred tax assets	19	31	30
Property, plant and equipment		177	158
Other assets		3	4
TOTAL ASSETS		103,756	97,445
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits	14	7,369	4,641
Trading financial liabilities	10	48,055	48,715
Secured borrowing	9	15,125	12,419
Trade and other payables	15	17,223	16,101
Debt and other borrowings	16	2,313	4,138
Subordinated debt	17	5,609	3,800
Provisions	18	20	24
Current tax liabilities		12	32
Deferred tax liabilities	19	1	1
Post-employment benefit obligations	31	10	19
TOTAL LIABILITIES		95,737	89,890
EQUITY			
Share capital	20	3,901	3,901
Additional Tier 1 capital	20	1,000	1,000
Other reserves	20	1	7
Capital contribution reserve	20	2,211	2,044
Retained earnings		906	603
TOTAL EQUITY		8,019	7,555
TOTAL LIABILITIES AND EQUITY		103,756	97,445
Contingencies and Commitments			
Contingent liabilities	18	11	6
Commitments	18	149,345	121,366

The notes on pages 54 to 105 form an integral part of the consolidated financial statements.

MORGAN STANLEY EUROPE SE

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2025

in € millions	Note	2025	2024
NET CASH FROM OPERATING ACTIVITIES	21b	146	1,004
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(11)	(8)
Cash acquired in business combination		–	5
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(11)	(3)
FINANCING ACTIVITIES			
Coupons on Additional Tier 1 capital	20	(48)	(48)
Proceeds from issuance of senior subordinated debt liabilities	21c	1,300	300
Interest on senior subordinated debt liabilities		(254)	(144)
Proceeds from issuance of subordinated debt liabilities	21c	500	–
Interest on subordinated debt liabilities		(68)	(56)
Payment of principal portion of lease liabilities	21c	(13)	(13)
NET CASH FLOWS FROM FINANCING ACTIVITIES		1,417	39
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,552	1,040
Foreign currency translation differences on cash and short-term deposits		(39)	7
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	21a	10,945	9,898
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	21a	12,458	10,945

The notes on pages 54 to 105 form an integral part of the consolidated financial statements.

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1. Corporate Information

Morgan Stanley Europe SE (the “Company” or “MSESE”) is domiciled in Germany, at the following address: Grosse Gallusstrasse 18, 60312 Frankfurt am Main. The registered number of the Company in the Commercial Register of the Local Court in Frankfurt am Main is HRB 109880.

The Company is the sole shareholder of Morgan Stanley Bank AG, Frankfurt am Main (“MSBAG”). The Company, together with its subsidiary MSBAG, form the MSESE Group (the “Group” or the “MSESE Group”).

As at 31 December 2025, the Group’s immediate parent undertaking was Morgan Stanley International Limited (“MSI”), which is registered in England and Wales. Copies of its financial statements can be obtained from the Registrar of Companies for England and Wales, Companies House, Crown Way, Cardiff CF14 3UZ. On 14 March 2026, the Company was acquired by Morgan Stanley Bank, N.A. (“MSBNA”). MSBNA is a United States of America (“U.S.”) national bank with its headquarters and main office in Salt Lake City, Utah.

The Group’s ultimate parent undertaking and controlling entity is Morgan Stanley which, together with the Group and Morgan Stanley’s other subsidiary undertakings, form the Morgan Stanley Group. Morgan Stanley is incorporated in the State of Delaware, in U.S. Copies of its financial statements can be obtained from www.morganstanley.com/investorrelations.

2. Basis of Preparation

Statement of Compliance

The Group has prepared its consolidated financial statements in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) as adopted by the European Union (“EU”), Interpretations issued by the IFRS Interpretations Committee (“IFRIC”) and the additional requirements pursuant to Section 315e (1) of the German Commercial Code (*Handelsgesetzbuch*, or “HGB”).

Disclosures relating to management of capital as required by IAS 1, ‘Presentation of Financial Statements’ are included in the “Capital Management” section of the Combined Management Report.

In 2025, the Company merged with its parent entity, Morgan Stanley Europe Holding SE (“MSEHSE”), with the Company as surviving entity (*Gesamtrechtsnachfolge*). Prior to the merger, MSEHSE prepared consolidated financial statements in accordance with IFRSs. The merger is considered to be a continuation of existing business and, therefore, IFRS 1 has not been adopted.

New Standards and Interpretations Adopted During the Year

The following amendment to standard relevant to the Group’s operations was adopted during the year. This amendment did not have a material impact on the Group’s consolidated financial statements.

Amendments to IAS 21 ‘*The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability*’ were issued by the IASB in August 2023 for prospective application in accounting periods beginning on or after 1 January 2025. The amendments were endorsed by the EU in November 2024.

New Standards and Interpretations Not Yet Adopted

At the date of approval of these consolidated financial statements, the following amendments to standards relevant to the Group’s operations were issued by the IASB but not mandatory for accounting periods beginning 1 January 2025. Except where otherwise stated, the Group does not expect that the adoption of the following standards, amendments to standards and interpretations will have a material impact on the Group’s consolidated financial statements.

Amendments to IFRS 9 ‘*Financial Instruments*’ (“IFRS 9”) and IFRS 7 ‘*Financial Instruments: Disclosures*’ (“IFRS 7”) were issued by the IASB in May 2024 for retrospective application, except where otherwise prescribed by transitional provisions of the standard and is effective for annual periods beginning on or after 1 January 2026. The amendments were endorsed by the EU in May 2025.

IFRS 18 ‘*Presentation and Disclosure in Financial Statements*’ (“IFRS 18”) was issued by the IASB in April 2024 for retrospective application in annual periods beginning on or after 1 January 2027. Earlier application is permitted. The amendments were endorsed by the EU in February 2026. The Group is currently

assessing the impact of IFRS 18 on its consolidated financial statements.

Annual improvements to IFRS 7 'Financial Instruments: Disclosures', IFRS 9 'Financial Instruments', IFRS 10 'Consolidated Financial Statements' and IAS 7 'Statement of Cash flows' were issued by IASB in July 2024, for application in annual periods beginning on or after 1 January 2026. The amendments were endorsed by the EU in July 2025.

Basis of Measurement

The consolidated financial statements of the Group are prepared under the historical cost basis, except for certain financial instruments that have been measured at fair value as explained in note 3 'Summary of material accounting policies'.

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In preparing the consolidated financial statements, the Group makes judgements and estimates that affect the application of accounting policies and reported amounts.

Critical accounting judgements are key decisions made by management in the application of the Group's accounting policies, other than those involving estimations, which have the most significant effects on the amounts recognised in the consolidated financial statements.

Key sources of estimation uncertainty represent assumptions and estimations made by management that can result in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

No critical accounting judgements have been made in the process of applying the Group's accounting policies that have had a significant effect on the amounts recognised in the consolidated financial statements.

The Group's key sources of estimation uncertainty are as follows:

- *Recognition and measurement of deferred tax balances:* Assumptions and estimations are used as to whether there will be sufficient taxable profits in future years to recognise deferred tax assets. See accounting policy note 3(j) and note 8.

- *Valuation of Level 3 financial instruments:* Valuation techniques used to measure the fair value of instruments categorised in Level 3 of the fair value hierarchy are dependent on unobservable parameters, and as such require the application of judgement, involving estimations and assumptions. The fair value for these financial instruments has been determined using parameters appropriate for the valuation methodology based on prevailing market evidence. It is recognised that the unobservable market parameters could have a range of reasonable possible alternate values. See accounting policy note 3(d) and note 28(d)(ii) 'Sensitivity of fair values to changing significant assumptions to reasonably possible alternatives'.

The Group evaluates the critical accounting judgements and key sources of estimation uncertainty on an ongoing basis and believes that these are reasonable.

Basis of Consolidation

The consolidated financial statements of the Group comprise the financial statements of the Company and its subsidiaries as at 31 December 2025. Subsidiaries are all entities over which the Group has direct or indirect control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements for the subsidiaries are prepared for the same reporting year as the Group, using consistent accounting policies. Subsidiaries are consolidated from the date that the Group gains control until the date that control ceases.

Intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in preparing the consolidated financial statements.

Details of the Group's interests in subsidiaries are given in note 13 to these consolidated financial statements.

The Going Concern Assumption

The Group's business activities, together with the factors likely to affect its future development, performance and position, and the Group's objectives, policies and processes for managing its capital; its financial risk management; and its exposures to credit risk and liquidity risk, are reflected in the Combined Management Report. As set out in the Combined Management

Report, retaining sufficient liquidity and capital remains central to the Morgan Stanley Group's and the Group's strategy.

Taking the above factors into consideration, the Management Board believes that the Group will have access to adequate resources to continue in operational existence for the foreseeable future being at least 12 months from the date of approval of these financial statements. Accordingly, the Management Board continues to adopt the going concern basis in preparing the consolidated financial statements.

Change in Presentation

The Group has updated the presentation of accrued interest in relation to subordinated debt, such that this is now presented within 'Subordinated debt' in the consolidated statement of financial position totalling €9 million for 31 December 2025. Within comparative prior reporting periods, the accrued interest in relation to subordinated debt is presented within 'Trade and other payables' totalling €8 million for 31 December 2024. This change in presentation aligns with the way the subordinated debt is managed and provides more relevant information.

The Group has also updated the presentation of deposits received from other Morgan Stanley Group undertakings such that these are now presented within 'Deposits' in the consolidated statement of financial position. 'Deposits' also contain customer deposits which the Group started to collect in 2025. As a consequence of this change, deposits received from other Morgan Stanley Group undertakings are no longer included within 'Cash and cash equivalents'. Comparative prior reporting periods have been adjusted accordingly. This change in presentation aligns with the legal nature of both products and provides more relevant information.

In addition, the Group has updated the presentation of 'Currency translation reserve', 'Pension reserve' and 'Debt valuation reserve' such that these are now presented aggregated as 'Other reserves' in the consolidated statement of financial position. This change in presentation reflects materiality and avoids over-disaggregation.

3. Summary of Material Accounting Policies

a. Functional Currency

Items included in the consolidated financial statements are measured and presented in Euros, the currency of the primary economic environment in which the Group operates.

All currency amounts in the consolidated financial statements are rounded to the nearest million Euros (unless otherwise stated).

b. Foreign Currencies

All monetary assets and liabilities denominated in currencies other than Euros are translated into Euros at the rates ruling at the reporting date. Transactions and non-monetary assets and liabilities denominated in currencies other than Euros are recorded at the rates prevailing at the dates of the transactions. Assets and liabilities of foreign operations outside of the Eurozone are translated into Euros using the closing rate. Translation differences arising from the net investments in foreign operations outside of the Eurozone are taken to the 'Currency translation reserve'. All other translation differences are taken through the consolidated income statement. Exchange differences recognised in the consolidated income statement are presented in 'Other revenue' or 'Operating expense', except where noted in note 3(c) below.

c. Financial Instruments

Financial Instruments Mandatorily Measured at Fair Value through Profit or Loss

Trading Financial Instruments

Trading financial instruments include government debt securities, corporate and other debt as well as corporate equities where the Group acquires the financial asset or financial liability for the purpose of selling or repurchasing in the near term or is part of a portfolio for which there is evidence of a recent actual pattern of short-term profit taking, and all derivative contracts. Guarantees received or provided in respect of derivative contracts are accounted for also as derivative contracts.

Purchases and sales of non-derivative financial instruments classified as trading are initially recognised on settlement date at fair value, including regular way securities transactions.

For purchases of non-derivative financial instruments classified as trading, from the date that the terms are agreed (trade date) until the settlement date, the Group recognises any unrealised fair value changes in the consolidated statement of financial position as 'Trading financial instruments' with corresponding profit or loss recognised within the consolidated income statement in 'Net gains from financial instruments at fair value through profit or loss'. Upon settlement date the sales of non-derivative financial instruments are recognised or derecognised from the consolidated statement of financial position.

All subsequent changes in fair value and foreign exchange differences are reflected in the consolidated income statement in 'Net gains from financial instruments at fair value through profit or loss'.

Derivatives are initially recorded on trade date at fair value (see note 3(d) below). All subsequent changes in fair value are reflected in the consolidated income statement in 'Net gains from financial instruments at fair value through profit or loss'.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. For all trading financial instruments, transaction costs are excluded from the initial fair value measurement of the financial instrument. These costs are recognised in the consolidated income statement in 'Operating expense'.

Non-trading Financial Assets at Fair Value through Profit or Loss

Non-trading financial assets at fair value through profit or loss ("FVPL") include secured financing transactions such as cash collateral on securities borrowed and securities purchased under agreements to resell, prepaid over-the-counter ("OTC") contracts and certain other financial assets.

Non-trading financial assets at FVPL are principally non-derivative financial assets where the Group makes decisions based upon the assets' fair values. These assets are generally recognised on settlement date at fair value (see note 3(d) below). From the date the terms are agreed (trade date), until the financial asset is settled (settlement date), the Group recognises any unrealised fair value changes in the financial asset as non-trading financial assets at FVPL. On settlement date, the fair value of

consideration given is recognised as a non-trading financial asset at FVPL.

All subsequent changes in fair value and foreign exchange differences are reflected in the consolidated income statement in 'Net gains from financial instruments at fair value through profit or loss'. For these instruments, interest is included within 'Interest income'.

Transaction costs are excluded from the initial fair value measurement of the financial assets and are recognised in the consolidated income statement in 'Operating expense'.

Financial Liabilities Designated at Fair Value through Profit or Loss

Financial liabilities designated at FVPL include unfunded loan commitments, prepaid OTC contracts, cash collateral on securities loaned, securities sold under agreements to repurchase, issued structured notes and other financial liabilities.

The Group has designated certain financial liabilities at FVPL when the designation at fair value eliminates or significantly reduces an accounting mismatch which would otherwise arise. The Group has also designated certain financial liabilities at FVPL where:

- the financial liability forms part of a group of financial assets or financial liabilities or both which are managed, evaluated and reported internally on a fair value basis; or
- the financial liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

From the date the transaction in a financial liability designated at FVPL is entered into (trade date) until settlement date, the Group recognises any unrealised fair value changes as a financial liability designated at FVPL in the consolidated statement of financial position. On settlement date, the fair value of consideration received is recognised as a financial liability designated at FVPL (see note 3(d) below).

All subsequent changes in fair value, foreign exchange differences and dividends are reflected in the consolidated income statement in 'Net gains from financial instruments at fair value through profit or loss' other than Debt Valuation Adjustment ("DVA") on financial liabilities designated at FVPL which is recognised in other comprehensive income after tax where those changes do not create or

enlarge an accounting mismatch. For these instruments, interest is included within 'Interest expense'.

DVA presented within other comprehensive income is not subject to reclassification to the consolidated income statement, but is transferred to 'Retained earnings' when realised.

Transaction costs are excluded from the initial fair value measurement of the financial instrument. These costs are recognised as incurred in the consolidated income statement in 'Operating expense'.

See note 9 for an analysis of financial liabilities designated at FVPL.

Financial Assets and Financial Liabilities at Amortised Cost

Financial assets at amortised cost include cash and short-term deposits, certain trade and other receivables and certain loans and advances.

Financial assets are recognised at amortised cost when the Group's business model objective is to collect the contractual cash flows of the assets and where these cash flows are Solely Payments of Principal and Interest ("SPPI") on the principal amount outstanding until maturity. Such assets are recognised when the Group becomes a party to the contractual provisions of the instrument. The instruments are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost less expected credit losses ("ECL") allowance. Interest is recognised in the consolidated income statement in 'Interest income', using the effective interest rate ("EIR") method. Transaction costs that are directly attributable to the acquisition of the financial asset are added to the fair value on initial recognition. ECL, and reversals thereof, are recognised in the consolidated income statement in 'Net impairment (charge)/ reversal on financial instruments'.

Financial liabilities classified at amortised cost include deposits, certain secured borrowings, certain trade and other payables, subordinated debt and certain debt and other borrowings.

Financial liabilities are classified as being subsequently measured at amortised cost, except where they are held for trading or are designated as measured at FVPL. They are recognised when the Group becomes a party to the contractual provisions of the instrument, are initially measured at fair value (see note 3(d) below) and subsequently measured at

amortised cost. Interest is recognised in the consolidated income statement in 'Interest expense' using the EIR method. Transaction costs that are directly attributable to the issue of a financial liability are deducted from the fair value on initial recognition.

Secured Financing and Secured Borrowings

In the course of financing its business, the Group enters into arrangements which involve the sale of securities with agreements to repurchase, the purchase of securities with resale agreements, the lending of securities with collateral received and the borrowing of securities with collateral given.

Securities received by the Group under resale arrangements and securities borrowing arrangements are generally not recognised on the consolidated statement of financial position. Where securities received are cash collateralised, the resulting cash collateral receivable and accrued interest arising under resale agreements and securities borrowing arrangements are classified as 'Non-trading at FVPL' as they are managed on a fair value basis.

Securities pledged or sold by the Group under sale and repurchase agreements and securities lending arrangements are generally not derecognised from the consolidated statement of financial position. Where securities pledged or sold are cash collateralised, the resulting cash collateral balances repayable and accrued interest are designated at FVPL where the financial liability forms part of a group of financial assets or financial liabilities or both, which are managed, evaluated and reported internally on a fair value basis; or at amortised cost if not so designated.

Environmental and Social Linked Clauses in Loans and Loan Commitments

Lending arrangements may also contain various environmental and social features that impacts their interest rate margin. Cash flows linked to such features generally are not consistent with basic lending arrangements unless the terms are deemed to compensate for the credit risk of the counterparty over the terms of the loan, but not where the features are deemed to only impact the long-term creditworthiness of the counterparty over a longer time frame than the

actual loan's term. Thus, these loans are measured at FVPL.

Loan commitments containing various environmental and social features do not contain embedded derivatives that require bifurcation so are not recognised in the consolidated financial statements.

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.

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, assumptions are set to reflect those that the Group believes market participants would use in pricing the asset or liability at the measurement date.

Where the Group manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risk or credit risk, the Group 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.

In determining fair value, the Group uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value that requires the most observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability that were developed based on market data obtained from sources independent of the Group. Unobservable inputs are inputs that reflect assumptions the Group believes other market participants would use in pricing the asset or liability, that are developed based on the best information available in the circumstances.

The fair value hierarchy is broken down into three levels based on the observability of inputs as follows, with Level 1 being the highest and Level 3 being the lowest level:

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

Valuations are based on quoted prices in active markets that the Morgan Stanley Group has the ability to access for identical assets or liabilities. 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 quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, significant market inputs other than quoted prices that are observable, for the asset or liability, or market-corroborated inputs.

- 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 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 a 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 Group in determining fair value is greatest for instruments categorised in Level 3 of the fair value hierarchy.

The Group 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 from Level 2 to Level 3 of the fair value hierarchy.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the total fair value amount is disclosed in the level appropriate for the lowest level input that is

significant to the total fair value of the asset or liability.

For assets and liabilities that are transferred between levels in the fair value hierarchy during the period, fair values are ascribed as if the assets or liabilities had been transferred as of the beginning of the period.

Valuation Techniques

Many cash instruments and 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. The Group carries positions at the point within the bid-ask range that meets its 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, 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 Group, 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 and funding in order to arrive at fair value.

Adjustments for liquidity risk adjust model-derived mid-market amounts 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.

The Group applies credit-related valuation adjustments to its borrowings which are designated at FVPL and to OTC derivatives. The Group considers the impact of changes in own credit spreads based upon observations of the secondary bond market spreads when measuring the fair value for borrowings.

For OTC derivatives, the impact of changes in both the Group's and the counterparty's credit rating is considered when measuring fair value. In determining the expected exposure the Group simulates the distribution of the future exposure to a counterparty, then applies market-based default probabilities to the future exposure, leveraging external third-party credit default swap ("CDS") spread data. Where CDS spread data is unavailable for a specific counterparty, bond market spreads, CDS spread data based on the counterparty's credit rating or CDS spread data that references a comparable counterparty may be utilised. The Group also considers collateral held and legally enforceable master netting agreements that mitigate its exposure to each counterparty.

The Group incorporates Funding Valuation Adjustment ("FVA") into the fair value measurements of OTC uncollateralised or partially collateralised derivatives and collateralised derivatives where the terms of the agreement do not permit the re-use of the collateral received. In general, the FVA reflects a market funding risk premium inherent in the noted derivative instruments. The methodology for measuring FVA leverages the Group's existing credit-related valuation adjustment calculation methodologies, which apply to both assets and liabilities.

Adjustments for model uncertainty are taken for positions whose underlying models are reliant on significant inputs that are neither directly nor indirectly observable, hence requiring reliance on established theoretical concepts in their derivation. These adjustments are derived by making assessments of the possible degree of variability using statistical approaches and market-based information where possible.

The Group may apply concentration adjustments to certain of its OTC derivative portfolios to reflect the additional cost of closing out a particularly large risk exposure. Where possible, these adjustments are based on observable market information but in many instances significant judgement is required to estimate the costs of closing out concentrated risk exposures due to the lack of liquidity in the marketplace.

Valuation Process

Valuation Control ("VC") within Finance is responsible for ensuring that the inventory carried at fair value in the Group's consolidated financial statements and associated disclosures

is presented in accordance with applicable accounting standards. VC is independent of the business units and reports to the Chief Financial Officer of the Group, who has final authority over the valuation of the inventory. VC implements valuation control processes designed to validate the fair value of the Group's financial instruments measured at fair value including those derived from pricing models.

Model Control

VC, in conjunction with the Model Risk Management ("MRM") department, which reports to the Chief Risk Officer of the Group, independently reviews valuation models. VC is responsible for reviewing that the model valuation methodology is appropriate, model inputs and valuations are consistent with accounting standards and an independent price verification can be performed. The Group generally subjects valuations and models to a review process initially and on a periodic basis thereafter.

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, VC performs an independent review of the valuation in the books and records 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. External pricing data used to validate the valuation must meet minimum quality standards set by VC.

The results of this independent price verification and any adjustments made 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) and the Management Board of the Group on a regular basis.

VC reviews the models and valuation methodology used to price new material Level 2 and Level 3 transactions, and both Finance and MRM must approve the fair value of the trade that is initially recognised.

Gains and Losses on Inception

In the normal course of business, 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 certain circumstances, however, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises a gain or loss on inception of the transaction.

When the use of unobservable market data has a significant impact on determining the fair value at the inception of the transaction, the entire initial gain or loss indicated by the valuation technique as at the transaction date is not recognised immediately in the consolidated income statement. Instead it is deferred and recognised over the life of the instrument or at the earlier of when the unobservable market data become observable, maturity or disposal of the instrument.

e. Derecognition of Financial Assets and Liabilities

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset or enters into certain pass through arrangements on the cash flows of the financial asset and substantially all the risk and rewards of ownership of the asset.

If the asset has been transferred, and the Group neither transfers nor retains substantially all of the risks and rewards of the asset, then the Group determines whether it has retained control of the asset.

If the Group has retained control of the asset, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. If the Group has not retained control of the asset, it derecognises the asset and separately recognises any rights or obligation created or retained in the transfer.

Upon derecognition of a financial asset, the difference between the previous carrying amount and the sum of any consideration received, together with the transfer of any cumulative gain or loss previously recognised in equity, are recognised in the consolidated income statement within 'Net gains/(losses) on derecognition of financial assets measured at amortised cost' for financial assets which are measured at amortised cost, and within 'Net gains from financial instruments at fair value

through profit or loss' for financial assets which are measured at FVPL.

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

f. Impairment of Financial Instruments

The Group recognises loss allowance for ECL for the following financial instruments that are not measured at FVPL:

- financial assets measured at amortised cost;
- loan commitments, except those that can be net settled in cash or with another financial instrument; and
- financial guarantees.

Measurement of ECL

The Group applies a three stage approach to measuring ECLs based on the change in credit risk since initial recognition:

- Stage 1: if the credit risk of the financial instrument at the reporting date has not increased significantly since initial recognition then the loss allowance is calculated weighted with the probability of default within the next 12 months.
- Stage 2: if there has been a significant increase in credit risk ("SICR") since initial recognition, the loss allowance is calculated as the ECL over the remaining life of the financial instrument. If it is subsequently determined that there has no longer been a SICR since initial recognition, then the loss allowance reverts to reflecting 12 month expected losses.
- Stage 3: if there has been a SICR since initial recognition and the financial instrument is deemed credit-impaired, the loss allowance is calculated as the ECL over the remaining life of the financial instrument. If it is subsequently determined that there has no longer been a SICR since initial recognition, then the loss allowance reverts to reflecting 12 month expected losses.

Notwithstanding the above, for trade receivables a lifetime ECL is always calculated, without considering whether a SICR has occurred.

Assessment of SICR

When assessing SICR, the Group considers both quantitative and qualitative information and

analysis. These are based on historical information and conditions expected in the future, which are assessed by credit risk experts.

The determination of a SICR is generally based on changes in the probability of default ("PD"), in conjunction with a rebuttable presumption that a SICR has occurred if a financial asset is more than 30 days past due.

Calculation of ECL

ECL is calculated using three main components:

- PD: for accounting purposes, the 12 month and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and over the remaining lifetime of the financial instrument respectively, based on conditions existing at the balance sheet date and future economic conditions.
- Loss given default ("LGD"): the LGD represents expected loss conditional on default, taking into account the mitigating effect of collateral, including the expected value of the collateral when realised and the time value of money.
- Exposure at default ("EAD"): this represents the expected EAD, taking into account the expected repayment of principal and interest from the balance sheet date to the date of default event together with any expected drawdowns of the facility over that period.

These parameters are generally derived from internally developed statistical models, incorporating historical, current and forward-looking macro-economic data and country risk expert judgement. The macro-economic scenarios are reviewed quarterly.

Presentation of ECL

ECL is recognised in the consolidated income statement within 'Net impairment (charge)/ reversal on financial instruments'.

Credit-impaired Financial Instruments

In assessing the impairment of financial instruments under the ECL model, the Group defines credit-impaired financial instruments in accordance with the Credit Risk Management Department's policies and procedures. A financial instrument is credit-impaired when, based on current information and events, it is probable that the Group will be unable to collect all scheduled payments of principal or interest

when due according to the contractual terms of the agreement.

Definition of Default

In assessing the impairment of financial instruments under the ECL model, the Group defines default in accordance with the Credit Risk Management Department's policies and procedures. This considers whether the borrower is unlikely to pay its credit obligations to the Group in full and takes into account qualitative indicators, such as breaches of covenants. The definition of default also includes a presumption that a financial asset which is more than 90 days past due has defaulted.

Write-offs

Loans and debt securities are written off (either partially or in full) when they are deemed uncollectible. Financial assets that are written off could still be subject to enforcement activities for recoveries of amounts due.

g. Revenue Recognition

Revenues are recognised when the promised services are delivered to the Group's customers, in an amount that is based on the consideration the Group expects to receive in exchange for those services when such amounts are not probable of significant reversal.

Investment Banking

Revenue from investment banking activities consists of revenues earned from underwriting primarily equity and fixed income securities and advisory fees for mergers, acquisitions, restructuring and advisory assignments.

Underwriting revenues are generally recognised on trade date, if there is no uncertainty or contingency related to the amount to be paid. Underwriting costs are deferred and recognised when the related underwriting revenues are recorded.

Advisory fees are recognised over time based on estimated progress of work as advice is provided to the client and when the revenue is not probable of a significant reversal. Advisory expenses are recognised as incurred, including when reimbursed.

Fee and Commission Income

Fee and commission income results from transaction-based arrangements in which the client is charged a fee for the execution of

transactions. Such revenues primarily arise from services related to sales and trading activities. Fee and commission income is recognised on trade date when the performance obligation is satisfied.

Fee and commission income in the consolidated income statement includes sales commissions, placement fees and advisory fees.

h. Impairment of Non-financial Assets

Non-financial assets are reviewed for impairment at the end of reporting period or 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.

i. Cash and Cash Equivalents

For the purpose of the consolidated statement of cash flows, 'Cash and cash equivalents' comprise cash and demand deposits with banks, net of outstanding bank loans and overdrafts, 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. This may include segregated client funds that are not available for use by the Group.

j. Income Tax

The income 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 before taxation as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Taxable profit is also adjusted if it is considered that it is not probable that a taxation authority will accept an uncertain tax treatment.

The Group'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 consolidated 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.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated 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 sufficient taxable profits will be available in the future against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiary, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited in the consolidated 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 Group 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 Group intends to settle its current tax assets and current tax liabilities on a net basis.

The income tax effect of distributions are recognised in the consolidated income statement, other comprehensive income or equity dependent on where those past transactions that generated the distributable

profits were recognised. The income tax effect of coupons of AT1 capital instruments accounted for as distributions are recognised in the consolidated income statement.

The Group is subject to the Organisation for Economic Co-operation and Development ("OECD") Pillar Two Model Rules legislation that is effective from 1 January 2024. The Group has applied the mandatory exception to deferred tax recognition and disclosure as provided in the amendments to IAS 12: International Tax Reform - Pillar Two Model Rules.

k. Provisions, Contingent Liabilities and Commitments

Provisions are recognised when the Group has an identified 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 that obligation and when a reliable estimate can be made of the amount of the obligation.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group or a present obligation that arises from past events but is not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured.

A commitment is any legal obligation to potentially make or receive cash payments or transfer cash.

Certain loan commitments are recognised in the consolidated financial statements in accordance with the accounting policies discussed in note 3(c) Trading financial instruments and 3(c) Non-trading financial assets at fair value through profit or loss. Otherwise commitments and contingent liabilities are not recognised in the consolidated financial statements. Disclosure is made unless the probability of settlement is remote.

l. Offsetting of Financial Assets and Financial Liabilities

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, financial assets and financial liabilities are offset and the net amount is presented on the

consolidated statement of financial position. In the absence of such conditions, financial assets and financial liabilities are presented on a gross basis.

m. Employee Compensation Plans

Equity-settled Share-based Compensation Plans

Morgan Stanley issues awards in the form of restricted stock units ("RSUs") to employees of the Morgan Stanley Group for services rendered to the Group. Awards are equity-settled and the cost of the equity-based transactions with employees is measured based on the fair value of the equity instruments at grant date. The fair value of RSUs is based on the market price of Morgan Stanley common stock measured as the volume-weighted average price on the grant date ("VWAP"). The fair value of RSUs not entitled to dividends until conversion is measured at VWAP reduced by the present value of dividends expected to be paid on the underlying shares prior to the scheduled conversion date.

Awards generally contain clawback and cancellation provisions.

The Group recognises compensation cost over the relevant vesting period for each separately vesting portion of the award. An estimation of awards that will be forfeited prior to vesting due to the failure to satisfy service conditions is considered in calculating the total compensation cost to be amortised over the relevant vesting period.

Under Morgan Stanley Group chargeback agreements, the Group pays Morgan Stanley for the procurement of shares.

Share based compensation expense is recorded within 'Operating expense' in the consolidated income statement (see note 7).

n. Post-employment Benefits

The Group operates defined contribution and defined benefit post-employment plans.

Contributions due in relation to the Group's defined contribution post-employment plans are recognised in 'Operating expense' in the consolidated income statement when payable.

Obligations of the Group's defined benefit post-employment plans are measured on an actuarial basis in accordance with the advice of an independent qualified actuary using the

projected unit credit method and discounted using a high quality corporate bond rate.

Insurance policies with third parties are held to fund defined benefit pension obligations. These policies are accounted for as plan assets as the proceeds of the policies are restricted such that they can only be used by the Group to pay employee benefits under the plan and are protected from the Group's other creditors in the event of bankruptcy. Plan assets consisting of insurance contracts are measured at their fair value at the reporting date. A surplus or deficit of plan assets over liabilities is recognised in the consolidated statement of financial position as an asset or a liability respectively. If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the asset ceiling. The asset ceiling is the present value of economic benefits that are unconditionally available to the Group in the form of refunds or reductions in future contributions, and the related adjustment is recognised in other comprehensive income.

The current service cost and any past service costs together with the net interest on the net defined benefit obligation/asset is charged to 'Direct staff costs' within 'Operating expense' in the consolidated income statement. Remeasurements that arise in calculating the Group's net obligation in respect of defined benefit plans are recognised in other comprehensive income, in the period in which they occur.

The Group also participates in a multi-employer defined benefit plan and accounts for this plan as a defined contribution plan in accordance with IAS 19 'Employee Benefits'.

Details of the plans are given in note 31 to these consolidated financial statements.

4. Net Gains from Financial Instruments at Fair Value through Profit or Loss

in € millions	2025	2024
Assets and liabilities held for trading	591	540
Non-trading financial assets at FVPL:		
Secured financing	37	36
Loans and advances		
Corporate loans	2	(2)
Trade and other receivables - prepaid OTC contracts	1	1
Total non-trading financial assets at FVPL	40	35
Financial liabilities designated at FVPL:		
Secured borrowing	(20)	(24)
Trade and other payables - prepaid OTC contracts	(17)	(1)
Debt and other borrowings	57	3
Total financial liabilities designated at FVPL	20	(22)
Net gains from financial instruments at fair value through profit or loss	651	553

Non-trading financial assets at FVPL and Financial liabilities designated at FVPL are frequently economically hedged with trading financial instruments. Accordingly, gains or losses arising from Non-trading financial assets at FVPL and Financial liabilities designated at FVPL can be partially offset by gains or losses reported in 'Assets and liabilities held for trading'.

5. Fee and Commission Income

in € millions	2025	2024
Commission income	171	158
Investment banking ⁽¹⁾	342	205
Other fee and commission income	209	178
Total fee and commission income	722	541
<i>Of which, revenue from contracts with customers</i>	<i>572</i>	<i>484</i>

⁽¹⁾ Includes advisory and underwriting revenues

Total fee and commission income is stated after the net transfer of revenues totaling €150 million (2024: €57 million) from other Morgan Stanley Group undertakings. These transfers are in accordance with the Morgan Stanley Group Global Transfer Pricing Policy, refer to note 32, and do not relate to revenue from contracts with customers.

6. Interest Income and Interest Expense

The table below presents interest income and interest expense by accounting classification. Interest income and interest expense is calculated using the effective interest rate method for financial assets and financial liabilities measured at amortised cost.

in € millions	2025	2024
Financial assets measured at amortised cost	622	1,055
Net interest from trading financial instruments	126	124
Non-trading financial assets at FVPL	2,055	2,436
Total interest income	2,803	3,615
Financial liabilities measured at amortised cost	(1,018)	(1,424)
Financial liabilities designated at FVPL	(1,731)	(2,127)
Total interest expense	(2,749)	(3,551)

7. Operating Expense

in € millions	2025	2024
Direct staff costs	413	329
Management charges from other Morgan Stanley Group undertakings relating to staff costs	74	45
Staff-related expense	487	374
Management charges from other Morgan Stanley Group undertakings relating to other services	155	193
Brokerage fees	92	82
Administration and corporate services	37	29
Professional services	24	18
Other taxes	110	83
Auditor's remuneration:		
Fees payable to the Group's auditor and its associates for:		
Audit services	4	4
Other services to the Group	1	1
Other	32	20
Non-staff related expense	455	430
Total operating expense	942	804

The Group employs staff directly and also utilises the services of staff who are employed by other Morgan Stanley Group undertakings.

Further information regarding employee compensation plans is provided in note 30.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2025

The average number of direct employees of the Group is analysed below:

	2025	2024
Institutional Securities	468	406
Infrastructure and Control	445	416
Total	913	822

8. Income Tax

in € millions	2025	2024
Current tax		
Current year	146	94
Adjustment in respect of prior years	3	–
Deferred tax		
Origination and reversal of temporary differences	5	5
Adjustment in respect of prior years	(5)	(1)
Income tax expense	149	98

Reconciliation of Effective Tax Rate

The Group's tax rate is sensitive to the geographic mix of profits and tax rates in jurisdictions outside Germany, as well as the non-deductibility of certain expenses for tax purposes. The current year income tax expense is lower (2024: lower) than that resulting from applying the average standard rate of corporation tax in Germany for the year of 31.92% (2024: 31.92%). The main differences are explained below:

in € millions	2025	2024
Profit before income tax	500	379
Income tax expense using the average standard rate of corporation tax for banking companies in Germany of 31.92%	159	121
Impact on tax of:		
Expenses not deductible for tax purposes	8	3
Tax deductible coupons on AT1 capital instruments	(15)	(15)
Effect of tax rates in foreign jurisdictions	(17)	(11)
Tax reserves	12	–
Tax under provided in prior years	(2)	–
Other	4	–
Total income tax expense in the consolidated income statement	149	98

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

2025	Before tax	Tax expense	Net of tax
in € millions			
Pension reserve:			
Remeasurement of net defined benefit liability	8	3	5
Debt valuation adjustment reserve:			
Changes in fair value attributable to own credit risk on financial liabilities designated at fair value	(15)	(4)	(11)
Other comprehensive income	(7)	(1)	(6)

2024	Before tax	Tax expense	Net of tax
in € millions			
Pension reserve:			
Remeasurement of net defined benefit liability	5	(2)	7
Other comprehensive income	5	(2)	7

The Group has no current tax exposure in relation to the OECD Pillar Two Model Rules.

9. Financial Assets and Financial Liabilities by Measurement Category

The following table analyses financial assets and financial liabilities as presented in the consolidated statement of financial position by IFRS 9 classifications as at 31 December 2025 and 31 December 2024.

2025

in € millions	FVPL (mandatorily)	FVPL (designated)	Amortised cost	Total
Cash and short-term deposits	–	–	12,458	12,458
Trading financial assets	56,042	–	–	56,042
Secured financing:				
Cash collateral on securities borrowed	4,495	–	–	4,495
Securities purchased under agreements to resell	15,209	–	–	15,209
Other secured financing	2,220	–	–	2,220
Loans and advances	6	–	58	64
Trade and other receivables	6	–	12,974	12,980
Total financial assets	77,978	–	25,490	103,468
Deposits	–	–	7,369	7,369
Trading financial liabilities	48,055	–	–	48,055
Secured borrowings:				
Cash collateral on securities loaned	–	3,621	1,250	4,871
Securities sold under agreements to repurchase	–	5,621	3,298	8,919
Other financial liabilities	–	1,335	–	1,335
Trade and other payables	–	1,068	15,849	16,917
Debt and other borrowings	–	2,093	220	2,313
Subordinated debt	–	–	5,609	5,609
Total financial liabilities	48,055	13,738	33,595	95,388

2024

in € millions	FVPL (mandatorily)	FVPL (designated)	Amortised cost	Total
Cash and short-term deposits	–	–	10,945	10,945
Trading financial assets	51,124	–	–	51,124
Secured financing:				
Cash collateral on securities borrowed	2,830	–	–	2,830
Securities purchased under agreements to resell	15,436	–	–	15,436
Other secured financing	739	–	–	739
Loans and advances	161	–	98	259
Trade and other receivables	–	–	15,774	15,774
Total financial assets	70,290	–	26,817	97,107
Deposits	–	–	4,641	4,641
Trading financial liabilities	48,715	–	–	48,715
Secured borrowings:				
Cash collateral on securities loaned	–	2,127	995	3,122
Securities sold under agreements to repurchase	–	5,012	3,546	8,558
Other financial liabilities	–	739	–	739
Trade and other payables	–	–	15,820	15,820
Debt and other borrowings	–	277	3,861	4,138
Subordinated debt	–	–	3,800	3,800
Total financial liabilities	48,715	8,155	32,663	89,533

Financial Liabilities Designated at FVPL

The financial liabilities designated at FVPL consist primarily of the following:

Cash collateral on securities loaned and securities sold under agreements to repurchase: These balances are designated at FVPL where the financial liability forms part of a group of financial assets or financial liabilities or both, which are managed, evaluated and reported internally on a fair value basis; otherwise, they are classified as 'Financial liabilities at amortised cost'.

Other financial liabilities: These include financial liabilities that arise as a result of continuing recognition of certain financial assets and the simultaneous recognition of an associated financial liability. These financial liabilities arising from continuing recognition are designated at FVPL in order to eliminate or significantly reduce an accounting mismatch which would otherwise arise or, where the financial liabilities form a part of a group of financial assets and financial liabilities which are managed, evaluated and reported internally on a fair value basis.

Issued structured notes: These relate to financial liabilities which arise from selling structured products, generally in the form of notes or certificates. The structured notes, included within 'Debt and other borrowings', are designated at FVPL as the risks to which the Group is a contractual party are risk-managed on a fair value basis as part of the Group's trading portfolio and the risk is reported to key management personnel on this basis. Refer to note 16 for more information.

The cumulative change in fair value recognised through other comprehensive income attributable to own credit risk for financial liabilities designated at FVPL at 31 December 2025 is €15 million before taxes (2024: less than a million). There were no gains or losses realised as a result of the derecognition of such financial liabilities during the current and prior year.

The Group determines the amount of changes in fair value attributable to changes in counterparty credit risk or own credit risk, as relating to financial liabilities designated at FVPL, by first determining the fair value including the impact of counterparty credit or own credit risk, and then deducting those changes in fair value representing managed market risk. In

determining fair value, the Group considers the impact of changes in own credit spreads based upon observations of the secondary bond market spreads when measuring the fair value for issued structured notes. The Group considers that this approach most faithfully represents the amount of change in fair value due to both counterparty credit risk and the Group's own credit risk.

The carrying amount of financial liabilities designated at FVPL for which the effect of changes in those liabilities' credit risk is presented within other comprehensive income was €104 million lower than the contractual amount due at maturity (2024: €24 million lower).

10. Trading Financial Assets and Liabilities

Trading assets and trading liabilities are summarised as follows:

2025		
in € millions	Assets	Liabilities
Government debt securities	12,762	10,144
Corporate and other debt	2,783	1,409
Corporate equities	217	33
Derivatives (see note 11)	40,280	36,469
	56,042	48,055
2024		
in € millions	Assets	Liabilities
Government debt securities	7,774	10,046
Corporate and other debt	1,757	1,299
Corporate equities	109	27
Derivatives (see note 11)	41,484	37,343
	51,124	48,715

11. Derivatives

Derivatives are summarised as follows:

in € millions	2025			Total	2024			Total
	Bilateral OTC	Cleared OTC	Exchange -traded derivative contracts		Bilateral OTC	Cleared OTC	Exchange -traded derivative contracts	
Derivative assets:								
Interest rate contracts	21,253	2	–	21,255	18,391	7	–	18,398
Credit contracts	1,183	16	–	1,199	1,204	6	–	1,210
Foreign exchange and gold contracts	10,392	–	–	10,392	16,092	–	–	16,092
Equity and other contracts	4,598	–	1,387	5,985	3,517	–	1,149	4,666
Commodity contracts	1,449	–	–	1,449	1,107	–	11	1,118
	38,875	18	1,387	40,280	40,311	13	1,160	41,484
Derivative liabilities:								
Interest rate contracts	17,053	13	–	17,066	15,605	1	–	15,606
Credit contracts	1,134	54	–	1,188	1,151	32	–	1,183
Foreign exchange and gold contracts	10,242	–	–	10,242	14,547	–	–	14,547
Equity and other contracts	5,034	–	1,564	6,598	3,667	–	1,273	4,940
Commodity contracts	1,375	–	–	1,375	1,067	–	–	1,067
	34,838	67	1,564	36,469	36,037	33	1,273	37,343

12. Trade and Other Receivables

The following table provides an analysis of trade and other receivables:

in € millions	2025	2024
Trade and other receivables (amortised cost)		
Trade receivables		
Contracts with customers	29	53
Amounts due from other Morgan Stanley Group undertakings	2,926	5,863
Trading receivables	8,137	7,626
Less: ECL allowance	(3)	(1)
Total trade receivables	11,089	13,541
Other receivables		
Amounts held at exchanges	1,790	2,168
Amounts due from other Morgan Stanley Group undertakings	82	53
Other amounts receivable	60	47
Total other receivables	1,932	2,268
Total trade and other receivables (amortised cost)	13,021	15,809
Trade and other receivables (FVPL)		
Prepaid OTC contracts	6	–
Total	13,027	15,809

13. Investment in Subsidiary

Composition of the Group

Details of investment in subsidiary of the Group at 31 December 2025 and 31 December 2024 are as follows:

Name of Company	Country of incorporation/ Principal place of business	Type of shares held	Proportion of shares held by the Group		Proportion of voting rights held by the Group		Nature of business
			2025	2024	2025	2024	
Morgan Stanley Bank AG	Germany	Ordinary	100 %	100 %	100 %	100 %	Credit institution

The subsidiary is included in the Group's consolidated financial statements.

14. Deposits

Deposits are summarised as follows:

in € millions	2025	2024
Deposits from other Morgan Stanley Group undertakings	6,876	4,641
Deposits from customers	493	–
Total	7,369	4,641

15. Trade and Other Payables

The following table provides an analysis of trade and other payables:

in € millions	2025	2024
Trade and other payables (amortised cost)		
Trade payables	15,655	15,558
Other payables		
Amounts due to other Morgan Stanley Group undertakings	100	168
Other amounts payable	213	188
Other taxation and social security	12	13
Accruals and deferred income	175	174
Total trade and other payables (amortised cost)	16,155	16,101
Trade and other payables (designated at FVPL)		
Prepaid OTC contracts	911	–
Other contracts payable designated at FV	125	–
Unfunded loan commitments	32	–
Total trade and other payables (FVPL)	1,068	–
Total	17,223	16,101

16. Debt and Other Borrowings

Debt and other borrowings are summarised as follows:

in € millions	2025	2024
Debt and other borrowings (amortised cost)		
Other borrowings	220	3,861
Debt and other borrowings (designated at FVPL)		
Issued structured notes	2,093	277
Total	2,313	4,138

Issued Structured Notes

Refer to note 9 for details of issued structured notes included within debt and other borrowings designated at FVPL.

17. Subordinated Debt

in € millions	2025	2024
Subordinated Debt (amortised cost)		
Senior subordinated debt	4,100	2,800
Subordinated debt ⁽¹⁾	1,509	1,000
Total	5,609	3,800

⁽¹⁾ For 31 December 2025, the presentation of accrued interest is included within Subordinated debt. For further details please refer to section 'Change in Presentation' within note 2, Basis of Preparation.

The amounts subject to senior subordinated debt instruments are wholly repayable as shown below:

Counterparty	Morgan Stanley
Maturity	13 months evergreen with final maturity date on 16 December 2036
Interest Rate	Morgan Stanley Proxy ⁽²⁾

in € millions	2025	2024
Accrued Interest	–	–
Balance	4,100	2,800

⁽²⁾ Interest rate at which Morgan Stanley is offering loans, in the relevant currency, to members of the Morgan Stanley Group on the issuance date, which counterparties have acknowledged and agreed to apply to any loan, acting on an arm's length basis.

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As at 31 December 2024, senior subordinated debt was issued to MSEHSE. As a result of the merger, the lender became Morgan Stanley.

The amounts subject to subordinated debt instruments are wholly repayable as shown below:

Counterparty	MSI	
Repayment Date	27 October 2031	
Interest Rate	3 month EURIBOR ⁽¹⁾ plus 1.6%	
in € millions	2025	2024
Accrued Interest	7	8
Balance	1,000	1,000

⁽¹⁾ European Interbank Offered Rate ("EURIBOR")

As at 31 December 2024, subordinated debt was issued to MSEHSE. As a result of the merger, the lender became MSI.

Counterparty	Morgan Stanley	
Repayment Date	19 November 2036	
Interest Rate	ESTR ⁽²⁾ plus 1.6%	
in € millions	2025	2024
Accrued Interest	2	–
Balance	500	–

⁽²⁾ European Short Term Rate

The Group has not defaulted on principal, interest or breached any terms of its subordinated debt or senior subordinated debt during the year.

18. Provisions, Contingent Liabilities and Commitments

Provisions

Details of provisions of the Group at 31 December 2025 and 31 December 2024 are as follows:

in € millions	2025	2024
Provisions recognised under IAS 37	11	19
Loan commitments issued	9	5
Total	20	24

As at 31 December 2025, the Group had tax provisions of €5 million (2024: €12 million), property provisions under IAS 37 of €5 million (2024: €4 million) and litigation provisions of €1 million (2024: €3 million).

Property provisions represent the net present value of expected future costs of reinstating leasehold improvements at the end of the lease term. Lease reinstatement provisions are released when the reinstatement obligations have been fulfilled. The related asset for lease

reinstatement provisions is included within 'Property, plant and equipment' in the consolidated statement of financial position.

The provisions recognised for litigation under IAS 37 result from employment related litigations.

ECL provisions in the amount of €9 million (2024: €5 million) were recognised in respect of loan commitments issued.

Contingent Liabilities Arising from Litigation Matters

In addition to the matters described below, in the normal course of business, the entities of the Group have been named, from time to time, as defendants in various legal actions, including arbitrations, class actions and other litigation, arising in connection with their activities as affiliates of a global diversified financial services institution. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the third-party entities that are, or would otherwise be, the primary defendants in such cases are bankrupt, in financial distress, or may not honour applicable indemnification obligations. These actions have included, but are not limited to, antitrust claims and matters arising from the Group's sales and trading businesses and activities in the capital markets.

The entities of the Group are also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and regulatory agencies regarding the Group's business, and involving, among other matters, sales, trading, financing, prime brokerage, market-making activities, investment banking advisory services, capital markets activities, financial products or offerings sponsored, underwritten or sold by the Group, and tax, accounting, and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, disgorgement, restitution, forfeiture, injunctions, limitations on the Group's ability to conduct certain business, or other relief.

The entities of the Group contest liability and/or the amount of damages as appropriate in each pending matter. Where available information indicates that it is probable a liability had been incurred at the date of the financial statements and the Group can reliably estimate the amount of that loss or the range of loss, the Group

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accrues an estimated loss by a charge to income, including with respect to certain of the individual proceedings or investigations described below.

The Group's legal expenses can, and may in the future, fluctuate from period to period, given the current environment regarding government or regulatory agency investigations and private litigation affecting global financial services firms, including the Group.

In many legal proceedings and investigations, it is inherently difficult to determine whether any loss is probable or more than remotely possible, or to estimate the amount of any loss. In addition, even where the Group has determined that a loss is probable or more than remotely possible, the Group may be unable to reliably estimate the amount of the loss or range of loss. It is particularly difficult to determine if a loss is probable or more than remotely possible, or to reliably estimate the amount of loss, where the factual record is being developed or contested or where plaintiffs or government entities seek substantial or indeterminate damages, restitution, forfeiture, disgorgement or penalties. Numerous issues may need to be resolved in an investigation or proceeding before a determination can be made that a loss or additional loss (or range of loss or range of additional loss) is probable or more than remotely possible, or to reliably estimate the amount of loss, including through potentially lengthy discovery or determination of important factual matters, determination of issues related to class certification, the calculation of damages or other relief, and consideration of novel or unsettled legal questions relevant to the proceedings or investigations in question.

The Group has identified below any individual proceedings or investigations where the Group believes a material economic outflow to be more than remotely possible. In certain legal proceedings in which the Group has determined that a material economic outflow is more than remotely possible, the Group is unable to reliably estimate the loss or range of loss. There are other matters in which the Group has determined a loss or range of loss to be more than remotely possible, but the Group does not believe, based on current knowledge and after consultation with counsel, that such losses could have a material adverse effect on the Group's financial statements as a whole, although the outcome of such proceedings or investigations may significantly impact the Group's business or

results of operations for any particular reporting period, or cause significant reputational harm.

While the Group has identified below certain proceedings or investigations that the Group believes to be material, individually or collectively, there can be no assurance that material losses will not be incurred from claims that have not yet been asserted or those where potential losses have not yet been determined to be probable or more than remotely possible.

Entities within the Group are responding to inquiries from authorities in relation to tax matters in various jurisdictions, including requests for information and documents.

Entities within the Group are responding to requests for information and documents from authorities in Germany related to the period 2006 to 2022, including from the Federal Tax Office, the Düsseldorf Tax Office and the Cologne Public Prosecutor, in relation to certain equities transactions over dividend record dates and related tax matters. The Group is cooperating with the relevant authorities.

Contingent Liabilities and Commitments from Other Matters

At 31 December, the Group had the following outstanding contingent liabilities arising from off-balance sheet financial instruments and commitments:

in € millions	2025	2024
Contingent liabilities		
Financial guarantees	11	6
	11	6
Commitments		
Loan commitments	14,423	11,648
Guarantees	56	38
Unsettled securities purchased under agreements to resell ⁽¹⁾	68,663	62,165
Unsettled securities sold under agreements to repurchase ⁽¹⁾	65,233	46,208
Loans pending settlement	970	1,307
	149,345	121,366

⁽¹⁾ Unsettled securities purchased under agreements to resell and sold under agreements to repurchase have a trade date at or prior to, and settle subsequent to, the year end.

19. Deferred Tax Assets and Liabilities

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

in € millions	2025		2024	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
At 1 January	30	(1)	26	–
Adjustments in respect of prior years	5	–	(1)	–
Amount recognised in the consolidated income statement	(5)	–	(4)	(1)
Amount recognised in other comprehensive income or equity	1	–	9	–
At 31 December	31	(1)	30	(1)

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The deferred tax included in the consolidated statement of financial position are as follows:

in € millions	2025		2024	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Deferred compensation	24	–	17	4
Deductible temporary differences within interest expense	–	–	1	–
Other temporary differences	7	(1)	12	(5)
	31	(1)	30	(1)

20. Equity Instruments

Equity instruments of the Group are summarised as follows:

in € millions	2025	2024
Issued and fully paid		
Ordinary shares of €1 each ⁽¹⁾	3,901	3,901
AT1 capital ⁽²⁾	1,000	1,000
Total equity instruments at 31 December	4,901	4,901

⁽¹⁾ Ordinary shares of €1 each carry 100% of the voting rights (2024: 100%)

⁽²⁾ AT1 capital do not carry any voting rights (2024: Non-voting)

Equity Instruments

At 31 December 2025, the total equity instruments in issue of the Group amounted to €4,901 million (31 December 2024: €4,901 million) comprising 3,901,000,000 ordinary shares of €1 each (31 December 2024: 3,901,000,000 ordinary shares of €1 each), and AT1 capital instruments of €1,000 million (31 December 2024: €1,000 million). All equity instruments are fully paid.

Ordinary Shares

The subscribed capital amounts to €3,901 million and is entirely divided into 3,901,000,000 registered no-par-value shares of €1 each. Each registered no-par-value share has one voting right in the Annual General Meeting.

AT1 Capital

AT1 capital of the Group comprises two instruments in the total amount of €1,000 million. One instrument in the amount of €600 million (120 notes, each with a principal amount of €5 million) was issued in 2020 with a non-cumulative coupon payable at a fixed rate of 4.7% per annum. The other instrument in the amount of €400 million (80 notes each with a principal amount of €5 million) was issued in 2022 with a non-cumulative coupon payable at a fixed rate of 5% per annum.

The coupons of €48 million (2024: €48 million) on the instruments were paid on 1 December 2025 out of reserves available for distribution.

To qualify as AT1 capital under the EU CRR and EU CRD, instruments must have principal loss absorption through a conversion to common shares or a write-up/write-down mechanism allocating losses at a trigger point and must also

meet further requirements (perpetual with no incentive to redeem; institution must have full dividend/coupon discretion at all times, etc.). The Group's AT1 capital instruments are structured in line with the CRR/CRD requirements and feature a temporary write-down mechanism. In the event of a local resolution action for the Group, the local resolution authority, BaFin, has the authority to trigger the write-down of the instruments upon the exercise of its statutory powers.

Reserves

Currency Translation Reserve

The 'Currency translation reserve' of €(1) million (2024: €(1) million) comprises all foreign exchange differences arising from the translation of the total assets less total liabilities of foreign operations, mainly in Sweden. The tax effect of these movements is also included in the 'Currency translation reserve'.

Pension Reserve

The 'Pension reserve' of €14 million (2024: €9 million) comprises cumulative actuarial gains or losses on scheme assets and obligations net of current tax. Details of the plans are disclosed in note 31 to these consolidated financial statements.

Debt Valuation Adjustment Reserve

The 'Debt valuation adjustment reserve' of €(12) million (2024: €(1) million) reflects the cumulative change in fair value of certain financial liabilities designated at fair value through profit or loss that is attributable to changes in the credit risk of those liabilities at the reporting date, together with the tax effect of these movements.

Capital Contribution Reserve

The 'Capital contribution reserve' of €2,211 million (2024: €2,044 million) comprises contributions of capital from the Group's parent company to subsidiary of the Group. The increase of €167 million is due to the merger of MSEHSE with the Company in 2025.

21. Additional Cash Flow Information

a. Cash and Cash Equivalents

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

in € millions	2025	2024
Cash and short-term deposits	12,458	10,945
	12,458	10,945

Included within 'Cash and short-term deposits' is €33 million (2024: €60 million) of segregated client funds that are available for use by the Group. The corresponding payable is recognised and included in 'Trade and other payables'.

As disclosed in Note 2. Basis of Preparation, section Change in presentation, the Group has changed its accounting policy and updated the presentation of deposits received from other Morgan Stanley Group undertakings. The balance of €6,876 million (2024: €4,641 million) is now presented within 'Deposits' in the consolidated statement of financial position and is no longer included within 'Cash and cash equivalents'. This change aligns the presentation of existing and new deposit products offered by the Group and provides more relevant information.

b. Reconciliation of Cash Flows from Operating Activities

in € millions	Note	2025	2024
Profit for the year		351	281
Adjustments for:			
Net impairment charge/ (reversal) on financial instruments		6	(1)
Depreciation on property, plant and equipment		22	23
Provisions (release)/ charge	18	(8)	10
Difference between pension contributions paid and amount recognised in the consolidated income statement	8	(5)	1
Interest income	6	(2,803)	(3,615)
Interest expense	6	2,749	3,551
Income tax expense	8	149	98
Operating cash flows before changes in operating assets and liabilities		461	348
Changes in operating assets			
Increase in trading financial assets		(4,918)	(7,932)
(Increase)/Decrease in secured financing		(2,919)	10,570
Decrease/(Increase) in loans and advances		195	(139)
Decrease in trade and other receivables		2,811	1,011
Decrease/(Increase) in other operating assets		68	(21)
		(4,763)	3,489
Changes in operating liabilities			
Increase in deposits		2,727	748
(Decrease)/Increase in trading financial liabilities		(659)	3,247
Increase/(Decrease) in secured borrowing		2,706	(10,378)
Increase/(Decrease) in trade and other payables		1,111	(184)
(Decrease)/Increase in debt and other borrowings		(1,627)	3,579
(Decrease)/Increase in other operating liabilities		(72)	12
		4,186	(2,976)
Interest received		2,772	3,586
Interest paid		(2,411)	(3,350)
Income taxes paid		(138)	(86)
Effect of foreign exchange movements		39	(7)
Net cash from operating activities		146	1,004

c. Reconciliation of Liabilities Arising From Financing Activities

in € millions	AT1 Capital	Senior subordinated debt	Subordinated debt	Lease liabilities	Total equity and liabilities from financing activities
Balance at 1 January 2024	1,000	2,500	1,000	45	4,545
Cash flows:					
Proceeds from issuance	–	300	–	–	300
Payment of principal portion	–	–	–	(13)	(13)
Non-cash changes:					
New leases	–	–	–	50	50
Modifications ⁽¹⁾	–	–	–	32	32
Balance at 31 December 2024	1,000	2,800	1,000	114	4,914
Cash flows:					
Proceeds from issuance	–	1,300	500	–	1,800
Payment of principal portion	–	–	–	(13)	(13)
Non-cash changes:					
Modifications ⁽¹⁾	–	–	–	33	33
Balance at 31 December 2025	1,000	4,100	1,500	134	6,734

⁽¹⁾ Lease modifications primarily represent the renewals of the Group's existing leases.

22. 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.

in € millions	2025		2024		Total	
	Less than or equal to twelve months	More than twelve months	Less than or equal to twelve months	More than twelve months		
ASSETS						
Cash and short-term deposits	12,458	–	12,458	10,945	–	10,945
Trading financial assets	56,042	–	56,042	51,124	–	51,124
Secured financing	21,924	–	21,924	19,005	–	19,005
Loans and advances	6	58	64	161	98	259
Trade and other receivables	13,027	–	13,027	15,809	–	15,809
Current tax assets	30	–	30	111	–	111
Deferred tax assets	26	5	31	23	7	30
Property, plant and equipment	31	146	177	25	133	158
Other assets	3	–	3	4	–	4
	103,547	209	103,756	97,207	238	97,445
LIABILITIES						
Deposits	7,304	65	7,369	4,641	–	4,641
Trading financial liabilities	48,055	–	48,055	48,715	–	48,715
Secured borrowing	15,125	–	15,125	12,419	–	12,419
Trade and other payables	16,034	1,189	17,223	15,942	159	16,101
Debt and other borrowings	704	1,609	2,313	3,093	1,045	4,138
Subordinated debt	9	5,600	5,609	–	3,800	3,800
Provisions	5	15	20	1	23	24
Current tax liabilities	12	–	12	32	–	32
Deferred tax liabilities	1	–	1	1	–	1
Post-employment benefit obligations	–	10	10	–	19	19
	87,249	8,488	95,737	84,844	5,046	89,890

23. Segment Reporting

Segment information is presented for the Group's reportable operating segments and geographical information. The operating segments and geographical information are based on the Group's management and internal reporting structure. Transactions between business segments are on normal commercial terms and conditions.

Reportable Operating Segment

Morgan Stanley structures its operating segments primarily based upon the nature of the financial products and services provided to customers and Morgan Stanley's internal management structure. The Group's own operating segments are consistent with those of Morgan Stanley.

The Group has one reportable operating segment, Institutional Securities, which includes capital raising and financial advisory services; corporate lending; sales, trading, financing and market-making activities in equity and fixed income securities and related products, including global macro, credit and commodities products and investment activities. The Group is a key contributor to the execution of the Morgan Stanley Group's global Institutional Securities segment strategy.

Geographical Information

Refer to note 33 'Country by Country Reporting' for information about 'Net revenues' attributed to the Group's country of domicile and foreign countries.

Total assets, as disclosed in the consolidated statement of financial position, are mainly attributable to Germany.

24. Financial Risk Management

24.1. Risk Management Procedures

Risk taking is an inherent part of the Group's business activities and effective risk management is vital to the success of the Group. The Group seeks to identify, measure, monitor and report each of the types of risk involved in its business activities in accordance with defined policies and procedures.

The Group has developed risk management policies and procedures which are consistent with the risk management policies and procedures of the Morgan Stanley Group and include escalation to the Group's Management Boards.

Significant risks resulting from the Group's business activities are set out in the following chapters. A comprehensive overview of Risk Management is presented in the "Risk Report" section of the Combined Management Report.

24.2. Market Risk

Market risk is the risk that a change in the level of one or more market prices, rates, indices, volatilities, implied volatilities, or other market factors, such as market liquidity, will result in losses for a position or portfolio. This includes risks from Derivative Valuation Adjustments

("xVA"), which refers to the risk of changes in derivative valuation adjustments due to changes in credit spreads and other market factors. Further, market risk includes the consideration of financial risk arising from climate change as well as non-traded market risk such as Interest Rate Risk and Credit Spread Risk in the Banking Book ("IRRBB" and "CSRBB").

Price risk arises, for example, in trading portfolios, lending portfolios measured at fair value, and associated mark-to-market hedges.

Additional information on market risk is presented in the Combined Management Report and forms part of the consolidated financial statements.

Value-at-Risk ("VaR") for the Year Ended 31 December 2025 and 31 December 2024

The table below presents the Management VaR on a year end, average and annual high and low basis for 31 December 2025 and 31 December 2024.

The VaR resulting from interest rate and credit sensitivity from xVA is disclosed as a separate category from the Primary Risk Categories and includes counterparty credit valuation adjustments and related hedges.

in € millions	95 %/ one-day VaR for the year ended 31 December 2025 ⁽¹⁾				95 %/ one-day VaR for the year ended 31 December 2024 ⁽¹⁾			
	Year end	Average	High	Low	Year end	Average	High	Low
<i>Market risk category:</i>								
Interest rate and credit spread	2.9	2.9	5.6	1.6	2.0	2.3	3.7	1.3
Equity price	2.0	1.7	2.5	0.9	1.0	0.9	2.1	0.1
Foreign exchange rate	0.1	0.3	0.8	–	0.3	0.2	0.6	–
Commodity price	–	0.2	0.8	–	0.2	0.1	0.7	–
Less diversification benefit ⁽²⁾⁽³⁾	(1.6)	(1.7)	N/A	N/A	(1.5)	(1.0)	N/A	N/A
Primary Risk Categories VaR	3.4	3.4	5.9	1.7	2.0	2.5	4.0	1.4
VaR resulting from "xVA"	2.3	2.0	3.1	1.6	1.9	2.0	2.6	1.7
Less diversification benefit ⁽²⁾⁽³⁾	(1.3)	(1.5)	N/A	N/A	(1.2)	(1.3)	N/A	N/A
Total Management VaR	4.4	3.9	5.8	2.3	2.7	3.2	4.9	2.6

⁽¹⁾ The VaR is originally calculated in U.S. dollars and converted to Euros with the exchange rate as at 31 December.

⁽²⁾ Diversification benefit equals the difference between total trading VaR and the sum of the standalone VaRs for the four market risk categories. This benefit arises because the simulated one-day losses for each of the four primary market risk categories occur on different scenario dates in the simulation; similar diversification benefits also are taken into account within each category.

⁽³⁾ N/A - Not Applicable. The minimum and maximum VaR values for the total VaR and each of the component VaRs might have occurred on different scenario dates in the simulation and therefore the diversification benefit is not an applicable measure.

Non-trading Risks for the Year Ended 31 December 2025 and 31 December 2024

The Group believes that sensitivity analysis is an appropriate representation of the Group's non-trading risks. The following sensitivity analysis covers all of the non-trading risk in the Group's portfolio.

Interest Rate Risk

The Group is exposed to funding liabilities, lending and deposit transactions related to non-trading risks. The application of a parallel shift in interest rates of 200 basis points decrease or increase to these positions would result in a net loss of €18.9 million and a net gain of €9.4 million respectively as at 31 December 2025.

This compares to a net loss of €1.6 million and a net gain of €0.8 million respectively as at 31 December 2024.

Currency Risk

The Group has foreign currency revaluation risk arising from its trading activities and assets and liabilities in currencies other than Euros. It actively manages this exposure by hedging it back to Euros. Foreign exchange exposure in the banking book as at 31 December 2025 was €14 million (2024: €19 million). The Group has no gold position arising from its trading activities as of 31 December 2025 (2024: €17 million).

The Group also has foreign currency exposures arising from foreign operations, primarily in Sweden. The majority of this foreign currency risk has been hedged by the Morgan Stanley Group, by putting in place forward foreign currency exchange contracts.

The tables below summarise the foreign currency exposure for the Group relating to the retranslation of its branches outside of the Eurozone. The tables summarise the impact on total comprehensive income of a reasonably possible parallel shift of the foreign currency in relation to Euro, 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.

in € millions	2025		
	Swedish Krona	Polish Zloty	Danish Krona
Foreign Currency exposure	(2.9)	1.3	0.6
Percentage change applied	8%	7%	–%
Other Comprehensive Income	(0.2)	0.1	–

in € millions	2024		
	Swedish Krona	Polish Zloty	Danish Krona
Foreign Currency exposure	(6)	1	0.3
Percentage change applied	8%	7%	–%
Other Comprehensive Income	(0.5)	0.1	–

The reasonably possible percentage change in the currency rate in relation to Euro has been calculated based on the greatest annual percentage change over the 5 year period from 1 January 2021 to 31 December 2025 (2024: 1 January 2020 to 31 December 2024).

24.3. Credit Risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations. Credit risk includes country risk – i.e., the risk that economic, social and political conditions and events in a country will adversely affect an obligor's ability and willingness to fulfil its obligations. As part of credit risk, credit concentration risk refers to the risk of loss due to an outsized exposure to a counterparty or a group of connected counterparties in the same industry or geographic region. This assessment also considers climate risk, in particular the credit exposure to obligors and counterparties highly vulnerable to transition and/or physical climate risks.

Additional information on credit risk management is presented in the Combined Management Report and forms part of the consolidated financial statements.

Exposure to Credit Risk

The maximum exposure to credit risk ("gross credit exposure") of the Group as at 31 December 2025 is disclosed below, based on the carrying amounts of the financial assets and the maximum amount that the Group could have to pay in relation to unrecognised financial instruments, which the Group believes are subject to credit risk. The table includes financial instruments subject to ECL and not subject to ECL. Those financial instruments that bear credit risk but are not subject to ECL are subsequently measured at fair value. Exposure arising from financial instruments not recognised on the consolidated statement of financial position is measured as the maximum amount that the Group could have to pay.

Where the Group enters into credit enhancements, including master netting agreements and receipt of cash and securities as collateral, in order 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.

Trading financial assets, excluding derivatives, are subject to traded credit risk through exposure to the issuer of the financial instrument; the Group manages this issuer credit risk through its market risk management infrastructure and this traded credit risk is

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incorporated within the VaR based risk measures included in the market risk disclosure.

Class in € millions	2025			2024		
	Gross credit exposure ⁽¹⁾	Credit enhance- ments	Net credit exposure ⁽³⁾	Gross credit exposure ⁽¹⁾	Credit enhance- ments	Net credit exposure ⁽³⁾
Subject to ECL:						
Cash and short-term deposits	12,458	–	12,458	10,945	–	10,945
Loans and advances	58	–	58	98	–	98
Trade and other receivables ⁽²⁾	12,974	–	12,974	15,774	–	15,774
Not subject to ECL:						
Trading financial assets						
Derivatives	40,280	(38,480)	1,800	41,484	(38,575)	2,909
Secured financing	21,924	(21,820)	104	19,005	(18,942)	63
Loans and advances	6	–	6	161	–	161
Trade and other receivables	6	(6)	–	–	–	–
	87,706	(60,306)	27,400	87,467	(57,517)	29,950
Unrecognised financial instruments						
Subject to ECL:						
Loan commitments	11,443	(266)	11,177	10,200	(167)	10,033
Financial guarantees	10	–	10	5	–	5
Not subject to ECL:						
Loan commitments	2,980	(1,991)	989	1,448	(1,173)	275
Financial guarantees	1	(1)	–	1	(1)	–
Unsettled securities purchased under agreements to resell ⁽⁴⁾	68,663	–	68,663	62,165	–	62,165
	83,097	(2,258)	80,839	73,819	(1,341)	72,478
	170,803	(62,564)	108,239	161,286	(58,858)	102,428

⁽¹⁾ The carrying amount presented in the consolidated statement of financial position, and in case of unrecognised financial instruments, nominal amount, best represents the Group's maximum exposure to credit risk.

⁽²⁾ Trade and other receivables primarily include cash collateral pledged against the payables on OTC derivative positions €7,061 million (2024: €7,931 million). These derivative liabilities are included within Trading financial liabilities in the consolidated statement of financial position.

⁽³⁾ Of the residual net credit exposure, intercompany cross product netting arrangements are in place which would allow for an additional €914 million (2024: €1,881 million) to be offset in the ordinary course of business related to Trade and other receivables and Trade and other payables and/ or in the event of default by certain Morgan Stanley counterparties.

⁽⁴⁾ For unsettled securities purchased under agreements to resell, collateral in the form of securities will be received at the point of settlement. Since the value of collateral is determined at a future date, it is currently unquantifiable and not included in the table.

The impact of master netting arrangements and similar agreements on the Group's ability to offset financial assets and financial liabilities is disclosed in note 27.

Exposure to Credit Risk by Internal Rating Grades

Internal credit ratings are derived using methodologies generally consistent with those used by external agencies.

Investment grade: AAA - BBB

Non-investment grade: BB - CCC

Default: D

The table below shows gross carrying amounts and, in the case of unrecognised financial instruments, nominal amounts by internal rating grade. All exposures subject to ECL are Stage 1, unless otherwise shown.

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2025

in € millions	AAA	AA	A	BBB	Total Invest- ment Grade	Non- Invest- ment Grade	Unrated ⁽¹⁾	Total	Net of ECL
Subject to ECL:									
Cash and short-term deposits	12,242	13	171	29	12,455	–	3	12,458	12,458
Loans and advances									
Stage 1	–	–	–	30	30	28	–	58	58
Trade and other receivables									
Stage 1	71	3,563	6,243	2,352	12,229	611	129	12,969	12,969
Stage 3	–	–	–	1	1	3	1	5	1
Total subject to ECL	12,313	3,576	6,414	2,412	24,715	642	133	25,490	25,486
Not subject to ECL:									
Trading financial assets - derivatives	1,945	5,061	25,103	6,006	38,115	2,027	138	40,280	40,280
Secured financing	13	1,333	17,049	3,113	21,508	413	3	21,924	21,924
Loans and advances	–	–	–	5	5	1	–	6	6
Trade and other receivables	–	–	4	2	6	–	–	6	6
Total not subject to ECL	1,958	6,394	42,156	9,126	59,634	2,441	141	62,216	62,216
Unrecognised financial instruments subject to ECL:									
Loan commitments									
Stage 1	–	517	6,630	2,968	10,115	1,217	2	11,334	11,328
Stage 2	–	–	–	–	–	109	–	109	106
Financial guarantees	–	–	–	–	–	10	–	10	10
Total unrecognised financial instruments subject to ECL	–	517	6,630	2,968	10,115	1,336	2	11,453	11,444
Unrecognised financial instruments not subject to ECL:									
Loan commitments	–	753	165	565	1,483	1,446	51	2,980	2,980
Financial guarantees	–	–	–	–	–	1	–	1	1
Unsettled securities purchased under agreements to resell	–	18,415	24,522	25,726	68,663	–	–	68,663	68,663
Total unrecognised financial instruments not subject to ECL	–	19,168	24,687	26,291	70,146	1,447	51	71,644	71,644

⁽¹⁾ For the unrated trade receivables, a lifetime ECL is always calculated without considering whether SICR has occurred.

2024

in € millions	AAA	AA	A	BBB	Total Investment Grade	Non-Investment Grade	Unrated ⁽¹⁾	Total	Net of ECL
Subject to ECL:									
Cash and short-term deposits	10,549	199	109	79	10,936	–	9	10,945	10,945
Loans and advances									
Stage 1	–	–	–	73	73	25	–	98	97
Trade and other receivables									
Stage 1	163	2,621	10,517	1,990	15,291	367	114	15,772	15,772
Stage 3	–	–	1	1	2	–	–	2	1
Total subject to ECL	10,712	2,820	10,627	2,143	26,302	392	123	26,817	26,815
Not subject to ECL:									
Trading financial assets - derivatives	2,141	5,058	25,655	6,591	39,445	2,027	12	41,484	41,484
Secured financing	59	3,280	12,334	3,290	18,963	42	–	19,005	19,005
Loans and advances	–	–	–	35	35	–	126	161	161
Total not subject to ECL	2,200	8,338	37,989	9,916	58,443	2,069	138	60,650	60,650
Unrecognised financial instruments subject to ECL:									
Loan commitments									
Stage 1	–	336	6,872	2,265	9,473	534	2	10,009	10,007
Stage 2	–	–	–	100	100	91	–	191	188
Financial guarantees	–	–	–	–	–	5	–	5	5
Total unrecognised financial instruments subject to ECL	–	336	6,872	2,365	9,573	630	2	10,205	10,200
Unrecognised financial instruments not subject to ECL:									
Loan commitments	–	–	165	453	618	784	46	1,448	1,448
Financial guarantees	–	–	–	–	–	1	–	1	1
Unsettled securities purchased under agreements to resell	–	19,245	18,190	24,730	62,165	–	–	62,165	62,165
Total unrecognised financial instruments not subject to ECL	–	19,245	18,355	25,183	62,783	785	46	63,614	63,614

⁽¹⁾ For the unrated trade receivables, a lifetime ECL is always calculated without considering whether a SICR has occurred.

Expected Credit Loss Allowance

As at 31 December 2025, ECL on trade receivables of €4 million, on loans of €nil million and on loan commitments of €9 million were recognised. (2024: €2 million, €1 million, €5 million, respectively).

ECL on cash and short-term deposits as of 31 December 2025 and 31 December 2024 is de minimis owing to either their short tenure and/or their low credit risk.

24.4. Liquidity Risk

Liquidity Risk is the risk that the Group's financial condition or overall soundness is adversely affected by an inability or perceived inability to meet its financial obligations in a timely manner. Liquidity Risk encompasses the associated funding risk triggered by stress events, which may cause unexpected changes in funding needs or an inability to raise new funding.

Additional information on liquidity risk management is presented in the Combined Management Report and forms part of the consolidated financial statements.

Maturity Analysis

In the following maturity analysis of financial liabilities, derivative contracts and other financial liabilities held as part of the Group's trading activities are presented at fair value and disclosed as on demand. Financial liabilities designated at fair value through profit or loss are disclosed according to their earliest contractual maturity. All other amounts represent undiscounted cash flows payable by the Group arising from its financial liabilities to their earliest contractual maturities. 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 of the maturity analysis is considered by the Group to appropriately reflect the liquidity risk arising from those financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial liabilities is managed by the Group.

2025

in € millions	On demand	Less than 1 month	1 month – 3 months	3 months – 1 year	1 year – 5 years	Greater than 5 years	Total
Financial liabilities							
Deposits	6,876	–	96	336	68	–	7,376
Trading financial liabilities:							
Derivatives	36,469	–	–	–	–	–	36,469
Other	11,586	–	–	–	–	–	11,586
Secured borrowing	10,625	1,445	2,417	665	–	–	15,152
Trade and other payables	15,780	2	1	13	945	198	16,939
Debt and other borrowings	–	154	513	179	645	973	2,464
Subordinated debt	–	28	19	113	4,273	1,543	5,976
Total financial liabilities	81,336	1,629	3,046	1,306	5,931	2,714	95,962
Unrecognised financial instruments							
Guarantees	56	–	–	–	–	–	56
Loan commitments	14,423	–	–	–	–	–	14,423
Unsettled securities purchased under agreements to resell ⁽¹⁾	63,961	–	–	3,043	1,659	–	68,663
Financial guarantees	–	–	–	–	11	–	11
Loans pending settlement	970	–	–	–	–	–	970
Total unrecognised financial instruments	79,410	–	–	3,043	1,670	–	84,123

⁽¹⁾ The Group enters into forward-starting reverse repurchase agreements (agreements which have a trade date at or prior to 31 December 2025 and settle subsequent to year end). These agreements are generally settled within three business days.

2024

in € millions	On demand	Less than 1 month	1 month – 3 months	3 months – 1 year	1 year – 5 years	Greater than 5 years	Total
Financial liabilities							
Deposits	4,641	–	–	–	–	–	4,641
Trading financial liabilities:							
Derivatives	37,343	–	–	–	–	–	37,343
Other	11,372	–	–	–	–	–	11,372
Secured borrowing	8,098	1,008	2,191	1,156	–	–	12,453
Trade and other payables	15,697	11	1	16	63	48	15,836
Debt and other borrowings	–	34	3,130	33	801	247	4,245
Subordinated debt	–	2	–	27	2,948	1,074	4,051
Total financial liabilities	77,151	1,055	5,322	1,232	3,812	1,369	89,941
Unrecognised financial instruments							
Guarantees	38	–	–	–	–	–	38
Loan commitments	11,648	–	–	–	–	–	11,648
Unsettled securities purchased under agreements to resell ⁽¹⁾	58,237	–	–	2,476	1,452	–	62,165
Financial guarantees	–	–	–	–	6	–	6
Loans pending settlement	1,307	–	–	–	–	–	1,307
Total unrecognised financial instruments	71,230	–	–	2,476	1,458	–	75,164

⁽¹⁾ The Group enters into forward-starting reverse repurchase agreements (agreements which have a trade date at or prior to 31 December 2024 and settle subsequent to year end). These agreements are generally settled within three business days.

The Group does not expect that all of the potential cash flows associated with financial guarantees and loan commitments will be required.

25. Transfers of Financial Assets, including Pledges of Collateral

Transferred Financial Assets that are not Derecognised in their Entirety

In the ordinary course of business, the Group enters into various arrangements, including selling securities under agreements to repurchase, purchasing securities under agreements to resell, securities borrowed and securities loaned to, amongst other things, acquire securities to cover short positions and settle other securities obligations, to accommodate customers' needs and to finance the Group's inventory positions.

The Group pledges certain financial instruments to collateralise repurchase agreements and other securities financings. Pledged financial instruments that can be sold or repledged by the secured party are identified as trading financial instruments (pledged to various parties) in the consolidated statement of financial position. The Group has determined that it retains

substantially all the risks and rewards of these financial instruments including credit risk, settlement risk, country risk and market risk, and therefore has not derecognised them. In addition, it recognises a financial liability in respect of the consideration received.

Other financial assets transferred that continue to be recognised for accounting purposes include pledges of securities as collateral for derivative transactions or otherwise, as well as certain sales of securities with related transactions, such as derivatives, that result in the Group retaining substantially all the risks and rewards of the financial assets transferred. In addition, it recognises a financial liability in respect of the consideration received.

All of these transactions are mostly conducted under standard agreements used by financial market participants and are undertaken with counterparties subject to the Group's normal credit risk control processes. The resulting credit exposures are controlled by daily monitoring and collateralisation of the positions. The carrying amount of the associated financial liabilities related to financial assets transferred that continue to be recognised is €12,637 million (2024: €7,063 million).

Trading financial assets of the Group include debt securities of €14,134 million (2024: €9,163

million) which have been sold or otherwise transferred, but which for accounting purposes remain recognised on the consolidated statement of financial position.

26. Financial Assets Accepted as Collateral

The Group's policy is generally to take possession of securities received as collateral, securities purchased under agreements to resell and securities borrowed. The Group monitors the fair value of the underlying securities as compared with the related receivable or payable, including accrued interest, and, as necessary, requests additional collateral to ensure such transactions are adequately collateralised. The Group's agreements with third parties specify its rights to request additional collateral. These transactions are generally conducted under standard documentation used by financial market participants.

The fair value of collateral accepted under these arrangements, where the Group is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, as at 31 December 2025 was €85,120 million (2024: €74,486 million). Of this amount €74,608 million (2024: €67,498 million) has been sold or repledged to third parties in connection with financing activities, or to comply with commitments under short sale transactions.

27. Financial Assets and Financial Liabilities Subject to Offsetting

In order to manage credit exposure arising from its business activities, the Group applies various credit risk management policies and procedures, see note 24 for further details. Primarily in connection with securities purchased under agreements to resell and securities sold under agreements to repurchase, securities borrowed and securities loaned transactions and derivative transactions, the Group enters into master netting arrangements and collateral arrangements with its counterparties. These agreements provide the Group 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 Group against the net amount owed by the counterparty.

However, in certain circumstances, the Group may not have such an agreement in place; the relevant insolvency regime (which is based on type of counterparty of the entity and the jurisdiction of organisation of the counterparty) may not support the enforceability of the agreement; or the Group may not have sought legal advice to support the enforceability of the agreement.

In the consolidated 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 assets and the liabilities simultaneously. In the absence of such conditions, financial assets and financial liabilities are presented on a gross basis.

The following tables present information about the offsetting of financial instruments and related collateral amounts. The tables do not include information about financial instruments that are subject only to a collateral agreement. The effect of master netting arrangements, collateral agreements and other credit enhancements, on the Group's exposure to credit risk is disclosed in note 24.

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in € millions	Amounts offset			Amounts not offset			Net exposure ⁽²⁾	Not Subject to legally enforceable master netting agreement
	Gross amounts	Counterparty netting	Derivative cash collateral netting ⁽¹⁾	Net amounts	Financial instruments	Cash collateral ⁽¹⁾		
2025								
Assets								
Secured financing:								
Cash collateral on securities borrowed	4,495	–	–	4,495	(4,439)	–	56	–
Securities purchased under agreement to resell	71,325	(56,116)	–	15,209	(15,161)	–	48	4
Trading financial assets:								
Derivatives	226,557	(181,400)	(4,877)	40,280	(29,409)	(9,071)	1,800	34
Total assets	302,377	(237,516)	(4,877)	59,984	(49,009)	(9,071)	1,904	38
Liabilities								
Secured borrowing:								
Cash collateral on securities loaned	4,871	–	–	4,871	(4,871)	–	–	–
Securities sold under agreement to repurchase	65,035	(56,116)	–	8,919	(8,919)	–	–	–
Trading financial liabilities:								
Derivatives	221,803	(181,400)	(3,934)	36,469	(26,769)	(7,061)	2,639	194
Total liabilities	291,709	(237,516)	(3,934)	50,259	(40,559)	(7,061)	2,639	194
2024								
Assets								
Secured financing:								
Cash collateral on securities borrowed	2,830	–	–	2,830	(2,811)	–	19	2
Securities purchased under agreement to resell	62,146	(46,710)	–	15,436	(15,392)	–	44	–
Trading financial assets:								
Derivatives	342,881	(296,105)	(5,292)	41,484	(30,012)	(8,563)	2,909	76
Total assets	407,857	(342,815)	(5,292)	59,750	(48,215)	(8,563)	2,972	78
Liabilities								
Secured borrowing:								
Cash collateral on securities loaned	3,122	–	–	3,122	(3,122)	–	–	–
Securities sold under agreement to repurchase	55,268	(46,710)	–	8,558	(8,558)	–	–	–
Trading financial liabilities:								
Derivatives	339,321	(296,105)	(5,873)	37,343	(27,074)	(7,931)	2,338	135
Total liabilities	397,711	(342,815)	(5,873)	49,023	(38,754)	(7,931)	2,338	135

⁽¹⁾ Derivatives cash collateral netting relates to the margin posted or received being offset against the derivatives balance where all offsetting criteria is met. All Cash Collateral are recognised within Trade and other receivables and Trade and other payables, whether it is offset or not and represents the total variation margin paid or received by counterparties.

⁽²⁾ Of the residual net credit exposure, intercompany cross product netting arrangements are in place which would allow for an additional €914 million (2024: €1,881 million) to be offset in the ordinary course of business related to Trade and other receivables and Trade and other payables and/ or in the event of default by certain Morgan Stanley counterparties.

28. Financial Instruments 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 Group's financial assets and financial liabilities recognised at fair value on a recurring basis, classified according to the fair value hierarchy:

2025 in € millions	Quoted prices in active market (Level 1)	Valuation techniques using observable inputs (Level 2)	Valuation techniques with significant unobservable inputs (Level 3)	Total
Trading financial assets:				
Government debt securities	12,752	10	–	12,762
Corporate and other debt	67	2,641	75	2,783
Corporate equities	217	–	–	217
Derivatives				
Interest rate contracts	–	20,978	277	21,255
Credit contracts	–	1,185	14	1,199
Foreign exchange and gold contracts	–	10,385	7	10,392
Equity and other contracts	849	4,988	148	5,985
Commodity contracts	–	1,215	234	1,449
Total trading financial assets	13,885	41,402	755	56,042
Secured financing:				
Cash collateral on securities borrowed	–	4,495	–	4,495
Securities purchased under agreements to resell	–	15,209	–	15,209
Other secured financing	–	2,220	–	2,220
Total secured financing	–	21,924	–	21,924
Loans and advances:				
Corporate loans	–	6	–	6
Total loans and advances	–	6	–	6
Trade and other Receivables:				
Prepaid OTC Contracts	–	6	–	6
Total trade and other receivables	–	6	–	6
Total financial assets measured at fair value	13,885	63,338	755	77,978
Trading financial liabilities:				
Government debt securities	10,143	1	–	10,144
Corporate and other debt	36	1,370	3	1,409
Corporate equities	33	–	–	33
Derivatives				
Interest rate contracts	–	16,824	242	17,066
Credit contracts	–	1,174	14	1,188
Foreign exchange and gold contracts	–	10,235	7	10,242
Equity and other contracts	930	5,515	153	6,598
Commodity contracts	–	1,141	234	1,375
Total trading financial liabilities	11,142	36,260	653	48,055
Secured borrowing:				
Cash collateral on securities loaned	–	3,621	–	3,621
Securities sold under agreements to repurchase	–	5,621	–	5,621
Other financial liabilities	–	1,335	–	1,335
Total secured borrowing	–	10,577	–	10,577
Trade and other payables:				
Prepaid OTC contracts	–	911	–	911
Other Contracts payable	–	125	–	125
Unfunded loan commitments	–	32	–	32
Total trade and other payables	–	1,068	–	1,068
Debt and other borrowings:				
Issued structured notes	–	2,089	4	2,093
Total debt and other borrowings	–	2,089	4	2,093
Total financial liabilities measured at fair value	11,142	49,994	657	61,793

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2024 in € millions	Quoted prices in active market (Level 1)	Valuation techniques using observable inputs (Level 2)	Valuation techniques with significant unobservable inputs (Level 3)	Total
Trading financial assets:				
Government debt securities	5,832	1,942	–	7,774
Corporate and other debt	–	1,731	26	1,757
Corporate equities	109	–	–	109
Derivatives				
Interest rate contracts	1	18,028	369	18,398
Credit contracts	–	1,201	9	1,210
Foreign exchange and gold contracts	–	16,091	1	16,092
Equity and other contracts	420	4,010	236	4,666
Commodity contracts	–	1,078	40	1,118
Total trading financial assets	6,362	44,081	681	51,124
Secured financing:				
Cash collateral on securities borrowed	–	2,830	–	2,830
Securities purchased under agreements to resell	–	15,436	–	15,436
Other secured financing	–	739	–	739
Total secured financing	–	19,005	–	19,005
Loans and advances:				
Corporate loans	–	161	–	161
Total loans and advances	–	161	–	161
Total financial assets measured at fair value	6,362	63,247	681	70,290
Trading financial liabilities:				
Government debt securities	8,299	1,747	–	10,046
Corporate and other debt	–	1,297	2	1,299
Corporate equities	27	–	–	27
Derivatives				
Interest rate contracts	–	15,281	325	15,606
Credit contracts	–	1,174	9	1,183
Foreign exchange and gold contracts	–	14,546	1	14,547
Equity and other contracts	701	3,971	268	4,940
Commodity contracts	–	1,028	39	1,067
Total trading financial liabilities	9,027	39,044	644	48,715
Secured borrowing:				
Cash collateral on securities loaned	–	2,127	–	2,127
Securities sold under agreements to repurchase	–	5,012	–	5,012
Other financial liabilities	–	739	–	739
Total secured borrowing	–	7,878	–	7,878
Debt and other borrowings:				
Issued structured notes	–	277	–	277
Total debt and other borrowings	–	277	–	277
Total financial liabilities measured at fair value	9,027	47,199	644	56,870

The Group'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:

Asset and Liability / Valuation Technique	Valuation Hierarchy Classification
Government debt securities	
Non-U.S. Government Obligations	<ul style="list-style-type: none"> • Level 1 – if actively traded and prices are observable • Level 2 – if the market is less active or prices are dispersed • Level 3 – in instances where the trading activity is limited or prices are unobservable
<ul style="list-style-type: none"> • Fair value is determined using quoted prices in active markets when available. When not available, quoted prices in less-active markets are used. In the absence of position-specific quoted prices, fair value may be determined through benchmarking from comparable instruments. 	

Asset and Liability / Valuation Technique

Valuation Hierarchy Classification

Corporate and Other Debt and Corporate Loans

Corporate Bonds

- Fair value is determined using recently executed transactions, market price quotations, bond spreads and CDS spreads obtained from independent external parties, such as vendors and brokers, adjusted for any basis difference between cash and derivative instruments.
- The spread data used are for the same maturity as the bond. If the spread data do not reference the issuer, then data that reference comparable issuers are used. When position-specific external price data are not observable, fair value is determined based on either benchmarking to comparable instruments or cash flow models with yield curves, bond or single-name CDS spreads and recovery rates or loss given default as significant inputs.

- Level 2 – if value based on observable market data for comparable instruments
- Level 3 – in instances where prices or significant spread inputs are unobservable or not supported by market liquidity or if the comparability assessment involves significant sensitivity

Loans and Lending Commitments

- Fair value of corporate loans is determined using recently executed transactions, market price quotations (where observable), implied yields from comparable debt, market observable CDS spread levels obtained from independent external parties adjusted for any basis difference between cash and derivative instruments, along with proprietary valuation models and default recovery analysis where such transactions and quotations are unobservable.

- Level 2 – if value based on observable market data supported by market liquidity for comparable instruments
- Level 3 – in instances where significant spread inputs are unobservable or not supported by market liquidity or if the comparability assessment involves significant subjectivity

Supranational and Government Regional Bonds

- Fair value is determined using quoted prices in active markets when available. When not available, quoted prices in less-active markets are used. In the absence of position-specific quoted prices, fair value may be determined through benchmarking from comparable instruments.

- Level 1 – if actively traded and prices are observable
- Level 2 – if the market is less active or prices are dispersed
- Level 3 – in instances where the trading activity is limited or prices are unobservable

Corporate Equities and Equity investments

- Exchange traded equity securities are generally valued based on quoted prices from the exchange.
- Unlisted equity securities are generally valued based on an assessment of each security, considering rounds of financing and third-party transactions, discounted cash flow analyses and market-based information, including comparable transactions, trading multiples and changes in market outlook, among other factors.
- Listed fund units are generally marked to the exchange-traded price if actively traded or Net Asset Value ("NAV") if not. Unlisted fund units are generally marked to NAV.

- Level 1 – actively traded exchange-traded securities and fund units
- Level 2 – if not actively traded, inputs are observable, or if undergoing a recent mergers and acquisitions event or corporate action
- Level 3 – if not actively traded, inputs are unobservable, or if undergoing an aged mergers and acquisitions event or corporate action

Derivatives

Exchange-Traded Derivative Contracts

- Exchange-traded derivatives that are actively traded are valued based on quoted prices from the exchange.
- Exchange-traded derivatives that are not actively traded are valued using the same techniques as those applied to OTC derivatives.

- Level 1 – when actively traded
- Level 2 – when not actively traded
- Level 3 – when not actively traded and inputs are unobservable

Asset and Liability / Valuation Technique**OTC Derivative Contracts**

- OTC derivative contracts include forward, swap and option contracts related to interest rates, foreign currencies, credit standing of reference entities, equity prices or commodity prices.
- Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be modelled using a series of techniques, including closed-form analytic formulas, such as the Black-Scholes option-pricing model, simulation models or a combination thereof. Many pricing models do not entail material subjectivity as the methodologies employed do not necessitate significant judgement, since model inputs may be observed from actively quoted markets, as is the case for generic interest rate swaps, many equity, commodity and foreign currency option contracts and certain credit default swaps. In the case of more established derivative products, the pricing models used by the Group are widely accepted by the financial services industry.
- More complex OTC derivative products are typically less liquid and require more judgement in the implementation of the valuation technique since direct trading activity or quotes are unobservable. This includes certain types of interest rate derivatives with both volatility and correlation exposure, equity, commodity or foreign currency derivatives that are either longer-dated or include exposure to multiple underlyings and credit derivatives, including credit default swaps on certain mortgage or asset-backed securities, basket CDS. Where required inputs are unobservable,

Securities Purchased under Agreements to Resell, Securities Sold under Agreements to Repurchase, Cash collateral on Securities Borrowed and Securities Loaned and Other Secured Financings and Secured Borrowings

- Fair value is computed using a standard cash flow discounting methodology.
- The inputs to the valuation include contractual cash flows and collateral funding spreads, which are the incremental spread over the overnight indexed swap ("OIS") rate for a specific collateral rate (which refers to the rate applicable to a specific type of security pledged as collateral).

Issued structured notes

- The Group issues structured notes which are primarily composed of instruments whose payments and redemption values are linked to the performance of a specific index, a basket of stocks, a specific security, a commodity, a credit exposure or basket of credit exposures, and instruments with various interest-rate-related features including step-ups, step-downs, and zero coupons.
- Fair value is determined using valuation models for the derivative and debt portions of the instruments. These models incorporate observable inputs referencing identical or comparable securities, including prices to which the instruments are linked, interest rate yield curves, option volatility and currency rates, and commodity or equity prices.
- Independent, external and traded prices for the instruments are considered as well as the impact of the Group's own credit spreads which are based on observed secondary bond market spreads.

Valuation Hierarchy Classification

- Level 2 – when valued using observable inputs supported by market liquidity, or where the unobservable input is not deemed significant
- Level 3 – when valued using observable inputs with limited market liquidity or if an unobservable inputs are deemed significant

- Level 2 – when the valuation inputs are observable and supported by market liquidity
- Level 3 – in instances where the valuation input is observable but not supported by market liquidity or if an unobservable input is deemed significant

- Level 2 – when valued using observable inputs, or where the unobservable input is not deemed significant
- Level 3 – in instances where the unobservable inputs are deemed significant

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 from Level 1 to Level 2 of the fair value hierarchy during the year. During the previous year, the Group reclassified €1,729 million of government debt securities assets and €1,615 million of government debt securities liabilities from Level 1 to Level 2.

During the year, the Group reclassified €1,696 million (2024: €nil) of government debt securities assets from Level 2 to Level 1. The Group also reclassified €1,548 million (2024: €nil) of government debt securities liabilities from Level 2 to Level 1. These reclassifications were due to increased trading activity in these instruments.

For assets and liabilities that were transferred between Level 1 to Level 2 during the year and previous year, fair values are ascribed as if the assets or liabilities had been transferred as of the beginning of the year.

c. Changes in Level 3 Financial Assets and Liabilities Recognised at Fair Value on a Recurring Basis

The following tables present the changes in the fair value of the Group's Level 3 financial assets and financial liabilities for the years ended 31 December 2025 and 31 December 2024. Level 3 instruments may be hedged with instruments classified in Level 1 and Level 2. The realised and unrealised gains/(losses) for assets and liabilities within the Level 3 category presented in the following tables do not reflect the related realised and unrealised gains/(losses) on hedging instruments that have been classified by the Group within the Level 1 and/or Level 2 categories.

The unrealised gains/(losses) during the year for assets and liabilities within the Level 3 category presented in the following tables herein may include changes in fair value during the year that were attributable to both observable and unobservable inputs.

The Morgan Stanley Group operates a number of intra-group policies to ensure that, where possible, revenues and related costs are matched. Where the trading positions included in the below table are risk managed using financial instruments held by other Morgan Stanley Group undertakings, these policies potentially result in the recognition of offsetting gains or losses in the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2025

2025

in € millions	Balance at 1 January 2025	Total gains or (losses) recognised in consolidated income statement ⁽¹⁾	Purchases	Sales	Issuances/ Settlements	Transfers into Level 3 ⁽²⁾	Transfers out of Level 3 ⁽²⁾	Balance at 31 December 2025	Unrealised gains or (losses) for Level 3 assets/ liabilities outstanding as at 31 December 2025 ⁽³⁾
Trading financial assets									
Corporate and other debt	26	(3)	59	(13)	–	6	–	75	–
Net derivative contracts ⁽⁴⁾	13	(11)	28	–	(23)	(4)	27	30	(5)
Total trading financial assets	39	(14)	87	(13)	(23)	2	27	105	(5)
Total financial assets measured at fair value	39	(14)	87	(13)	(23)	2	27	105	(5)
Trading financial liabilities									
Corporate and other debt	2	–	–	1	–	–	–	3	–
Total trading financial liabilities	2	–	–	1	–	–	–	3	–
Debt and other borrowings									
Issued structured notes	–	–	–	–	4	–	–	4	–
Total debt and other borrowings	–	–	–	–	4	–	–	4	–
Total financial liabilities measured at fair value	2	–	–	1	4	–	–	7	–

⁽¹⁾ The total gains or (losses) are recognised in the consolidated income statement and the consolidated statement of comprehensive income as detailed in the financial instruments accounting policy (note 3(c)).

⁽²⁾ For financial assets and financial liabilities that were transferred into and out of Level 3 during the year, gains or (losses) are presented as if the assets or liabilities had been transferred into or out of Level 3 as at the beginning of the year.

⁽³⁾ Amounts represent unrealised gains or (losses) for the year ended 31 December 2025 related to assets and liabilities still outstanding at 31 December 2025. The unrealised gains or (losses) are recognised in the consolidated income statement or consolidated statement of comprehensive income as detailed in the financial instruments accounting policy (note 3(c)).

⁽⁴⁾ Net derivative contracts represent trading financial assets – derivative contracts net of trading financial liabilities – derivative contracts.

2024

in € millions	Balance at 1 January 2024	Total gains or (losses) recognised in consolidated income statement ⁽¹⁾	Purchases	Sales	Issuances/ Settlements	Transfers into Level 3 ⁽²⁾	Transfers out of Level 3 ⁽²⁾	Balance at 31 December 2024	Unrealised gains or (losses) for Level 3 assets/ liabilities outstanding as at 31 December 2024 ⁽³⁾
Trading financial assets									
Government debt securities	1	–	–	–	–	–	(1)	–	–
Corporate and other debt	84	1	41	(84)	–	–	(16)	26	–
Net derivative contracts ⁽⁴⁾	46	7	99	–	(155)	5	11	13	7
Total trading financial assets	131	8	140	(84)	(155)	5	(6)	39	7
Total financial assets measured at fair value	131	8	140	(84)	(155)	5	(6)	39	7
Trading financial liabilities									
Corporate and other debt	–	–	–	2	–	–	–	2	–
Total trading financial liabilities	–	–	–	2	–	–	–	2	–
Total financial liabilities measured at fair value	–	–	–	2	–	–	–	2	–

(1) The total gains or (losses) are recognised in the consolidated income statement and the consolidated statement of comprehensive income as detailed in the financial instruments accounting policy (note 3(c)).

(2) For financial assets and financial liabilities that were transferred into and out of Level 3 during the year, gains or (losses) are presented as if the assets or liabilities had been transferred into or out of Level 3 as at the beginning of the year.

(3) Amounts represent unrealised gains or (losses) for the year ended 31 December 2024 related to assets and liabilities still outstanding at 31 December 2024. The unrealised gains or (losses) are recognised in the consolidated income statement or consolidated statement of comprehensive income as detailed in the financial instruments accounting policy (note 3(c)).

(4) Net derivative contracts represent trading financial assets – derivative contracts net of trading financial liabilities – derivative contracts.

d. Valuation of Level 3 Financial Assets and Liabilities Recognised at Fair Value on a Recurring Basis

The following disclosures provide information on the sensitivity of fair value measurements to key inputs and assumptions.

i) Quantitative information about and qualitative sensitivity of significant unobservable inputs

The following table provides information on the valuation techniques, significant unobservable inputs and the ranges and averages for each material category of assets and liabilities measured at fair value on a recurring basis.

The level of aggregation and breadth of products cause the range of inputs to be wide and not evenly distributed across the inventory of financial instruments. Further, the range of unobservable inputs may differ across groups in the financial services industry because of diversity in the types of products included in each group's inventory.

The following disclosures also include qualitative information on the sensitivity of the fair value measurements to changes in the significant unobservable inputs. There are no predictable relationships between multiple significant unobservable inputs attributable to a given valuation technique.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2025

2025	Fair value in € millions	Predominant valuation technique/ Significant unobservable inputs	Range (Average ⁽¹⁾)
ASSETS			
Trading financial assets			
Corporate and other debt	75	Comparable pricing	
		Comparable loan price	28 to 101 pts (54pts)
Net derivative contracts: ⁽²⁾			
Interest rate	35	Option model	
		Bond volatility	58 to 76 pts (59pts / 58pts)
		Interest Rate Curve Correlation	62% to 100% (86% / 87%)
		Interest rate volatility skew	61% to 80% (67% / 69%)
		Inflation Volatility	32% to 67% (44% / 40%)
LIABILITIES			
Trading financial liabilities			
Net derivative contracts: ⁽³⁾			
Equity ⁽⁴⁾	5	Option model	
		Equity volatility	10% to 59% (17%)
		Equity Volatility skew	-8% to 1% (-2%)
		Equity – Equity correlation	15% to 100% (70%)
		Equity – Foreign exchange correlation	-71% to 23% (-28%)

⁽¹⁾ A single amount is disclosed for range and average when there is no significant difference between the minimum, maximum and average. Amounts represent weighted averages except where simple averages and the median of the inputs are provided when more relevant.

⁽²⁾ Net derivative contracts represent trading financial assets – derivative contracts net of trading financial liabilities – derivative contracts.

⁽³⁾ Net derivative contracts represent trading financial liabilities – derivative contracts net of trading financial assets – derivative contracts.

⁽⁴⁾ The market value of both equity derivative assets and liabilities as at 31 December 2025 is €148 million and €153 million respectively .

2024	Fair value in € millions	Predominant valuation technique/ Significant unobservable inputs	Range (Average ⁽¹⁾)
ASSETS			
Trading financial assets			
Corporate and other debt	26	Comparable pricing	
		Comparable loan price	9 to 101 pts (65pts)
Net derivative contracts: ⁽²⁾			
Interest rate	44	Option model	
		Interest Rate Curve Correlation	60% to 99% (88%/ 90%)
		Interest rate volatility skew	n/m
		Inflation Volatility	30% to 68% (44%/38%)
LIABILITIES			
Trading financial liabilities			
Net derivative contracts: ⁽³⁾			
Equity ⁽⁴⁾	32	Option model	
		Equity volatility	6% to 45%(18%)
		Equity Volatility skew	-2% to 0% (-1%)
		Equity – Equity correlation	21% to 99%(64%)
		Equity – Foreign exchange correlation	'-55% to -17% (-20%)

⁽¹⁾ A single amount is disclosed for range and average when there is no significant difference between the minimum, maximum and average. Amounts represent weighted averages except where simple averages and the median of the inputs are provided when more relevant.

⁽²⁾ Net derivative contracts represent trading financial assets – derivative contracts net of trading financial liabilities – derivative contracts.

⁽³⁾ Net derivative contracts represent trading financial liabilities – derivative contracts net of trading financial assets – derivative contracts.

⁽⁴⁾ The market value of both equity derivative assets and liabilities as at 31 December 2024 is €236 million and €268 million respectively .

**Significant Unobservable Inputs –
Description and Sensitivity**

During the year, there were no significant revisions made to the descriptions of the significant unobservable inputs.

An increase/(decrease) to the following significant unobservable inputs would generally result in an impact to the fair value, but the magnitude and direction of the impact would depend on whether the Group is long or short the exposure:

- **Correlation:** A pricing input where the payoff is driven by more than one underlying risk. Correlation is a measure of the relationship between the movements of two variables (i.e. how the change in one variable influences a change in the other variable).
- **Credit spread:** The credit spread reflects the additional net yield an investor can earn from a security with more credit risk relative to one with less credit risk. The credit spread of a particular security is often quoted in relation to the yield on a credit risk-free benchmark security or reference rate.
- **Interest rate curve:** The term structure of interest rates (relationship between interest rates and the time to maturity) and a market's measure of future interest rates at the time of observation. An interest rate curve is used to set interest rate and foreign exchange derivative cash flows and is a pricing input used in the discounting of any OTC derivative cash flow.
- **Volatility:** The measure of the variability in possible returns for an instrument given how much that instrument changes in value over time. Volatility is a pricing input for options, and, generally, the lower the volatility, the less risky the option. The level of volatility used in the valuation of a particular option depends on a number of factors, including the nature of the risk underlying that option, the tenor and the strike price of the option.
- **Volatility skew:** The measure of the difference in implied volatility for options with identical underliers and expiry dates but with different strikes.

ii) Sensitivity of fair values to changing significant assumptions to reasonably possible alternatives

As detailed in note 3, the valuation of Level 3 financial instruments requires the application

of critical accounting judgement, involving estimations and assumptions and it is recognised that there could be a range of reasonably possible alternative values.

The Group has reviewed the unobservable parameters to identify those which would change the fair value measurement significantly if replaced by a reasonably possible alternative assumption.

In estimating the potential variability, the unobservable parameters were varied individually using statistical techniques and historic data. The potential variability estimated is likely to be greater than the actual uncertainty relating to the financial instruments as any diversification effect has been excluded.

The potential impact of favourable changes on trading financial assets and liabilities is a gain of €40 million (2024: €47 million) and the potential impact of unfavourable changes is a loss of €61 million (2024: €46 million), both of which would be reflected in the consolidated income statement.

**e. Financial Instruments Valued
Using Unobservable Market Data**

The amounts not recognised in the consolidated income statement relating to the difference between the fair value at initial recognition (the transaction price) and the amounts determined at initial recognition using valuation techniques are as follows:

in € millions	2025	2024
At 1 January	2	4
New transactions	8	1
Amounts recognised in the consolidated income statement during the year	(6)	(3)
At 31 December	4	2

The balance above predominantly relates to derivatives.

**29. 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 as at 31 December 2025.

30. Employee Compensation Plans

Morgan Stanley maintains various equity-settled share-based compensation plans for the benefit of employees. Awards under these plans are generally granted in January following the performance year.

Equity-settled Share-based Compensation Plans

Morgan Stanley has granted RSU awards pursuant to several equity-based compensation plans. The plans provide for the deferral of a portion of certain current and former employees' incentive compensation, with awards made in the form of restricted common stock. Awards under these plans are subject to vesting over time, generally six months to seven years, and are generally contingent upon continued employment and subject to restrictions on sale, transfer or assignment until conversion to common stock. All, or a portion of an award may be forfeited if employment is terminated before the end of the relevant vesting period or cancelled after the vesting period in certain situations. Recipients of equity-based awards may have voting rights, at Morgan Stanley's discretion, and generally receive dividend equivalents if the awards vest, unless this is prohibited by regulation.

During the year, Morgan Stanley granted 522,317 RSUs (2024: 483,939 RSUs) to employees of the Group with a weighted average fair value per unit of \$129.27 (2024: \$78.07) based on the market value of Morgan Stanley common stock at grant date.

Equity-based compensation expense of €51 million (2024: €36 million) was recognised within 'Direct staff costs'.

The related liability due to Morgan Stanley at the end of the year, reported within 'Trade and other payables' in the consolidated statement of financial position, is €68 million (2024: €66 million) of which €29 million (2024: €28 million) is expected to be settled wholly within one year and €39 million (2024: €38 million) thereafter.

The unrecognised compensation cost related to equity-based awards is shown in the table below:

in € millions	Unvested awards granted:		Total
	To 31 December 2025	In January 2026	
Expense expected to be recognised in:			
2026	14	60	74
2027	6	13	19
2028	2	6	8
Thereafter	–	2	2
	22	81	103

Amounts above do not reflect forfeitures, cancellations or accelerations.

Management Charges

As described in note 7, the Group utilises the services of staff who are employed by other Morgan Stanley Group undertakings. Management charges are incurred in respect of these employee services which may include the cost of equity-settled share-based and deferred cash-based compensation plans.

31. Post-Employment Benefits

Defined Contribution Plans

The Group operates several Morgan Stanley defined contribution plans, which require contributions to be made to funds held separately from the assets of the Group:

- Morgan Stanley Flexible Company Pension Plan (Amsterdam);
- Skandia Pension Plan (Stockholm);
- Fonditel Pension Plan (Madrid);
- Amundi Pension Plan (Milan);
- DC Pension Plan (Copenhagen);
- Poland DC PPK Pension Plan (Warsaw).

The Group pays fixed contributions to the plans, with no legal or constructive obligation to pay further contributions.

The defined contribution pension charge in relation to the above schemes recognised within 'Direct staff costs' in 'Operating expense' in the consolidated income statement was €4 million for the year (2024: €3 million).

Multi-employer Plans

MSESE and MSBAG are members of BVV Versicherungsverein des Bankgewerbes a.G. ("BVV"), the occupational pension fund organised for the German banking sector which provides retirement benefits to eligible

employees in Germany. Contributions to BVV are paid by both the employer and the employee based on a fixed percentage of base salary. At retirement the BVV pays a fixed pension with a guaranteed return and the employer entity retains the obligation for the pension benefit to its own employees, however the plan is accounted for as defined contribution under IAS 19.34. The expense in relation to the BVV recognised within 'Direct staff costs' in 'Operating expense' in the consolidated income statement, for the year ended 31 December 2025, was €2 million (2024: €3 million).

Defined Benefit Plans

The Group operates defined benefit plans for which net liabilities were recognised in the consolidated statement of financial position:

in € millions	2025	2024
Morgan Stanley General Retirement plan ⁽¹⁾	–	9
Morgan Stanley Deferred Compensation Plan	5	6
MSESE – Paris Branch IFC and MSESE – Milan branch leaving indemnity	5	4
At 31 December	10	19

⁽¹⁾The General Retirement Plan shows a €2.5million surplus at 2025 year-end. However, under IAS 19, the surplus cannot be recognised because the Group has no unconditional right to a refund nor the ability to reduce future contributions. As a result, the Surplus is fully derecognised in line with the asset ceiling requirements, with the impact recorded in Other Comprehensive Income

Defined Benefit Plans – Morgan Stanley General Retirement Plan

The Group operates the Morgan Stanley General Retirement plan ("the GP") which provides post-employment benefits to members on retirement dependent on years of service and salary. The GP was open to all permanent employees of MSBAG and other Morgan Stanley Germany Group undertakings until 2013 when it was closed to new members but remains open to future accrual of benefit for existing members. The Group's Management Board is briefed on the status of the GP which is subject to German Pension legislation. A third party agent administers the GP and a qualified actuary performs actuarial valuations.

The most recent actuarial valuation of the GP was carried out at 31 December 2025. The obligations under the GP are measured by discounting the best estimate of future cash flows to be paid out using the projected unit credit method.

The GP is funded by insurance contracts held with third party insurance providers within a Contractual Trust Arrangement ("CTA") which is legally separate from the Group and managed by a third party trustee. Proceeds from the insurance policies, received in the CTA, can only be used to pay or fund employee benefits under the GP and are not available to Group entities or creditors. The fair value of the insurance policies is a technical valuation provided by the insurer which approximates the cash surrender value. The net defined benefit asset is presented within the 'Post employment benefit obligations' in the consolidated statement of financial position.

The GP exposes the Group to risks such as inflation risk, longevity risk and counterparty credit risk.

**Movement in Net Defined Benefit
Pension Obligation of the GP**

2025	Present value of obligati on	Fair value of plan assets	Total	Impact of asset ceiling	Total
in € millions					
At 1 January 2025	(68)	59	(9)	–	(9)
Current Service Cost	(1)	–	(1)	–	(1)
Net interest (expense)/ income	(2)	2	–	–	–
Amounts recognised in the consolidated income statement	(3)	2	(1)	–	(1)
Remeasureme nts:					
Return on Scheme Assets	–	(1)	(1)	–	(1)
Actuarial gain arising from changes in financial assumptions	11	–	11	–	11
Adjustments for restrictions on the defined benefit asset	–	–	–	(2)	(2)
Amounts recognised in the consolidated statement of comprehensiv e income	11	(1)	10	(2)	8
Employer Contributions	–	2	2	–	2
Benefit payments	1	(1)	–	–	–
At 31 December 2025	(59)	61	2	(2)	–

2024

in € millions	Present value of obligation	Fair value of plan assets	Total	Total
At 1 January 2024	(71)	56	(15)	(15)
Current Service Cost	(1)	–	(1)	(1)
Net interest (expense)/ income	(2)	2	–	–
Amounts recognised in the consolidated income statement	(3)	2	(1)	(1)
Remeasurements:				
Actuarial loss arising from changes in financial assumptions	5	–	5	5
Amounts recognised in the consolidated statement of comprehensive income	5	–	5	5
Employer Contributions	–	2	2	2
Benefit payments	1	(1)	–	–
At 31 December 2024	(68)	59	(9)	(9)

The plan's net defined benefit position is €nil (2024: net obligation €9 million). Before applying the asset-ceiling requirements of IAS 19, the plan showed a €2.5 million surplus at the reporting date. However, as the surplus is not recoverable, the asset ceiling reduces the recognised amount to nil. The overall movement reflects the projected effect of differing valuation assumptions, principally discount rates, applied in the valuation of the assets and liabilities.

Of the gross defined benefit obligation, €11 million (2024: €14 million) relates to active members, €39 million (2024: €46 million) relates to deferred members and €10 million (2024: €8 million) relates to retired members.

Details of the GP's impact on the Group's pension reserve are given in note 3(n) to these consolidated financial statements.

GP Assets

The insurance policies cover the starting pension benefit entitlement. Subsequent statutory inflationary increases to pensions in payment are not contractually insured, however, any surpluses generated by the insurance are

paid to the Group as a non-guaranteed profit share. In the event that the profit share does not fully cover the pension entitlement, the Group is required to meet the residual obligation.

Employer contributions to the GP plan are in the form of annual insurance premiums and the Group expects to contribute €2 million (2024: €3 million) in the next financial year. Should a member leave the Group before normal retirement age, additional premiums may be payable in order to secure the final pension entitlement. The weighted average duration of the GP plan defined benefit obligations at 31 December 2025 is 18.88 years (2024: 20.44 years).

GP Liabilities

The following table presents the principal actuarial assumptions at the end of the reporting period:

	2025	2024
Inflation (CPI)	2.2%	2.2%
Discount rate	4.4%	3.5%

The mortality assumption follows the Heubeck AG 2018 table which is based on the latest data provided by the German Statutory Pension Insurance Scheme (Deutsche Rentenversicherung) and the German Federal Statistical Office.

The sensitivities regarding the principal assumptions used to measure the defined benefit obligation are as follows:

2025		
Assumption	Change in assumption	Impact on plan liabilities
Discount rate	Increase/ decrease by 0.5%	Decrease by 8.48%/ increase by 9.65%
Inflation	Increase/ decrease by 0.5%	Increase by 6.32%/ decrease by 5.75%
2024		
Assumption	Change in assumption	Impact on plan liabilities
Discount rate	Increase/ decrease by 0.5%	Decrease by 9.23%/ increase by 10.59%
Inflation	Increase/ decrease by 0.5%	Increase by 6.72%/ decrease by 6.09%

The sensitivity analysis presented above has been determined based on reasonably possible changes of the assumptions occurring at 31 December 2025 and 31 December 2024

assuming that all other assumptions are held constant. The fair value of plan assets is not considered to be materially impacted by fluctuations in the principal assumptions used to measure the obligation and is therefore excluded from the above table.

Other Defined Benefits Schemes – Morgan Stanley Deferred Compensation Plan

The Morgan Stanley Deferred Compensation plan was a voluntary compensation deferral plan available to certain employees of MSBAG and other Morgan Stanley Group undertakings which closed in 2005. Members have the option at retirement of taking a lump sum equal to the amount deferred plus a guaranteed interest rate or taking payments over 5 years.

The Deferred Compensation plan is partially funded by insurance contracts held with third party insurance companies. These policies are pledged by the Group to the employee, are protected from the Group's creditors in the event of insolvency and can only be used to pay or fund employee benefits under this defined benefit plan. The insurance policies are considered plan assets and are measured at fair value. Plan liabilities are measured by a qualified actuary at present value and the net defined benefit obligation is presented within 'Post employment benefit obligations' in the consolidated statement of financial position.

Movement in Net Defined Benefit Pension Obligation of the Deferred Compensation Plan

2025			
in € millions	Present value of obligation	Fair value of plan assets	Total
At 1 January 2025	(12)	6	(6)
Employer contributions	–	1	1
Benefits paid	4	(4)	–
At 31 December 2025	(8)	3	(5)

2024			
in € millions	Present value of obligation	Fair value of plan assets	Total
At 1 January 2024	(13)	7	(6)
Benefits paid	1	(1)	–
At 31 December 2024	(12)	6	(6)

The weighted average duration of the obligations at 31 December 2025 is 4.2 years (2024: 4.2 years).

MSESE - Paris IFC and MSF IFC

Indemnité de Fin de Carrière (IFC) is an unfunded defined benefit plan which pays a lump sum on retirement as required by French Labour law. The scheme exposes the Group to risks including inflation and interest rate risk.

MSESE - Milan Leaving Indemnity

This plan is an unfunded defined benefit plan which pays a lump sum upon termination of employment. It is closed to the accrual of future benefits and no further benefit has been attributed to service during the current or prior reporting period. The defined benefit obligation is therefore a measure of the present value of benefits for service already rendered and includes no assumption for future salary increases. The scheme exposes the Group to risks including inflation and interest rate risk.

32. Related Party Disclosures**Parent and Subsidiary Relationships****Parent and Ultimate Controlling Entity**

For information on the Group's parent and ultimate controlling entity, refer to note 1.

Key Management Compensation

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel include Management and Supervisory Board members of MSESE and MSBAG.

Compensation paid to key management personnel, in respect of their services rendered to the Group, comprised the following:

in € millions	2025	2024
Short-term employee benefits	8	13
Share-based payments	3	5
	11	18

The share-based payment costs disclosed above reflect the amortisation of equity-based awards granted to key management personnel and are therefore not directly aligned with staff costs within 'Operating expense'.

Key management personnel compensation is borne by the Group and by other Morgan Stanley Group undertakings. Management recharges in respect of key management personnel compensation borne by other Morgan Stanley Group undertakings are included in

'Management charges from other Morgan Stanley Group undertakings relating to staff costs' within 'Operating expense', as disclosed in note 7.

The members of the Management Board of MSESE collectively received compensation totaling €6 million for the year ended 31 December 2025 (2024: €14 million).

The members of the Supervisory Board of MSESE collectively received a total remuneration of €3 million for the year ended 31 December 2025 (2024: €3 million) for services to the Group.

MSESE has not provided any loans or other credit advances to its Management and Supervisory Board members during the year.

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 Group 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. The provision the Group has made for impairment relating to the amount of outstanding balances from related parties is de minimis.

Cash

The Group receives cash and termed deposits from other Morgan Stanley Group undertakings. All such transactions are entered into on an arm's length basis. Details of these balances are as follows:

in € millions	Interest	Balance
2025		
Amounts due to the Group's direct and indirect parent undertakings	(69)	5,978
Amounts due to other Morgan Stanley Group undertakings	(13)	898
2024		
Amounts due to the Group's direct and indirect parent undertakings	(134)	3,809
Amounts due to other Morgan Stanley Group undertakings	(28)	833

Funding

The Group receives funding from, and provides funding to, other Morgan Stanley Group undertakings in the following forms:

General Funding

General funding is undated, unsecured, floating rate lending, other than certain funding which is dated on a rolling 60 or 395 day term. Funding may be received or provided for specific transaction related funding requirements, or for general operational purposes. The interest rates are established by the Morgan Stanley Group Treasury function for all entities within the Morgan Stanley Group and approximate the market rate of interest that the Morgan Stanley Group incurs in funding its business.

Details of the outstanding balances in the consolidated statement of financial position on these funding arrangements and the related interest income or expense recognised in the consolidated income statement during the year are shown in the table below:

in € millions	2025		2024	
	Interest	Balance	Interest	Balance
Undated				
Amounts due from other Morgan Stanley Group undertakings	–	82	–	53
	–	82	–	53
Undated				
Amounts due to the Group's direct and indirect parent undertakings	–	72	(1)	82
Amounts due to other Morgan Stanley Group undertakings	–	31	–	81
	–	103	(1)	163
60 day termed				
Amounts due to the Group's direct and indirect parent undertakings	(1)	–	(85)	210
Amounts due to other Morgan Stanley Group undertakings	(240)	219	(133)	2,883
	(241)	219	(218)	3,093
Rolling 395 day term				
Amounts due to the Group's direct and indirect parent undertakings	–	–	(6)	–
Amounts due to other Morgan Stanley Group undertakings	(7)	1	(34)	768
	(7)	1	(40)	768

Subordinated Debt

The Group issued subordinated debt and senior subordinated debt instruments to its direct and indirect parent undertakings. Details of the terms of these instruments, including the contractual maturities and the interest rates are shown in note 17.

Details of the outstanding balances in the consolidated statement of financial position on these issuances and the related interest expense recognised in the consolidated income statement during the year are shown in the table below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 Year ended 31 December 2025

in € millions	Interest	Balance
2025		
Senior subordinated debt	(151)	4,100
Subordinated debt	(41)	1,509
2024		
Senior subordinated debt	(144)	2,800
Subordinated debt	(54)	1,000

AT1 Capital

The Group issued AT 1 capital instruments to its direct and indirect parent undertakings. The coupons on these instruments were paid on 1 December 2025. Details of the terms of the instruments and the coupons paid are shown in note 20.

Ordinary Shares

There have been no changes to equity instruments of the Group in 2025.

Trading and Risk Management

In the course of funding its business, the Group enters into collateralised financing transactions with other Morgan Stanley Group undertakings. All such transactions are entered into on an arm's length basis.

Details of the amount outstanding on such transactions and the related interest income/expense recognised in the consolidated income statement during the year are shown in the table below:

in € millions	Interest	Balance
2025		
Amounts due from other Morgan Stanley Group undertakings	1,021	15,169
Amounts due to other Morgan Stanley Group undertakings	(968)	13,246
2024		
Amounts due from other Morgan Stanley Group undertakings	1,077	11,023
Amounts due to other Morgan Stanley Group undertakings	(1,362)	11,092

The Group enters into purchases and sales of securities and derivative transactions with other Morgan Stanley Group undertakings to facilitate the provision of financial services to clients on a global basis and to manage the market risks associated with such business. The Group also enters into derivative transactions with other Morgan Stanley Group undertakings to manage the market risks associated with certain compensation plans. All such transactions are entered into on an arm's length basis.

The total amounts receivable and payable from such transactions not yet settled and the fair value of such derivatives contracts outstanding at the year end were as follows:

in € millions	2025	2024
Amounts due from other Morgan Stanley Group undertakings on unsettled securities and derivative transactions	14,841	17,217
Amounts due to other Morgan Stanley Group undertakings on unsettled securities and derivative transactions	12,842	16,956

The Group has received collateral of €1,283 million (2024: €673 million) from other Morgan Stanley Group undertakings and has pledged collateral of €604 million (2024: €2,796 million) to other Morgan Stanley Group undertakings to mitigate credit risk on exposures arising under derivatives contracts between the Group and other Morgan Stanley Group undertakings.

In addition, 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 has Global Transfer Pricing Policies in place among the Morgan Stanley and its consolidated subsidiaries to ensure arm's length pricing. These policies are consistent with the 2022 OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations. The Morgan Stanley Group has also engaged in negotiations of Advanced Pricing Agreements with selected tax authorities in respect of its key transfer pricing methodologies. Negotiations may result in changes to methodologies or inputs that could have an impact on the Group's revenues in the future.

For the year ended 31 December 2025, a net gain of €273 million (2024: €94 million) was transferred to the Group from other Morgan Stanley Group undertakings relating to such transfer pricing policies and recognised in the consolidated income statement.

Infrastructure Services

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 Year ended 31 December 2025

in € millions	Staff costs ⁽¹⁾	Other services ⁽¹⁾
2025		
Amounts recharged from other Morgan Stanley Group undertakings	74	155
2024		
Amounts recharged from other Morgan Stanley Group undertakings	45	193

⁽¹⁾ As at 31 December 2025 and 31 December 2024, the amounts recharged from the Group's direct and indirect parent undertakings were de minimis.

Other Related Party Transactions

The Group provided a fully-secured overdraft line of €5,000 million (2024: €5,000 million) to a Morgan Stanley Group undertaking.

The Group received guarantees of €286 million (2024: €293 million) from another Morgan Stanley Group undertaking related to loans and loan commitments to clients as at 31 December 2025. Furthermore, sub-participation agreements with other Morgan Stanley Group undertakings are in place in relation to loans and loan commitments to clients of €2,812 million (2024: €1,795 million).

33. Country by Country Reporting

Pursuant to Section 26a of the German Banking Act (Kreditwesengesetz, or “KWG”), the following table provides a list of all legal entities and branches of the Group, including details of the nature of business of each entity and geographical location.

Name of legal entities/ branches	Geographical location	Nature of business
Morgan Stanley Europe SE	Germany	Credit institution
Morgan Stanley Bank AG	Germany	Credit institution
Morgan Stanley Europe SE - Amsterdam Branch	Netherlands	Credit institution
Morgan Stanley Europe SE - Copenhagen Branch	Denmark	Credit institution
Morgan Stanley Europe SE - Madrid Branch	Spain	Credit institution
Morgan Stanley Europe SE - Milan Branch	Italy	Credit institution
Morgan Stanley Europe SE - Paris Branch	France	Credit institution
Morgan Stanley Europe SE - Stockholm Branch	Sweden	Credit institution
Morgan Stanley Europe SE - Warsaw Branch	Poland	Credit institution

The following table sets out information on turnover, profits before tax, corporate income tax and average number of employees of the Group for the year ended 31 December 2025 split by geographical location. Turnover, profits before tax and corporate income tax amounts are reported in accordance with the Group's 2025 consolidated income statement. Turnover is defined as net revenues before impairment and operating expenses net of intra-country eliminations.

Country	Turnover (in € millions)	Profit before tax (in € millions)	Corporate income tax (in € millions)	Average number of employees
Germany	714	250	71	381
Denmark	8	1	–	9
France	581	235	74	349
Italy	44	4	2	67
Netherlands	5	1	–	1
Poland	3	–	–	4
Spain	56	6	2	78
Sweden	37	3	–	24
Total	1,448	500	149	913

The Group has not received any public subsidies according to Section 26a (1) Sentence 2 No. 6 of the KWG.

34. Events after the Reporting Period

On 14 March 2026, the Company was acquired by MSBNA, which is a U.S. national bank with its headquarters and main office in Salt Lake City, Utah. MSBNA is an indirect, wholly owned subsidiary of Morgan Stanley. The change in control was approved by the European Central Bank (“ECB”). Required regulatory approvals in the U.S. were provided by the Federal Reserve Board (“FRB”) and the Office of the Comptroller of the Currency (“OCC”). Morgan Stanley remains the ultimate parent undertaking of the Company.

MORGAN STANLEY EUROPE SE

CONSOLIDATED FINANCIAL STATEMENTS
Year ended 31 December 2025

Frankfurt am Main, 20 March 2026

Morgan Stanley Europe SE

The Management Board

André Munkelt (Chair)

Martin Borghetto

Sophia Herrmann

Michele Jones

Philipp Lingnau

Kate Mozzicarelli

Independent Auditor's Report¹

To Morgan Stanley Europe SE, Frankfurt am Main

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT

Audit opinions

We have audited the consolidated financial statements of Morgan Stanley Europe SE, Frankfurt am Main, and its subsidiaries (the Group) which comprise the consolidated statement of financial position as at 31 December 2025, the consolidated income statement and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 01 January 2025 to 31 December 2025, and the notes to the consolidated financial statements, including material accounting policy information. In addition, we have audited the combined management report of Morgan Stanley Europe SE, Frankfurt am Main, for the financial year from 01 January 2025 to 31 December 2025. The combined non-financial statement contained in the 'Sustainability Report' section of the combined management report pursuant to Sections 340a(1a) and 340i(5) in conjunction with Sections 289b to 289e of the German Commercial Code (HGB), Sections 315b and 315c of the German Commercial Code (HGB), the components marked as unaudited in the "Sustainability Report" section of the combined management report, with the exception of the sections marked as audited, namely "Management of Climate and Environmental Risks" and "Measurement of Climate Risks", which form part of the risk reporting, as well as the references made in the combined management report to the Morgan Stanley Group's website, have not been audited by us in accordance with German statutory requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRS® Accounting Standards issued by the International Accounting Standards Board (IASB) (hereinafter "IFRS Accounting

Standards") as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2025 and of its financial performance for the financial year from 01 January 2025 to 31 December 2025 and

- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not extend to the combined non-financial statement contained in the 'Sustainability Report' section of the combined management report; the components of the 'Sustainability Report' section of the combined management report designated as unaudited, with the exception of the sections designated as audited, namely 'Management of Climate and Environmental Risks' and "Measurement of Climate Risks", which form part of the risk reporting as well as the references made in the combined management report to the Morgan Stanley Group's website.

Pursuant to Section 322 (3) sentence 1 German Commercial Code (HGB), we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the audit opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014; referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are

¹ Translation; the German version prevails

further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report.

We are independent of the Group's entities in accordance with the requirements of European law and German commercial and professional law and the International Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other German professional responsibilities in accordance with these requirements and the IESBA Code. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 01 January 2025 to 31 December 2025. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In the following, we present "Determination of the fair value of trading assets and liabilities classified as Level 3" the key audit matters we have determined in the course of our audit.

Our presentation of these key audit matters has been structured as follows:

- a. description (including reference to corresponding information in the consolidated financial statements)
- b. auditor's response.

Determination of the fair value of trading assets and liabilities classified as Level 3

- a. The core business activities of the Morgan Stanley Europe SE Group include client-

driven proprietary trading in financial instruments. The assets (EUR 56,042 million) and liabilities (EUR 48,055 million) arising from this business activity amount to EUR 104,097 million after netting as at 31 December 2025. A not insignificant portion of this relates to assets and liabilities in the trading book for which significant valuation parameters cannot be measured using observable data (category 'Level 3'). These are reported under trading assets (EUR 755 million) and trading liabilities (EUR 653 million) in the consolidated statement of financial position and are measured at fair value. Due to the provisions of IFRS 9 and the associated recognition of unrealised gains and losses, fair value measurement has a direct impact not only on the Group's financial position but also on its results of operations. For financial instruments for which there is no active market and therefore no observable price-determining parameters, fair value must be determined using model prices with the aid of unobservable parameters ('Level 3'). The values used for the unobservable parameters represent assumptions or estimates made by the legal representatives regarding the valuation assumptions used by market participants to determine prices for these assets and liabilities.

In our view, the determination of fair values for financial instruments classified as "Level 3" is of particular significance, as the assumptions or estimates are based on the discretion of the legal representatives and are associated with inherent and significant estimation uncertainty for financial reporting purposes.

The legal representatives' disclosures by the management regarding the accounting policies for trading assets and trading liabilities are included in Note 3 to the consolidated financial statements. Furthermore, financial instruments measured at fair value are presented in Note 28 to the consolidated financial statements, including level categorisation, changes to the 'Level 3' category and level transfers.

- b. As part of our audit of the consolidated financial statements, we have gained an understanding of the valuation models used to determine the fair value of financial

instruments classified as 'Level 3'. Furthermore, we have assessed whether and to what extent the approach was influenced by subjectivity, complexity or other inherent risk factors.

We identified the controls implemented for determining fair value and assessed the adequacy and effectiveness of the controls relevant to the audit. To this end, we assessed, amongst other things, the appropriateness of the models and valuation parameters used, as well as their rigorous and proper application. Furthermore, we also took into account the relevant business organisation and IT systems. Processes and controls that apply uniformly across the entire Morgan Stanley Group are carried out by a shared service centre and audited by the Morgan Stanley Group's auditors. We utilised their findings as part of the audit of the consolidated financial statements.

In addition, we utilised the following substantive audit procedures performed by the Group auditors in relation to the determination of the fair value of individual financial instruments in the 'Level 3' category:

- Conducting backtesting of the fair values estimated by the management for selected Level 3 instruments where events or transactions occurred after the valuation date.
- Independent estimates of fair values for selected structured Level 3 transactions. For these transactions, we reviewed whether the assumptions made by the management and the input parameters used were in accordance with the Group's valuation guidelines.
- Review of the income arising from the fair value measurement for selected Level 3 financial instruments. For individual transactions, we performed independent estimates of fair value to verify whether the assumptions made by the management and the underlying input parameters are consistent with the Group's valuation policies.
- Review of the consistent application of the significant and unobservable valuation assumptions made by

management for the purpose of determining fair values.

Furthermore, we have reviewed the disclosures in the notes to the consolidated financial statements for accuracy and completeness.

Other information

The Management Board and the Supervisory Board are responsible for the other information. The other information comprises:

- the report of the Supervisory Board, which is expected to be made available to us only after the date of this auditor's report;
- the combined non-financial statement in accordance with Sections 340a(1a) and 340i(5) in conjunction with Section 289b to Section 289e, Section 315b and Section 315c HGB;
- the sections of the combined management report designated as unaudited in the 'Sustainability Report' section, with the exception of the sections designated as audited, namely 'Management of Climate and Environmental Risks' and 'Measurement of Climate Risks', which form part of the risk reporting, as well as the references made in the combined management report to the Morgan Stanley Group's website, and
- all other parts of the Annual Report;
- but not the consolidated financial statements, not the audited content of the disclosures in the combined management report and not our auditor's report thereon.

The Supervisory Board is responsible for the Report of the Supervisory Board. Otherwise, the management board is responsible for the other information.

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information identified above and, in doing so, to consider whether the other information:

- is materially inconsistent with the consolidated financial statements, with the audited content of the disclosures in the combined management report or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

Responsibilities of the Management Board and the Supervisory Board for the consolidated financial statements and the combined management report

The Management Board is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS Accounting Standards as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the Management Board is responsible for such internal controls as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud (i.e., fraudulent financial reporting and misappropriation of assets) or errors.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the Management Board is responsible for the preparation of the combined management report that as a whole provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the Management Board is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated

financial statements and of the combined management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the combined management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of internal control or these arrangements and measures of the Group.
- evaluate the appropriateness of accounting policies used by the management board and the reasonableness of estimates made by the Management Board and related disclosures.
- conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS Accounting Standards as adopted by the EU and with the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- plan and perform the audit of the consolidated financial statements in order to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group, which serves as a basis for forming audit opinions on the consolidated financial

statements and on the combined management report. We are responsible for the direction, supervision and review of the audit procedures performed for the purposes of the group audit. We remain solely responsible for our audit opinions.

- evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- perform audit procedures on the prospective information presented by the Management Board in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Management Board as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the actions taken or safeguards applied to eliminate independence threats.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the current period and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 07 April 2025. We were engaged by the Supervisory Board on 28 July/11 November 2025. We have been the auditor of Morgan Stanley Europe SE, Frankfurt am Main, without interruption since the financial year 2018.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to the Group entities the following services that are not disclosed in the consolidated financial statements or in the combined management report:

- Morgan Stanley Europe SE: Audit in accordance with Section 316a of the German Commercial Code (HGB),
- Morgan Stanley Europe SE: Audit in accordance with Section 89(1) of the German Securities Trading Act (WpHG),
- Morgan Stanley Europe SE: Audit to obtain limited assurance regarding the statements of the legal representatives in accordance with 17 C.F.R. § 240.18a-7 of the Securities Exchange Act of 1934 in accordance with AICPA standards,
- Morgan Stanley Europe SE: Review of the interim financial statements for the period from 1 January to 30 June 2025 in accordance with IDW PS 900, and
- Morgan Stanley Bank AG: Audit in accordance with Section 89(1) of the German Securities Trading Act (WpHG)

MORGAN STANLEY EUROPE SE

INDEPENDENT AUDITOR'S REPORT

Year ended 31 December 2025

**GERMAN PUBLIC AUDITOR
RESPONSIBLE FOR THE
ENGAGEMENT**

The German Public Auditor responsible for the engagement is Kevin Vogt.

Frankfurt am Main, 25 March 2026

Deloitte GmbH

Wirtschaftsprüfungsgesellschaft

Christian Schweitzer
Wirtschaftsprüfer
(German Public Auditor)

Kevin Vogt
Wirtschaftsprüfer
(German Public Auditor)

Report of the Supervisory Board in Accordance with Sec. 171 (2) and 314 (2) of the German Stock Corporation Act (AktG)

In 2025, the Supervisory Board of Morgan Stanley Europe SE (the “Company”) had a strong focus on the development and business activities of the Company and the Morgan Stanley Europe SE Group. There were seven Supervisory Board meetings that took place during 2025. The Supervisory Board discussed fundamental aspects of the corporate planning, business policy, business development, risk situation and risk management with the Management Board. At the Supervisory Board meetings and whenever required, the Management Board regularly reported comprehensively and promptly on all incidents of significant importance and on the development of the financial figures.

The Management Board of Morgan Stanley Europe SE provided the Supervisory Board for the financial year 2025 without delay after their preparation:

- the annual Financial Statements consisting of Balance Sheet, Income Statement, Cash flow statement and Notes;
- The Consolidated Management Report and Consolidated Financial Statements consisting of Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, Consolidated statement of financial position, Consolidated statement of cash flows and Notes to the consolidated financial statements;
- the Report of the Management Board on Relations with Affiliated Companies

The Management Board therefore carried out its obligations in accordance with Section 170 (1) and 314 (1) AktG.

The Supervisory Board examined the documentation submitted in accordance with Section 171 (1) and 314 (2) AktG. The Auditor’s information was included into the examination. The examination has not led to any reservations.

The Supervisory Board subsequently approved the annual financial statement and the consolidated financial statements for the financial year 2025. As a result, the annual financial statements of Morgan Stanley Europe SE were determined in accordance with Section 172 AktG.

The statutory auditors, Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, have issued unqualified audit opinions for the annual financial statements as well as for consolidated financial statements and the Combined Management Report prepared in accordance with International Financial Reporting Standards (IFRS).

The statutory auditors have also issued an unqualified audit opinion for the Report of the Management Board on Relations with Affiliated Companies:

“Based on our due diligence review and assessment, we confirm that

1. the factual information in the report is correct,
2. in the legal transactions listed in the report, the performance of the institution was not unreasonably high or disadvantages were compensated for, and
3. in the case of the measures listed in the report, there are no circumstances that would justify a significantly different assessment than that made by the Management Board.”

31 March 2026

Frank Mattern (Chairman)