

Morgan Stanley Europe Holding SE Group

Pillar 3 Regulatory Disclosure Report

As at 31 March 2024

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¹ Please note that the English version of the Pillar 3 Disclosure report as of 31 March 2024 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 2024.

As of 31 March 2024 Pillar 3 disclosures 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. Large subsidiary disclosures for MSESE are 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 the quarterly disclosure based on Article 13 (1) of the Capital Requirements Regulation ("CRR").

Directors Responsibility Statement

To the best of my knowledge, I certify that the MSEHSE Group's Pillar 3 Disclosure Report as of 31 March 2024 is compliant with Part 8 of the CRR and has been prepared in accordance with formal governance and internal processes, systems and control procedures adopted at the management body 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 1, 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

Morgan Stanley International Limited ("MSI") which, together with its consolidated subsidiaries, forms the "MSI Group". MSEHSE is a wholly owned subsidiary of MSI. The MSI Group is regulated by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") in the United Kingdom ("UK"). Details of the latest MSI Group Pillar 3 disclosure can be accessed at: <https://www.morganstanley.com/about-us-ir/pillar-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 ("FED") in the United States of America ("USA").

The information disclosed in this report is not 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 financial reporting and capital adequacy, liquidity, risk exposure and risk management policies of the Morgan Stanley Group should consult the public disclosures of Morgan Stanley Group.

Details of the latest Morgan Stanley Group Pillar 3 disclosure can be accessed at <https://www.morganstanley.com/about-us-ir/pillar-us>. Details of the latest disclosure of Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR") of Morgan Stanley Group can be accessed at <https://www.morganstanley.com/about-us-ir/lcr-disclosures-us> and <https://www.morganstanley.com/about-us-ir/nsfr-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/about-us-ir/sec-filings>.

MSEHSE Group

MSEHSE is the European Union ("EU") parent company of the MSEHSE Group and is authorised by the European Central Bank ("ECB") as a financial holding company. The MSEHSE Group is subject to joint supervision by the ECB, the Federal Financial Supervisory Authority ("BaFin") and the Deutsche Bundesbank.

MSEHSE directly holds 100% of the shares in MSESE which in turn directly holds 100% of the shares in MSBAG.

MSESE has permission to use the individual consolidation method under Article 9 of the CRR. Under this permission, capital requirements are managed at both the consolidated MSEHSE Group level and at the MSESE Consol level. MSESE Consol is disclosed as a large subsidiary.

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) *Kreditwesengesetz* ("KWG"), that waives the requirement to comply with disclosure requirements on an individual basis.

Additionally, MSEHSE is the sole shareholder of Morgan Stanley France Holdings I S.A.S, Paris, France, ("MSFH I") and 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 their own Pillar 3 disclosure report in accordance with the IFR rules. The latest report can be accessed at the following website: <https://www.morganstanley.com/about-us/global-offices/europe-middle-east-africa/france>.

Additional Regulatory Supervision

As a provider of services to global clients, MSESE is conditionally registered with the SEC as a Securities-Based Swap Dealer ("SBSD"). MSESE is also registered with the Commodity Futures Trading Commission ("CFTC") as a Swap Dealer.

MSESE complies with CRR and German specific capital requirements in lieu of SEC capital requirements pursuant to substituted compliance rules starting 1 January 2023.

The CFTC are developing specific requirements to allow registered non-bank Swap Dealers to meet CFTC capital requirements by reference to local prudential standards with a draft proposal published for Germany. Until those rules are finalised, pursuant to interim no-action relief, MSESE complies with home-country capital requirements in lieu of CFTC capital requirements.

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.

2. Regulatory Frameworks

The Basel Committee on Banking Supervision (“BCBS”) sets the Standards 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 own funds requirements for credit, market, operational and liquidity risk;
- Pillar 2 – Supervisory Review and Evaluation Process (“SREP”): including a requirement for institutions to undertake an Internal Capital Adequacy Assessment Process (“ICAAP”) and Internal Liquidity Adequacy Assessment Process (“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.

Pillar 3 Disclosure

This report represents the quarterly public Pillar 3 qualitative and quantitative disclosures in relation to the MSEHSE Group and MSESE Consol, as of 31 March 2024.

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 (“iTLC”) 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 recapitalize in resolution.

As of 31 March 2024, the minimum requirements were set at 18% of Risk-Weighted Assets (“RWAs”) and 6.75% of leverage exposure, scaled at 90% for MSEHSE Group as a material subsidiary, on a consolidated basis, of a non-EU Global Systematically Important Institution (“G-SII”).

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

Morgan Stanley Group'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 10-K Report and Quarterly 10-Q Report as well as the Public Section of Morgan Stanley's Title I resolution plan that can be accessed at <https://www.fdic.gov/resources/resolutions/resolution-authority/resplans/index>.

Table 1 provides details of the composition of the MSEHSE Group’s Total Loss-Absorbing Capacity (“TLAC”).

| Table 1: TLAC composition (EU iTLAC) - MSEHSE Group | | b | c |
|--|---|---|-------------------------|
| €MM | | Non-EU G-SII requirement for own funds and eligible liabilities (internal TLAC) | Qualitative information |
| MSEHSE Group ¹ | | | |
| 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) | 6,245 | |
| EU-4 | Eligible Additional Tier 1 instruments | 400 | |
| EU-5 | Eligible Tier 2 instruments | - | |
| EU-6 | Eligible own funds | 6,645 | |
| EU-7 | Eligible liabilities | 2,800 | |
| EU-8 | Of which permitted guarantees | | |
| EU-9a | (Adjustments) | | |
| EU-9b | Own funds and eligible liabilities items after adjustments | 9,445 | |
| Total risk exposure amount and total exposure measure | | | |
| EU-10 | Total risk exposure amount | 33,347 | |
| EU-11 | Total exposure measure | 99,000 | |
| Ratio of own funds and eligible liabilities | | | |
| EU-12 | Own funds and eligible liabilities (as a percentage of TREA) | 28.32% | |
| EU-13 | of which permitted guarantees | | |
| EU-14 | Own funds and eligible liabilities (as a percentage of leverage exposure) | 9.54% | |
| EU-15 | of which permitted guarantees | | |
| EU-16 | CET1 (as a percentage of TREA) available after meeting the entity's requirements | 10.33% | |
| EU-17 | Institution-specific combined buffer requirement | 3.51% | |
| 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 MREL 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 | 72,332 | |

1. As of 31 March 2024, the MSEHSE Group complies with the iTLAC requirements.

Over the first quarter of 2024, MSEHSE Group’s TLAC (as a percentage of RWAs) decreased due to an increase in Total Risk Exposure Amount (“TREA”), partially offset by increased Senior Subordinated Debt following a drawdown of €300MM from the ultimate parent entity.

4. Regulatory Development

Finalising Basel III reforms

There are a number of remaining standards of the Basel III reform package (referred to as “Finalisation of Basel III”) that are yet to be implemented. These revisions cover RWA requirements for Credit, Market, Credit Valuation Adjustment (“CVA”) and Operational Risk.

They also introduce an aggregate floor for RWA generated by internal models, which will be set at 72.5% of total standardised RWA. The output floor will be phased-in over five years. Institutions will also need to disclose their RWA based upon the standardised approaches.

The proposed rules, referred to as CRR III and CRD VI, to implement the final elements of the Basel III reform package with some EU specific adjustments, are finalised and approved via the European legislative process by the European Parliament and the Council of the EU and are expected to be effective from 1 January 2025. The finalised rules also include an increased focus on Environmental, Social and Governance (“ESG”) risks.

Internal MREL

MSEHSE Group is subject to internal MREL requirements as set by the Single Resolution Board and BaFin. MSEHSE Group has taken note of changes to the Single Resolution Board’s MREL policy published in May 2024 that, among other items, changes the basis under which the Market Confidence Charge adjustment to internal MREL requirements is set. This change is currently being evaluated for its potential impact, but could result in a change in MSEHSE Group’s internal MREL requirement that would be effective as of 1 January 2025.

5. Appendix I: Abbreviations

| Term | Definition |
|---------------|---|
| ACPR | Autorité de Contrôle Prudentiel et de Résolution |
| BaFin | Federal Financial Supervisory Authority |
| Basel Accords | Standards for international banking prudential regulation in a series of accords |
| BCBS | Basel Committee on Banking Supervision |
| CET1 | Common Equity Tier 1 Capital |
| CFTC | Commodity Futures 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 and Governance |
| EU | European Union |
| FCA | Financial Conduct Authority |
| FED | Federal Reserve System |
| G-SII | Global Systemically Important Institution |
| ICAAP | Internal Capital Adequacy Assessment Process |
| IFR | Investment Firms Regulation |
| ILAAP | Internal Liquidity Adequacy Assessment Process |
| iTLAC | Internal Total Loss Absorbing Capacity |
| ITS | Implementing Technical Standards |
| KWG | Kreditwesengesetz |
| LCR | Liquidity Coverage Ratio |
| MREL | Minimum Required Eligible Liabilities |
| MSBAG | Morgan Stanley Bank AG |
| MSEHSE | Morgan Stanley Europe Holding SE |
| MSEHSE Group | ("MSEHSE") together with its subsidiaries |
| MSESE | Morgan Stanley Europe SE |
| MSESE Consol | Morgan Stanley Europe SE Sub Consolidation Group (including MSESE solo and MSBAG) |
| MSF | Morgan Stanley France S.A., Paris, France |
| MSFH I | Morgan Stanley France Holdings I S.A.S, Paris, France |
| MSFH II | Morgan Stanley France Holdings II S.A.S, Paris, France |
| MSI | Morgan Stanley International Limited |
| MSI Group | ("MSI") which, together with its consolidated subsidiaries |
| NSFR | Net Stable Funding Ratio |
| PRA | Prudential Regulation Authority |
| RTS | Regulatory Technical Standards |
| RWAs | Risk-Weighted Assets |
| SBSD | Securities-Based Swap Dealer |
| SEC | 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 |
| USA | United States of America |