

Morgan Stanley Europe Holding SE Group

Pillar 3 Regulatory Disclosures Report

As of 31 March 2023

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¹ Please note that the English version of the Pillar 3 Disclosure report as of 31 March 2023 is a translation; the German version prevails.

1. Overview

The principal activity of Morgan Stanley Europe Holding SE, Frankfurt am Main, Germany ("MSEHSE") together with its subsidiaries (the "MSEHSE Group") is the provision of financial services to clients based mainly in the European Economic Area ("EEA") consisting of corporations, governments, and financial institutions. There have not been any significant changes in the MSEHSE Group's principal activities during the first quarter of 2023.

From 31 December 2022 onwards the MSEHSE Group complies with its European Union ("EU") related Pillar 3 disclosure requirements through a standalone disclosure report. Disclosures prior to 31 December 2022 were included within the Morgan Stanley International Limited Group, London, UK ("MSI Group") Pillar 3 disclosure report.

Pillar 3 disclosures as of 31 March 2023 are prepared at the consolidated level of the MSEHSE Group. In addition, Morgan Stanley Europe SE, Frankfurt am Main, Germany ("MSESE") is classified as a large non-listed subsidiary of the MSEHSE Group. Any large subsidiary disclosures for MSESE would be presented on an individual consolidation basis (MSESE as parent institution incorporating its subsidiary Morgan Stanley Bank AG, Frankfurt am Main, Germany ("MSBAG"), "MSESE Consol"). No quantitative information is presented for MSESE Consol in this report given the reduced reporting requirements for quarterly disclosure reports.

On 18 November 2022, the BaFin in consultation with the Deutsche Bundesbank categorised MSEHSE as an Other Systemically Important Institution ("O-SII"). As of 1 January 2023, the MSEHSE Group is required to hold an additional 0.25% Common Equity Tier 1 ("CET1") capital as an O-SII buffer.

Directors Responsibility Statement

To the best of my knowledge, I certify that the MSEHSE Group's Pillar 3 Disclosure Report as of 31 March 2023 is compliant with Part 8 of the Capital Requirements Regulation ("CRR") and has been prepared in accordance with formal governance and internal processes, systems and control procedures adopted at senior management level.

Dr. Jana Währisch
Chief Financial Officer
Morgan Stanley Europe Holding SE

Basis of Consolidation

The MSEHSE Group completes its prudential consolidation in compliance with CRR Part One, Title II Chapter 2, with all entities fully consolidated. The prudential consolidation scope is the same as the consolidation scope for accounting purposes.

Morgan Stanley Group

The MSEHSE Group is a wholly owned sub-group of the MSI Group. The MSI Group is regulated by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") in the United Kingdom ("UK"). The MSEHSE Group's, and MSI Group's, ultimate parent undertaking and controlling entity is Morgan Stanley, a Delaware corporation which, together with its consolidated subsidiaries, form the Morgan Stanley Group. Morgan Stanley is a "Financial Holding Company" as defined by the Bank Holding Company Act of 1956, as amended, and is subject to regulation and oversight of the Board of Governors of the Federal Reserve System. Details on the latest MSI Group Pillar 3 disclosure can be accessed at: <https://www.morganstanley.com/about-us-ir/pillar-uk>.

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

Details of the latest Morgan Stanley Group Pillar 3 disclosure can be accessed at <http://www.morganstanley.com/about-us-ir/pillar-us>. Details of the latest Morgan Stanley Group Liquidity Coverage Ratio disclosure can be accessed at <https://www.morganstanley.com/about-us-ir/lcr-disclosures-us>.

Morgan Stanley is listed on the New York Stock Exchange and is required, by the US Securities and Exchange Commission ("SEC"), to file public disclosures, including Annual 10-K Report and Quarterly 10-Q Report. These can be accessed at <https://www.morganstanley.com/pub/content/msdotcom/en/about-us-ir/sec-filings>.

MSEHSE Group

MSEHSE is the EU parent company and is authorised by the European Central Bank ("ECB") as a financial holding company. MSEHSE directly holds 100% of the shares in MSESE which in turn directly holds 100% of the shares in MSBAG.

In 2022, MSESE applied for permission to use the individual consolidation method under Article 9 of the CRR which was approved and became applicable as of 1 January 2023. Under this permission, capital requirements are managed at both the consolidated MSEHSE Group level (as before), and now additionally on a MSESE Consol basis. As a result, MSESE Consol is disclosed as a large subsidiary. For reporting periods prior to 1 January 2023 MSESE was exempted from large subsidiary Pillar 3 disclosures because it had been granted a capital waiver in accordance with Article 7 of the CRR and section 2a (3) (*Kreditwesengesetz* - "KWG"). MSBAG is classified as a non-large subsidiary in accordance with Article 4 (1) No. 146 CRR and is exempted from the requirement to publish Pillar 3 disclosures. MSBAG has been granted a capital waiver in accordance with Article 7 of the CRR and section 2a (3) KWG, that waives the requirement on an individual basis.

Additionally, MSEHSE is the sole shareholder of Morgan Stanley France Holdings I S.A.S., Paris, France ("MSFH I") together with its subsidiaries Morgan Stanley France Holdings II S.A.S., Paris, France ("MSFH II") and Morgan Stanley France S.A., Paris, France ("MSF"). MSF and MSFH I are subject to supervision by the Autorité de Contrôle Prudentiel et de Résolution ("ACPR"), Paris. As a Class 2 non-systemic investment firm, MSF falls under the scope of the Investment Firms Regulation ("IFR"). MSFH I on a consolidated basis, and MSF on a solo basis, prepare an own Pillar 3 disclosure report in accordance with the IFR rules. For further information please refer to the following link: <https://www.morganstanley.com/about-us/global-offices/europe-middle-east-africa/france>.

The MSEHSE Group is subject to joint supervision by the ECB, the Federal Financial Supervisory Authority ("BaFin") and the Deutsche Bundesbank.

Additional Regulatory Supervision

MSESE as a Germany-based broker-dealer is registered with the SEC as a security-based swap dealer and registered with the Commodity Futures Trading Commission ("CFTC") as a swap dealer. Until 31 December 2022, and pursuant to an interim no-action relief order, MSESE was complying with the CRR and German local capital requirements instead of SEC and CFTC capital requirements. Since 1 January 2023 compliance is met based on the application of substituted compliance.

Business Developments

In alignment with its business strategy and regulatory expectations, the MSEHSE Group is expanding its business activities by implementing booking model changes which will result in risk management of additional EU products within the MSEHSE Group.

In April 2023 the CET1 capital of both the MSEHSE Group and MSESE Consol increased by €1,000 million following receipt of capital from MSI.

2. Regulatory Frameworks

The Basel Committee on Banking Supervision (“BCBS”) sets the standard for international banking prudential regulation in a series of accords (“Basel Accords”). It is a forum for regular cooperation on the supervision of the banking system and is made up of national central banks and supervisory authorities from 28 countries.

The Basel Accords are not directly applicable legislation, and they apply only to internationally active banks. The Basel Accords have been updated several times, most recently through a series of reforms known collectively as Basel III. The Basel Accords are implemented in the EU via the Capital Requirements Directive (“CRD”) and CRR, both as amended. Further detailed requirements are provided through technical standards and regulations issued by other EU bodies, for example the European Banking Authority (“EBA”), as well as the ECB and other national supervisors which includes the BaFin and the Deutsche Bundesbank.

The framework consists of three “Pillars”:

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

This document represents the quarterly public Pillar 3 qualitative and quantitative disclosures in relation to the MSEHSE Group and MSESE Consol, as of 31 March 2023. The disclosure report is published and can be found at <https://www.morganstanley.com/about-us-ir/pillar-eu.html>.

Pillar 3 Disclosure

The MSEHSE Group's Pillar 3 disclosures are prepared in accordance with the requirements of Part 8 of the CRR. Additional disclosure requirements are implemented by the EBA via Regulatory Technical Standards (“RTS”) and Implementing Technical Standards (“ITS”). These additional disclosure requirements include published templates which have been integrated within this disclosure where applicable.

3. Total Loss-Absorbing Capacity

The MSEHSE Group is subject to internal Total Loss Absorbing Capacity (“TLAC”) requirements under the CRR. MSESE Consol is not subject to TLAC requirements.

These requirements are designed to enhance the resilience of the financial system by ensuring institutions have sufficient capital and eligible liabilities to absorb losses and recapitalise in resolution.

As of 31 March 2023, the minimum capacity requirements were set at 18% of RWAs and 6.75% of leverage ratio exposure measure, scaled at 90% for material subsidiaries, on a consolidated basis of a non-UK and non-EU Global Systemically Important Institution (“G-SII”).

The MSEHSE Group is already subject to internal Minimum Required Eligible Liabilities (“MREL”) requirements. MSESE Consol will be subject to MREL requirements from 1 January 2024.

Morgan Stanley’s preferred resolution strategy is a Single Point of Entry (“SPOE”) strategy. Further information on the resolution strategy can be found in Morgan Stanley Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q.

Table 1 provides details of the composition of the MSEHSE Group's TLAC.

Table 1: TLAC composition (EU iLAC) – MSEHSE Group

€MM		b	c
		Non-EU G-SII requirement for own funds and eligible liabilities (internal TLAC)	Qualitative information
MSEHSE Group¹			
Applicable requirement and level of application			
EU-1	Is the entity subject to a Non-EU G-SII Requirement for own funds and eligible liabilities? (Y/N)		Y
EU-2	If EU 1 is answered by 'Yes', is the requirement applicable on a consolidated or individual basis? (C/I)		C
EU-2a	Is the entity subject to an internal MREL requirement? (Y/N)		Y
EU-2b	If EU 2a is answered by 'Yes', is the requirement applicable on a consolidated or individual basis? (C/I)		C
Own funds and eligible liabilities			
EU-3	Common Equity Tier 1 capital (CET1)	5,180	
EU-4	Eligible Additional Tier 1 instruments	400	
EU-5	Eligible Tier 2 instruments	-	
EU-6	Eligible own funds	5,580	
EU-7	Eligible liabilities	2,500	
EU-8	of which permitted guarantees		
EU-9a	(Adjustments)		
EU-9b	Own funds and eligible liabilities items after adjustments	8,080	
Total risk exposure amount and total exposure measure			
EU-10	Total risk exposure amount	29,937	
EU-11	Total exposure measure	84,261	
Ratio of own funds and eligible liabilities			
EU-12	Own funds and eligible liabilities (as a percentage of TREA)	26.99%	
EU-13	of which permitted guarantees		
EU-14	Own funds and eligible liabilities (as a percentage of leverage exposure)	9.59%	
EU-15	of which permitted guarantees		
EU-16	CET1 (as a percentage of TREA) available after meeting the entity's requirements	8.56%	
EU-17	Institution-specific combined buffer requirement	3.19%	
Requirements			
EU-18	Requirement expressed as a percentage of the total risk exposure amount	16.20%	
EU-19	of which may be met with guarantees		
EU-20	Internal TLAC expressed as percentage of the total exposure measure	6.08%	
EU-21	of which may be met with guarantees		
Memorandum items			
EU-22	Total amount of excluded liabilities referred to in Article 72a (2) CRR	89,739	

1. As of 31 March 2023, the MSEHSE Group complies with the iTLAC requirements.

Over the first quarter of 2023, eligible liabilities decreased in line with own funds. The decrease in excluded liabilities for loss absorbing purposes is primarily driven by on-balance sheet liabilities, partially offset by an increase in secured liabilities.

4. Regulatory Development

Finalising Basel III Reforms

A number of remaining standards of the Basel III reform package have still to be fully implemented. These standards, referred to by the BCBS and international regulators as the 'Finalisation of Basel III', provide updates to key components of the regulation framework. These include revised market RWA requirements through the Fundamental Review of the Trading Book, new Credit Valuation Adjustments ("CVA"), revisions to the credit RWAs calculations covering both standardised and advanced treatments, and a new RWAs requirement for operational risk. They also introduce an aggregate floor for RWAs generated by internal models, which will be set at 72.5% of total standardised RWAs. The output floor will be phased-in over five years. Banks will also need to disclose their RWAs based upon the standardised approaches.

The European Commission published draft rules in October 2021, referred to as CRR III and CRD VI, to implement these final elements of the Basel III reform package. The draft rules are largely consistent with the Basel III reform package with some adjustments to address EU specificities. The proposed rules are currently going through the European legislative process and are subject to amendments proposed by the European Parliament and the Council of the European Union. The proposal also includes an increased focus on Environmental, Social and Governance ("ESG") risks.

5. Appendix I: Abbreviations

Term	Definition
AT1	Additional Tier 1 Capital
BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht
BCBS	Basel Committee on Banking Supervision
CET1	Common Equity Tier 1 Capital
CFTC	Commodity Future Trading Commission
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CVA	Credit Valuation Adjustment
EBA	European Banking Authority
ECB	European Central Bank
EEA	European Economic Area
ESG	Environmental, Social, Governance
EU	European Union
FCA	Financial Conduct Authority
G-SIIs	Global Systemically Important Institutions
HQLA	High Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
iTLAC	Internal Total Loss-Absorbing Capacity
ITS	Implementing Technical Standards
KWG	Kreditwesengesetz
MM	Millions
MSBAG	Morgan Stanley Bank AG
MSEHSE Group	Morgan Stanley Europe Holding SE Group
MSESE	Morgan Stanley Europe SE
MSESE Consol	Morgen Stanley Europe SE Sub Consolidation Group (including MSESE solo and MSBAG)
MSI	Morgan Stanley International Limited
MSI Group	Morgan Stanley International Limited (and its subsidiaries)
MSIP	Morgan Stanley & Co. International plc
MREL	Minimum Required Eligible Liabilities
NSFR	Net Stable Funding Ratio
O-SIIs	Other Systemically Important Institutions
PRA	Prudential Regulation Authority
RTS	Regulatory Technical Standards
RWAs	Risk Weighted Exposure Amounts
SEC	US Securities and Exchange Commission
SPOE	Single Point of Entry
SREP	Supervisory Review and Evaluation Process
TLAC	Total Loss-Absorbing Capacity
TREA	Total risk exposure amount
UK	United Kingdom