

## **REMUNERATION REPORT OF MORGAN STANLEY BANK AG FOR 2017**

### **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 Management Board Remuneration (*Gesetz zur Angemessenheit der Vorstandsvergütung*) and the Ordinance on Statutory Requirements for Remuneration Schemes in Financial Institutions (*Institutsvergütungsverordnung, IVV*), provided that MSBAG is not a major institution so that the special requirements of Part 3 IVV do not apply.

### **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, deferrals into both equity-based and cash-based long-term incentives, claw backs and holdbacks, and stock ownership commitments, provided that long-term incentives are granted and administered by the ultimate parent Morgan Stanley in New York. The remuneration structure of MSBAG does not contain any elements that incent risky behavior. Moreover, it is in line with, and supports, MSBAG's risk-averse business strategy.

#### 4. Compensation Strategy

MSBAG compensation strategy is set in-line with its business and risk strategy and follows the below criteria:

- a) Base salaries are aligned to market practice and reviewed regularly.
- b) Incentives to take disproportionately high risks are avoided. Variable compensation will in no event exceed 200% of the fixed remuneration of the respective individual.
- c) Employment contracts do not refer to elements that would allow individual employees to claim specific payments or bonus payments in case of negative performance, misconduct or when leaving Morgan Stanley.
- d) Compensation decisions for employees in Risk, Compliance, Internal Audit, HR and other similar functions are made independent from the Business Units they support.
- e) Management Board Member remuneration is decided by the Supervisory Board. Compensation of Management Board Members of MSBAG is to be compliant with the VorstAG (*Gesetz zur Angemessenheit der Vorstandsvergütung*).
- f) Guarantees - if any - are only granted to new starting employees, are limited to the initial year and will only be paid if MSBAG, at the time of the payment, has available appropriate equity and liquid resources as well as sufficient capital in order to guarantee its risk-bearing capacity. No further compensation guarantees will be given in employment contracts.
- g) 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 based on 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. The decision about the overall amount of the bonus pool is made by the Management Board of MSBAG, provided that the decision about the bonuses for the Management Board Members is made by the Supervisory Board of MSBAG.

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, as well as 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 Members. 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.