

REMUNERATION REPORT OF MORGAN STANLEY BANK AG FOR 2012

1. General

This remuneration report sets out Morgan Stanley's general compensation principles which apply to all remuneration arrangements. Details of specific remuneration programs are set out in the relevant plan terms and conditions as in force from time to time.

In addition Morgan Stanley Bank AG (MSBAG) has implemented a remuneration policy to secure compliance with the relevant German statutory and regulatory framework, in particular requirements under the Stock Corporation Act (Aktiengesetz) as amended by the Act on Adequateness of Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung) and the Ordinance on Statutory Requirements for Remuneration Schemes in Financial Institutions (Institutsvergütungsverordnung).

2. Compensation Objectives

MSBAG remuneration objectives and strategy are aligned closely with Morgan Stanley's Global Remuneration Policy. MSBAG compensation philosophy is designed to satisfy the following key objectives in order to attract and retain the talented team of people needed to serve the needs of its customers and clients and build long-term value for its shareholders: Drive Firm and individual performance, balance short-term and long-term performance, retain key talent and protect Morgan Stanley's interests, avoid unnecessary or excessive risk taking, act in line with the best interest of the clients, align executive and shareholder interests and compete effectively for key talent.

3. Compensation Programs

MSBAG compensation programs include the following features that are designed to mitigate unnecessary risk-taking: A balance between fixed versus discretionary compensation, a balance between short-term and long-term incentives, mandatory deferrals into both equity-based and cash-based long-term incentives, claw backs and holdbacks, and stock ownership commitments. The remuneration structure of MSBAG does not contain any elements that incent risky behavior. Moreover, it is in line and supports MSBAG risk-averse business strategy.

4. Compensation Strategy

MSBAG compensation strategy is following to the below criteria:

- a) Base salaries are aligned to market practice and reviewed regularly.
- b) Employment contracts do not refer to elements that would allow individual employees to claim specific payments or bonus payments in case of negative performance or when leaving Morgan Stanley.
- c) Compensation decisions for employees in Risk, Compliance, Internal Audit and other similar functions are made independent from the Business Units they support.
- d) Board member remuneration is decided by the Supervisory Board in an extraordinary supervisory board meeting. Compensation of Board Members of MSBAG is to be compliant with the VorstAG (Gesetz zur Angemessenheit der Vorstandsvergütung).
- e) Guarantees - if any - are only granted to new starting employees and are limited to the initial year. No further compensation guarantees will be given in employment contracts.
- f) Code of Conduct German Supplement prohibits employees to buy insurance or entering into a hedge which mitigates or diminishes this risk profile.

5. Compensation Determination Process

The determination of bonus pools is a global multi-dimensional process which reflects a number of financial and strategic measures as well as internal and external benchmarking. The allocation and distribution of bonuses is based on current and forecasted Firm and segment performance, revenue and profitability of both the business group and Morgan Stanley, return on equity and risk factors of the business group and Morgan Stanley, external market conditions.

Decisions with respect to individual allocations of the bonus pool are also multi-dimensional - based on a non-formulaic approach - and reflect financial and strategic achievements. Consideration is also given to external market conditions and to absolute and relative performance within that individual's business unit, as well as other units within Morgan Stanley. A 360 degree Talent Development Process for the broad-based employee population requires managers, Firm peers, internal clients and subordinates to rate each employee on the criteria outlined below. Managers review such evaluations and provide feedback to employees on franchise and commercial impact, including taking appropriate risk, professional and leadership skills, demonstration of Morgan Stanley core values including ethics and compliance, a mix of other financial and non-financial measures.

6. Specific Remuneration Principles for Management Board Members of MSBAG (Vorstand)

German law establishes additional requirements for the remuneration of the Management Board. The Supervisory Board (Aufsichtsrat) of MSBAG applies remuneration principles developed by the Firm with sufficient room to comply with local requirements as set by the Ordinance on Statutory Requirements for Remuneration Schemes in Financial Institutions and § 87 Stock Corporation Act.

7. Disclosure according to § 7 Remuneration Ordinance (Institutsvergütungsverordnung)

Business area	Total Compensation in EUR	Fix Payments in EUR	Variable payments in EUR	Number of beneficiaries of variable payments
Institutional Securities	25,431,176	13,895,009	11,536,167	75
Asset Management	4,832,623	2,887,252	1,945,371	19
Other	7,028,678	6,675,904	352,774	81