

Article 450 of CRR Disclosure

Morgan Stanley France S.A. Compensation Disclosure

Morgan Stanley (France) S.A. | As at 31 December 2018

This Compensation Disclosure (the “Disclosure”) sets out the principles relating to compensation within Morgan Stanley France S.A. (“MS France”). Some of the policies, practices and procedures outlined in the Disclosure apply globally to Morgan Stanley, its subsidiaries and affiliates (the “Company”). The Disclosure has been established in line with the Capital Requirements Directive (“CRD IV”), the Capital Requirements Regulation (“CRR”), the European Banking Authority (“EBA”) Guidelines on Sound Remuneration Policies, the French Monetary and Financial Code, the French Prudential Supervision Authority (ACPR), and any associated regulations and guidance (together the “French Compensation Rules”).

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1. Morgan Stanley Compensation Objectives and Strategy

The Company is committed to a responsible and effective compensation program that is aligned to shareholder and Company strategy, is motivating, competitive, and reflects current best practices in corporate governance, risk management and regulatory principles. The Company's compensation processes are aligned with the Company's core values of Putting Clients First, Leading with Exceptional Ideas, Doing the Right Thing and Giving Back. The alignment with the Company's core values is a key element considered as part of the performance measurement process (see section 5b).

The Global Compensation, Management Development and Succession Committee ("CMDS Committee") continually evaluate the Company's compensation programs with a view towards balancing the following key objectives, all of which support the Company's culture and values and shareholders' interests:

- **Deliver Pay for Sustainable Performance.**
 - Variable annual incentives tied to performance
 - Consideration of returns for shareholders and appropriate rewards to motivate employees
- **Align Executive Compensation with Shareholders' Interests.**
 - Significant portion of incentive compensation is deferred, subject to cancellation and clawback, and tied to the Company's stock with retention requirements
 - Ongoing shareholder engagement to understand shareholder views
- **Attract and Retain Top Talent.**
 - Competitive pay levels to attract and retain the most qualified employees in a highly competitive global talent environment
 - Incentive awards include vesting and cancellation provisions that help retain employees and protect the Company's interests
- **Mitigate Excessive Risk-taking.**
 - Compensation arrangements do not incentivize unnecessary or excessive risk-taking that could have a material adverse effect on the Company
 - Robust governance around review and approval of compensation programs, including from a risk perspective

2. Categories of staff whose professional activities have a material impact on MS France's risk profile

MS France has established a formal identification framework to identify staff whose professional activities have a material impact on MS France's risk profile (material risk takers, referred to as "Identified Staff" in this Disclosure). The MS France identification framework complies with the qualitative and quantitative criteria set out in Articles 3 and 4 of Commission Delegated Regulation (EU) No 604/2014. The identification framework is reviewed on an annual basis in line with the French Compensation Rules and the outcome of the review is subject to the approval of the EMEA Remuneration Oversight Committee ("EROC") and the MS France Remuneration Committee.

MS France Identified Staff are subject to the French Compensation Rules.

3. Decision-making process used for determining compensation policies applicable to Identified Staff

3a. *Composition and mandate of MS France Remuneration Committee, the EMEA Remuneration Oversight Committee (EROC), the MSI Remuneration Committee, and the global Compensation, Management Development and Succession (CMDS) Committee*

The MS France Remuneration Committee oversees the design and implementation of the remuneration policies and practices applicable to MS France. It is appointed by the Board of Directors of MS France to assist the Board in the preparation of its decisions on compensation, in particular those which have an impact on the risks and risk management of MS France. Annually, the MS France Remuneration Committee reviews and approves compensation decisions for Identified Staff. In addition, the Board of MS France review and approve the aggregate annual compensation spend relating to all employees. The MS France Remuneration Committee is currently composed of two Non-Executive Directors.

EROC provides formal oversight of EMEA compensation matters to ensure compensation practices in EMEA are compliant with relevant UK and EU legislation and follow good practice standards. The EROC met eight times in 2018 and consisted of the EMEA Chief Executive Officer (CEO), the International Head of Human Resources (HR), the EMEA Chief Finance Officer (CFO), the EMEA Chief Legal Officer (CLO), the EMEA Head of Compliance, and the EMEA Chief Risk Officer. EROC certified compliance to regulatory requirements to the Morgan Stanley International Limited (“MSI”) Remuneration Committee (the “MSI RemCo”). In addition, the MS France Remuneration Committee receives regular updates of discussions held at EROC.

The MSI RemCo was appointed by the MSI Board of Directors to oversee the design and implementation of the compensation policies and practices applicable to MSI, its subsidiaries and affiliates (together, the “MSI Group”), which includes contributing to the global policy that is subject to oversight by the CMDS Committee and overseeing compliance by the MSI Group to applicable EU and UK compensation rules. The MSI RemCo is comprised of three non-executive directors and met five times over the course of 2018.

The CMDS Committee is comprised of four directors, including the independent Lead Director of the Board, all of whom are independent under the New York Stock Exchange listing standards and the independence requirements of the Company. In 2018, the CMDS Committee held eight meetings. The CMDS Committee operates under a written charter adopted by the Board, which is available on Morgan Stanley’s website at <http://www.morganstanley.com/about-us-governance/comchart.html>.

The CMDS Committee regularly reviews (i) Company performance with respect to execution of strategic objectives and evaluates executive performance in light of such achievements; (ii) executive compensation strategy, including the competitive environment and the design and structure of the Company’s compensation programs to ensure that they are consistent with and support our compensation objectives; and (iii) market trends and legislative and regulatory developments affecting compensation in the U.S. and globally.

3b. *Role of the relevant stakeholders and external consultant*

The CMDS Committee oversees the Company’s incentive compensation arrangements to help ensure that such arrangements are consistent with the safety and soundness of the Company, do not encourage excessive risk-taking and are otherwise consistent with applicable related regulatory rules and guidance. The global Chief Risk Officer (“CRO”) reviews the Company’s incentive compensation arrangements and reports his findings to the CMDS Committee at least annually. The CRO concluded that the Company’s compensation programs for 2018 did not incentivize employees to take unnecessary or excessive risk and that the programs did not create risks that were reasonably likely to have a material adverse effect on the Company.

The CMDS Committee retains an independent compensation consultant and evaluates the independence of such consultant and other advisors as required by any applicable law, regulation and listing standard. The CMDS Committee’s compensation consultant, Pay Governance, assists the CMDS Committee in collecting and evaluating external market data regarding executive compensation and performance and advises the CMDS Committee on developing trends and best practices in executive compensation and equity and incentive plan design. In performing these services, Pay Governance meets regularly with the CMDS Committee, including without management present, and separately with the CMDS Committee Chair. Pay Governance does not provide any other services to the Company or its executive officers. The Company has affirmatively

determined that no conflict of interest has arisen in connection with the work of Pay Governance as compensation consultant for the CMDS Committee.

4. Link between pay and performance

The Company has a 'pay for performance' philosophy, which is reflected throughout the four key objectives of its compensation programs (see section 1) and applies across all lines of business.

Performance is taken into account at every step of the variable compensation cycle, from the ex-ante adjustment and determination of variable compensation to the delivery and where applicable ex-post adjustment of compensation.

Performance measurement for year-end compensation is subject to a multi-dimensional process, which considers individual, Company and business segment performance. Our 'pay for performance' philosophy means that where a variable compensation award is not appropriate, none will be paid; every year a proportion of our eligible population does not receive variable compensation. The governance around the performance evaluation and compensation decision-making process ensures decisions are a product of a number of inputs including performance, risk and conduct. Further information in relation to performance measurement and criteria is provided in sections 5b and 7.

Delivering a portion of deferred incentive compensation awards in the form of equity links variable compensation to Company performance through the Company's stock price performance. Risk outcomes that result in a negative impact to the Company reduce the value of the equity, and the employee is subject to this decline in value through the deferral period. In addition to cancellation and clawback, there is a formal governance process to consider and determine ex-ante and ex-post adjustments to individual variable annual incentive compensation. Further information in relation to MS France Identified Staff deferral characteristics including vesting conditions and ex-post adjustments are included in section 5.

5. Design characteristics of the Compensation System

Compensation for the majority of employees is comprised of two key elements:

- Fixed compensation consisting of base salary and, for certain employees, a Role Based Allowance ("RBA"); and
- Discretionary variable annual incentive compensation that is based on a number of factors, including Company, Business Unit, and individual performance.

RBAs are considered to be fixed compensation because they meet the requirements of the relevant compensation rules, are paid monthly in cash via payroll and are based on an individual's roles and responsibilities.

The variable annual incentive compensation for MS France Identified Staff may be payable in upfront cash bonus, stock bonus awards and a mix of deferred cash-based and equity awards in line with applicable rules, and at a minimum, is structured as follows:

- Ratio between the fixed and the variable components of total compensation does not exceed 1:2 (see section 6);
- Minimum of 40% of variable compensation to be deferred over a 3 year period, vesting no faster than on a pro-rata basis. Individuals with a "particularly high" variable compensation to have 60% deferred. For 2018, the Euro equivalent of £500k was used as the threshold for employees subject to the 60% deferral;
- The deferred variable annual incentive compensation is in the form of a minimum 50% deferred equity awards, with the remainder 50% in the form of deferred cash-based awards;
- The remaining non-deferred variable annual incentive compensation is awarded 50% as stock bonus awards, with the remaining 50% as upfront cash bonus.
- Deferred and non-deferred variable compensation awarded in instruments have a minimum of 6 to 12 month retention period.
- Variable compensation awards are subject to malus and clawback, to the extent applicable under local labour law.

MS France Identified Staff whose variable annual incentive compensation is not greater than €100k are not subject to the full scope of the French Compensation Rules. However, such MS France Identified Staff continue to be subject to the Company's deferral practices for the general employee population.

The Company expects deferred incentive awards to constitute a significant component of employees' total compensation and to be designed to protect the Company's long term interests and align with shareholders' interests. Notwithstanding this, our 'pay for performance' philosophy means that where a variable award is not appropriate, none will be paid and every year a proportion of our eligible population receives no variable compensation.

Compensation decisions for employees in our independent control functions are determined by senior management of those divisions, wholly independent of the business areas. The variable compensation of our control functions is linked to the achievement of goals which are directly linked to their functions and independent of the performance of the business areas they control. The compensation decisions of all control function Identified Staff are reviewed and approved by the MS France Remuneration Committee

Guaranteed variable compensation is only paid in exceptional circumstances in the context of hiring new staff and is limited to the first year of service. The awarding of guaranteed variable compensation is subject to an approval process, which includes receiving approval from the appropriate Senior Manager, the EMEA Head of Compensation, and in certain circumstances the global Chief Human Resources Officer.

Termination payments made to some employees on leaving the MS France are reviewed in accordance with the MS France's severance framework, which complies with the relevant compensation rules.

5a. Risk Adjustment

The Company continues to monitor the effectiveness of its compensation structure and evaluate whether it achieves balanced risk-taking and has a thorough process of considering risk-adjusted performance, compliance with risk limits and the market and competitive environment when sizing and allocating annual incentive compensation pools.

Throughout the year, employee conduct matters that are escalated through the Company's Global Conduct Risk Program are reviewed to determine whether they present situations that could require clawback or cancellation of previously awarded compensation, as well as downward adjustments to current year compensation. Cancellations and clawbacks of previously awarded compensation are reviewed quarterly with the Employee Discipline Oversight Committee (a committee of senior management currently composed of the CFO, CLO, CRO, Chief Human Resources Officer (CHRO), and Chief Compliance Officer) and reported to the CMDS Committee. This process is enhanced by a formalized EMEA malus review process as part of the EROC governance. This process involves EROC assessing situations which may warrant adjustment to current year variable compensation and/or to apply cancellation and/or clawback, with reference to specific criteria that are contained in governing incentive compensation award documents and applicable policies. The MS France Remuneration Committee and the MSI RemCo receive regular updates on the malus review process.

All variable compensation for MS France Identified Staff have provisions that allow for clawback of any awards or compensation paid or delivered.

5b. Performance Measurement

Performance measurement for year-end compensation for each employee is subject to a multi-dimensional process, which considers, amongst other factors, individual, global and business segment performance. This takes into account financial as well as non-financial performance metrics. The Company has a Global Incentive Compensation Discretion Policy that sets forth standards for exercise of managerial discretion in year-end discretionary compensation decisions. The policy specifically provides that all managers must consider whether their team members managed risk appropriately and effectively managed and supervised the risk control practices of the employees reporting into them during the performance year. Managers are trained on these requirements annually and are required to certify compliance with the applicable requirements. In addition, conduct, culture, and core values must be considered in the year-end performance evaluation process by considering

whether the employee performed their job responsibilities in ways consistent with the Company's culture and core values (see section 1). The year-end performance and compensation processes provide managers with an Employee Performance Dashboard, which is an aggregation of performance inputs, including the areas of Risk Management, Conduct and Control. These inputs are included in our compensation system to ensure these factors are taken into account in compensation decisions.

6. Ratios between fixed and variable compensation set in accordance with Article 94(1)(g) of Directive 2013/36/EU (CRD IV)

The Company's policy on ratios between fixed and variable compensation is to allow for flexibility, whilst recognizing the need to ensure that levels of compensation are appropriately balanced between fixed and short- and long-term variable incentive compensation. The ratio was approved by Morgan Stanley France shareholder (Morgan Stanley Holdings I and Morgan Stanley Holdings II) on 25 May 2018. The ratio approved is the maximum allowed under CRD IV.

7. Performance criteria on which the entitlement to variable compensation is based

The Global Incentive Compensation Discretion Policy, noted above at 5b, also provides guidelines to help ensure that annual incentive compensation decisions take relevant factors into consideration, including actual and potential risks to the Company that the employee may be able to control or influence. The policy specifically provides that all compensation managers must consider whether or not an employee managed risk appropriately and effectively managed and supervised the risk control practices of his or her employee reports during the performance year. Compensation managers are required to certify that they have followed the requirements of Company policies and escalated situations potentially requiring attention for possible cancellations or clawback.

Other performance criteria that may be taken into account in deciding whether to award variable compensation and the amount to award includes: business and market conditions, absolute and relative individual performance, conduct, adherence to the Company's Code of Conduct and policies, performance feedback elicited through the performance evaluation processes including that provided by control function personnel, any discipline administered to the employee, and contribution to the performance and profitability of both the business unit and the Company. Pursuant to the Global Incentive Compensation Discretion Policy, in order to be eligible for any annual incentive compensation, the individual also must remain an active employee performing duties on behalf of the Company, who has not given or been given notice of termination at the time the annual incentive compensation is communicated across the Company to the eligible population of employees.

8. Main parameters and rationale for any variable component scheme and any other non-cash benefits

Employees who reach a certain compensation eligibility threshold receive a portion of their variable annual incentive compensation in the form of deferred incentive compensation awards.

The mix of deferred cash and equity-based awards is determined based on a variety of factors, including the number of shares available for grant under the Company's equity plans and, for MS France Identified Staff, ensuring compliance with the requirements of the French Compensation Rules that at least 50% of any variable compensation consists of an appropriate balance of shares or share linked instruments (see section 5). Delivering a portion of deferred incentive compensation awards in the form of equity, links variable compensation to Company performance through the stock price performance.

In 2018, the Company continued to include cancellation provisions that apply to a broad scope of employee behaviour in all deferred incentive compensation awards. In addition, awards of variable annual incentive compensation made to Identified Staff are subject to clawback requirements in those jurisdictions where it is legally enforceable, per the Company's EMEA Material Risk Taker Cancellation and Clawback Policy.

The Company believes that its compensation decisions for 2018 demonstrate its focus on long-term profitability and commitment to sustainable shareholder value with appropriate rewards to retain and motivate top talent throughout economic cycles.

For the avoidance of doubt, RBAs are considered fixed compensation, and can be removed if an employee's role changes or in the case of regulatory change.

9. Aggregate quantitative information on compensation

The following tables set out aggregate quantitative information on compensation of MS France Identified Staff who are employed by, or are seconded to, MS France and its entities in 2018:

MS France Identified Staff	
Aggregate Compensation ¹ (EUR millions)	22.9

¹ Excludes collective profit sharing awards

10. Aggregate quantitative information on compensation, indicating the following:

10a. Amounts of compensation for financial year 2018, split into fixed and variable compensation, and the number of beneficiaries

MS France Identified Staff	
Number of Beneficiaries (MS France Identified Staff)	18.0
Fixed Compensation (EUR millions)	10.4
Variable Compensation (EUR millions) ¹	12.6

¹ Variable Compensation awarded for performance year 2018 contained deferred equity incentives, including restricted stock units, plus deferred cash incentives.

10b. Amounts and forms of variable compensation for 2018, split into cash, shares, share-linked instruments and other types

MS France Identified Staff	
Cash (EUR millions)	2.8
Deferred Cash (EUR millions)	3.6
Deferred Stock (EUR millions)	6.2

10c. Amounts of outstanding deferred compensation, split into vested and unvested portions

MS France Identified Staff	
Vested at Year End 2018 ¹ (EUR millions)	0.0
Unvested at Year End 2018 ² (EUR millions)	11.5

¹ Vested deferred equity and cash-based incentives awarded during and prior to performance year 2018.

² Unvested deferred equity and cash-based incentives awarded during and prior to performance year 2018 and unvested at 31 December 2018.

10d. Amounts of deferred compensation awarded during the financial year 2018, paid out, and reduced through performance adjustments

MS France Identified Staff	
Awarded (EUR millions)	9.8
Paid Out from Prior Years ¹ (EUR millions)	9.7
Reduced from Prior Years (EUR millions)	-

¹ Deferred equity and cash-based incentives paid in 2018.

10e. New sign-on payments¹ made during the financial year 2018, and the number of beneficiaries of those payments

MS France Identified Staff	
Number of beneficiaries	-
Total amount (EUR millions)	-

¹ Guaranteed variable awards granted to new hires and limited to their first year of service.

10f. Amounts of severance payments awarded during the financial year 2018, number of beneficiaries and highest such award to a single person

MS France Identified Staff	
Severance payments awarded in 2018 (EUR millions)	-
Number of beneficiaries	-

10g. The number of individuals being remunerated EUR 1 million or more per financial year, aggregated for compensation of EUR 1 million and above

Compensation (EUR millions)	Number of Individuals
Over €1mm and up to €4mm	9

Note: All amounts exclude collective profit sharing awards.

This document represents the annual Compensation Disclosure of Morgan Stanley France S.A., as required under the Capital Requirements Regulations (CRR).