Morgan Stanley

# Morgan Stanley Europe Holding SE

## Group Annual Report 2023

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[1] Please note that the English version of the Consolidated Financial Statements and Group Management Report as at 31 December 2023 is a convenience translation. Deloitte GmbH Wirtschaftprüfungsgesellschaft, Frankfurt am Main, issued the Independent Auditors' Report only for the German version of the Consolidated Financial Statements and the Group Management Report as at 31 December 2023. Therefore, the German version prevails.

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# GROUP MANAGEMENT REPORT

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# Group Overview

The Morgan Stanley Europe Holding SE Group (the "Group" or the "MSEHSE Group") is Morgan Stanley's primary hub to facilitate European Union clients' ("EU27 clients") business. The Group's business strategy is closely integrated into the global strategy of Morgan Stanley's Institutional Securities Group ("ISG"). The Group's principal business units within ISG are the Institutional Equities Division ("IED"), the Fixed Income Division ("FID"), the Investment Banking Division ("IBD") and Global Capital Markets ("GCM").

In executing Morgan Stanley's ISG strategy, the Group is a key contributor in the following areas:

- sales, trading, financing and market-making activities in equity and fixed income products, including foreign exchange and commodities;
- financial advisory services, including advice on mergers, acquisitions and restructurings;
- corporate lending; and
- capital raising.

The Group makes global products available to EU27 clients, and also provides EU27 products to global clients via other Morgan Stanley entities. Market making activities such as Euro interest rate swaps, European Union ("EU") government bonds, Euro inflation swaps, Covered Bonds, automated market-making of European equity stocks (for EU exchanges) are market risk managed within the Group. In alignment with its business strategy and regulatory expectations, in 2023, the Group increased its market risk management capabilities in certain EU products and plans to further expand its capabilities in 2024.

## Corporate Structure

Morgan Stanley Europe Holding SE, Frankfurt am Main ("MSEHSE") is authorised by the European Central Bank ("ECB") as a financial holding company in accordance with Section 2f (1) and (3) of the German Banking Act (*Kreditwesengesetz* or "KWG"). MSEHSE is a superordinated undertaking in accordance with Section 10a (2) of the KWG. MSEHSE coordinates the strategy and the management of the financial resources of its subsidiaries.

MSEHSE directly holds 100% of the shares in Morgan Stanley Europe SE, Frankfurt am Main ("MSESE"), which in turn directly holds 100% of the shares in Morgan Stanley Bank AG, Frankfurt am Main ("MSBAG"). MSESE operates branches in France, Italy, the Netherlands, Poland, Spain, Sweden and Denmark.

There are control agreements (*Beherrschungs-verträge)* in place between MSEHSE and MSESE and between MSESE and MSBAG which include loss compensations in accordance with Section 302 of the German Stock Corporation Act (*Aktiengesetz* or "AktG"). Letters of Comfort are provided by MSEHSE to benefit MSESE and MSBAG as well as by MSESE to benefit MSBAG. A Profit and Loss Transfer Agreement exists between MSESE and MSBAG. As a result, MSESE and MSBAG form an income tax group (*Ertragsteuerliche Organschaft*) in accordance with the Corporation Tax Act (*Körperschaftsteuergesetz*).

MSEHSE is the sole shareholder of Morgan Stanley France Holdings I S.A.S., France ("MSFH I") with its subsidiaries Morgan Stanley France Holdings II S.A.S., France ("MSFH II") and Morgan Stanley France S.A., France ("MSF"). MSFH I, an investment holding company and MSFH II, a holding company, are parent undertakings of MSF.

MSEHSE is a wholly owned subsidiary of Morgan Stanley International Limited, London, United Kingdom ("MSI"). MSEHSE's ultimate parent undertaking and controlling entity is Morgan Stanley, Delaware, United States of America ("US"). Morgan Stanley is a global financial services firm authorised as a Financial Holding Company and regulated by the Board of Governors of the Federal Reserve System in the US. All companies of the MSEHSE Group are fully integrated into the global Morgan Stanley Group (the "Morgan Stanley Group").

## Supervision and Authorisations

MSESE and MSBAG are subject to joint supervision by the ECB, the Federal Financial Supervisory Authority ("BaFin") and the Deutsche Bundesbank. MSF and MSFH I are subject to supervision by the Autorité de Contrôle Prudentiel et de Résolution, Paris. MSFH II is not subject to regulatory supervision.

MSESE is conditionally registered with the Securities and Exchange Commission ("SEC") as a Securities Based Swap Dealer ("SBSD"). MSESE is complying with home country capital

requirements in lieu of SEC capital requirements pursuant to applicable substituted compliance rules.

MSESE is also registered with the Commodity Futures Trading Commission ("CFTC") as a Swap Dealer.

MSESE is a Capital Requirements Regulation ("CRR") credit institution (Class 1 Investment Firm). MSESE is not authorised to provide either deposit taking services or lending.

MSBAG is a CRR credit institution and has a full banking licence. MSBAG is an integral part of the Morgan Stanley Group's Euro liquidity management, operates a lending business and acts as a securities settlement service provider for the Group.

MSF is a Class 2 investment firm in accordance with the Investment Firms Regulation ("IFR") that provides financial services to a client base, primarily in France, consisting of corporations, governments and financial institutions.

As of 31 December 2023, MSEHSE is designated by the European Commission as an Intermediate Parent Undertaking ("IPU"). MSEHSE, already supervised on a consolidated basis, is now formally subject to IPU requirements which mandate single consolidated supervision of a third-country Group's EU activities, as opposed to individual supervision of several standalone entities.

# Economic Report

## Business Environment

The Group Management Report contains certain forward-looking statements. These statements are made by the Management Board in good faith, based on the information available at the time of the approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

The market environment in aggregate for much of 2023 remained mixed, characterised by inflationary pressures and uncertainty regarding the future path of interest rates, which have remained high. Towards the end of the year, the market environment has improved somewhat with the expectation of lower interest rates into 2024. However, there remains uncertainty regarding the timing and pace of the rate reductions along with concerns regarding heightened geopolitical risks that could impact capital markets in 2024. This environment has impacted the performance of the Group. Despite the challenging market conditions, the Group's performance remained solid in 2023 although reported profitability was below forecast expectations. To the extent that the business environment continues to remain uncertain it could further adversely impact client confidence and related activity.

## Global Markets and Economic Conditions

Growth in global Gross Domestic Product ("GDP") has weakened in 2023. Throughout the year, the main macroeconomic factors that have weighed on growth globally have been the restrictive monetary policy introduced by central banks to curb the record-high inflation and a reversal of the manufacturing cycle after its strong rebound post-pandemic. The euro area economy saw subdued growth, with considerable heterogeneity across countries. Weak global trade, consequences of energy supply shocks, and restrictive monetary policy have all been a drag on growth in the euro area.

The policy mix in 2023 has been a continuation of the one of late 2022. Fiscal policy measures in the euro area remained accommodative as governments spent generously on energy-related measures. The monetary policy tightening accelerated in 2023, with the ECB entering into restrictive territory. Further tightening was seen across other regions as well, as central banks tried to bring inflation back to target and avoid inflation expectations getting entrenched at elevated levels.

In the euro area, the ECB ended reinvestments under its Asset Purchase Programme in June 2023. The ECB kept raising rates until September 2023, reaching a deposit facility rate of 4.0%. Fiscal deficits in 2023 are expected to remain above 3%, reaching (an estimated) 3.3% of euro area GDP. Euro area inflation reached 5.5% in 2023, driven by increasing core inflation.

After a peak at 10.6% in October 2022 headline inflation declined rapidly throughout the year to 2.9% in December 2023.

### War in the Middle East

The Group continues to monitor the war and increased tensions in the Middle East and its impact on the regional economy, as well as on other world economies and the financial markets.

## Net Assets, Financial Position and Results of Operations

### Consolidated Income Statement

Set out below is an overview of the financial results for the years 2023 and 2022.

| € in millions | 2023 | 2022 | Increase/ (decrease) | Variance % |
|---|---|---|---|---|
| Sales and trading | 750 | 554 | 196 | 35% |
| Investment banking | 156 | 205 | (49) | (24%) |
| Lending | 94 | 59 | 35 | 59% |
| Other | 48 | 129 | (81) | (63%) |
| **Net revenues** | **1,048** | **947** | **101** | **11%** |
| Staff related expenses | 413 | 370 | 43 | 12% |
| Non-staff related expenses | 371 | 336 | 35 | 10% |
| **Operating expenses** | **784** | **706** | **78** | **11%** |
| Net impairment reversal / (loss) | 1 | (5) | 6 | (120%) |
| **Profit before tax** | **265** | **236** | **29** | **12%** |
| Income tax expense | 78 | 94 | (16) | (17%) |
| **Profit after tax** | **187** | **142** | **45** | **32%** |

### *Net Revenues*

#### *Sales and trading*

Sales and trading income is comprised of commission and trading income. Commission income arises from arrangements in which the client is charged commission for executing and clearing transactions related to securities and other listed products. Trading income is derived from client activity and can be affected by a variety of interrelated factors, including market volumes, bid-offer spreads and the impact of market conditions on inventory held to facilitate client activity.

Although sales and trading revenues in 2023 increased compared to 2022 as the business benefited from higher interest rates and increased market risk management, the performance remained below forecast expectations.

#### *Investment banking*

Investment banking fee income is derived from client engagements in which the Group acts as an advisor in relation to mergers and acquisitions, divestitures and corporate restructurings, underwriter of equity and fixed income securities or distributor of capital.

Investment banking revenues in 2023 decreased compared to 2022, reflecting lower advisory revenues driven by fewer completed M&A transactions in the Morgan Stanley Group on lower market volumes.

#### *Lending*

Lending income is generated by extending loans and credit commitments to clients as well as by loan trading. The Group’s lending revenues increased compared to 2022 as the business benefited from higher interest rates partially offset by a subdued performance of the core lending activities.

#### *Other*

Other revenues in 2023 result primarily from an interest spread of €40 million earned on deposits from other Morgan Stanley Group undertakings which are subsequently deposited at the Deutsche Bundesbank.

The decrease from the prior year is primarily a result of gains recognised from the sale of the Real Assets business unit in 2022.

### *Operating Expenses*

#### *Staff related expenses*

Staff related expenses include base salaries and fixed allowances, discretionary incentive compensation, amortisation of deferred cash and equity awards, severance costs and other items including health and welfare benefits.

Staff related expenses increased in 2023 compared to 2022. This was driven by higher salary expenses and severance costs primarily associated with the employee action recorded in the second quarter of 2023.

#### *Non-staff related expenses*

Non-staff related expenses include brokerage fees, administration and corporate services, professional services, transaction taxes and management charges from other Morgan Stanley Group undertakings relating to other services.

Non-staff related expenses increased in 2023 compared to 2022, driven by increased legal advice and transaction-related expenses.

## *Income Tax Expense*

The Group's tax expense for the period is €78 million, compared to €94 million for the prior year. The main drivers for the lower tax expense in 2023 are the geographic mix of profits and tax rates in jurisdictions outside Germany, as well as the release of prior year tax reserves.

## Consolidated Statement of Financial Position

Set out below is an overview of the consolidated statement of financial position for the years 2023 and 2022.

| € in millions | 2023 | 2022 | Increase/ (decrease) | Vari-ance % |
|---|---|---|---|---|
| Cash and short term deposits | 9,982 | 16,125 | (6,143) | (38%) |
| Trading financial assets | 49,843 | 58,821 | (8,978) | (15%) |
| Secured financing | 29,575 | 18,267 | 11,308 | 62% |
| Trade and other receivables | 16,927 | 25,474 | (8,547) | (34%) |
| Other assets | 384 | 290 | 94 | 32% |
| **TOTAL ASSETS** | **106,711** | **118,977** | **(12,266)** | **(10%)** |
| Bank loans and overdrafts | 3,892 | 7,632 | (3,740) | (49%) |
| Trading financial liabilities | 52,457 | 61,051 | (8,594) | (14%) |
| Secured borrowing | 22,797 | 18,446 | 4,351 | 24% |
| Trade and other payables | 16,222 | 21,281 | (5,059) | (24%) |
| Debt and other borrowings | 3,776 | 4,125 | (349) | (8%) |
| Other liabilities | 75 | 81 | (6) | (7%) |
| **TOTAL LIABILITIES** | **99,219** | **112,616** | **(13,397)** | **(12%)** |
| **TOTAL EQUITY** | **7,492** | **6,361** | **1,131** | **18%** |
| **TOTAL LIABILITIES AND EQUITY** | **106,711** | **118,977** | **(12,266)** | **(10%)** |
| Contingent liabilities | 5 | 7 | (2) | (29%) |
| Commitments | 71,374 | 13,649 | 57,725 | 423% |

### *Cash and short-term deposits and Bank loans and overdrafts*

The decrease in 'Cash and short-term deposits' and 'Bank loans and overdrafts' is driven primarily by lower deposits received from other Morgan Stanley Group undertakings which are deposited at the Deutsche Bundesbank.

### *Trading financial assets and liabilities*

'Trading financial assets' and 'Trading financial liabilities' primarily consists of derivatives and government bonds. The decrease compared to the prior year is driven by market movements on exchange and interest rates and the implementation of additional settlement techniques for certain cleared derivatives. This is partially offset by an increase in European government bond inventory.

### *Secured financing and borrowing*

The increase in 'Secured financing' and 'Secured borrowing' is primarily driven by an increase in securities sourcing for the Group's own use, and on behalf of other Morgan Stanley Group undertakings.

### *Trade and other receivables and payables*

The decrease in 'Trade and other receivables' and 'Trade and other payables' is primarily driven by lower amounts of cash collateral pledged and received in relation to fair value movements in over-the-counter ("OTC") derivatives.

### *Equity structure*

Total Equity increased from €6,361 million to €7,492 million during the financial year. Refer to the section "Capital Management" for further details.

Total equity of €7,492 million at 31 December 2023 consists of ordinary shares issued totalling €4,650 million, Additional Tier 1 ("AT1") instruments issued of €1,000 million, capital reserves of €1,471 million and retained earnings of €371 million.

### *Commitments*

The increase in Commitments is mainly due to an increase in forward-starting repo and reverse repo transactions compared to the prior year. This was driven by an increase in securities sourcing for the Group's own use, and on behalf of other Morgan Stanley Group undertakings.

## Capital Management

The Group actively manages and monitors its capital in line with established policies and procedures and in compliance with local regulatory requirements.

Effective 1 January 2023, MSESE has been granted a Capital waiver in accordance with Article 9 of the CRR, allowing its capital requirements to be met on an individual

consolidated basis (MSESE incorporating its subsidiary MSBAG, “MSESE Consol”). MSBAG has been granted a Capital waiver in accordance with Article 7 of the CRR and therefore its capital requirements are met at the MSESE Consol level. Capital requirements are managed at both the MSEHSE Group level and at the MSESE Consol level.

Consistent with the Morgan Stanley Group’s capital management policies, the Group manages its capital position based upon, among other things, business opportunities, risks, capital availability and rates of return together with internal capital policies, regulatory requirements and rating agency guidelines.

### Regulatory Capital

The Group is subject to minimum capital requirements as calculated in accordance with the CRR and the Capital Requirements Directive (Directive 2013/36/EU or “CRD”) as transposed into German Law.

The Group conducts an Internal Capital Adequacy Assessment Process (“ICAAP”) at least quarterly in order to meet its obligations under CRD and the requirements of the ECB. The ICAAP is a key information tool for the Group Management Boards to approve capital adequacy targets and limits, establish ongoing monitoring processes and internal thresholds, and review identified risks in line with the business strategy. Refer to the section “Risk Report” for further information on the ICAAP.

The Joint Supervisory Team (“JST”) with representatives of ECB, BaFin and Deutsche Bundesbank reviews the ICAAP through its Supervisory Review and Evaluation Process (“SREP”) and sets a Total SREP Capital Requirement (“TSCR”), comprising of Pillar 1 and Pillar 2 Requirements (“P2R”) and Pillar 2 Guidance (“P2G”), which establishes the minimum level of regulatory capital for the Group. As of 31 December 2023, the Total Capital requirement of the Group was 10.75% of Risk Weighted Assets (“RWAs”) (2022: 10.75%) excluding capital buffers, with the individual P2R set at 2.75%.

The Capital Conservation Buffer (“CCB”) requires banks to build up a capital buffer that can be utilised to absorb losses during periods of stress, whilst remaining compliant with minimum requirements, and must be met with Common Equity Tier 1 (“CET1”) capital. As at 31 December 2023, the CCB remains at 2.5% (2022: 2.5%).

The Countercyclical Capital Buffer (“CCyB”) was introduced to ensure that excessive growth in specific countries is accounted for by increasing minimum capital ratios by between 0% and 2.5% and must be met with CET1 capital. As of 31 December 2023, the CCyB for the Group was 0.7136% (2022: 0.3500%). The Group’s CCyB is set to increase further in 2024 driven by announced increases in domestic and other European country CCyB rates. These changes are incorporated as part of the Group’s capital planning and target setting processes.

Moreover, MSEHSE is subject to an additional capital buffer of 0.25% (to be met with CET1 capital) as it is categorised by the BaFin in consultation with the Deutsche Bundesbank as an Other Systemically Important Institution (“O-SII”).

The regulatory capital resources managed by the Group include Tier 1 and Tier 2 instruments such as subordinated debt.

In 2023, the Group has undertaken further capital actions to strengthen its regulatory capital. In connection with the expansion of its business activities, in April 2023 the Group received €1,000 million of CET1 capital from MSI.

Refer to the section “Risk Report” for further details of the Group’s Capital Resources.

The Pillar 3 Regulatory Disclosure Report of the MSEHSE Group as of 31 December 2023 is available at: https://www.morganstanley.com/about-us-ir.

## Liquidity and Funding Management

The primary goal of the Group’s liquidity and funding management framework is to ensure that the Group has sufficient liquidity to cover its business operations and regulatory requirements, as well as access to adequate funding across a wide range of market conditions and time horizons. It manages resources mainly based on business opportunities, risks, availability and rates of return, which are driven by internal policies, regulatory requirements and rating agency guidelines.

MSESE and MSBAG have been granted a waiver in accordance with Article 8 of the CRR which permits liquidity requirements to be managed at the MSESE Consol level for MSESE and its subsidiary MSBAG as a sub-group. In addition to the MSESE Consol level,

capital and liquidity requirements must also be managed at the MSEHSE Group level.

### Liquidity Resources, Funding and Balance Sheet Management

The Group maintains sufficient liquidity resources to comply with internal liquidity stress testing and regulatory requirements. The total amount of Liquidity Resources is actively managed by the Group considering the following components:

- balance sheet size and composition;
- funding needs in a stressed environment inclusive of contingent cash outflows;
- collateral requirements; and
- regulatory requirements.

The amount of Liquidity Resources held is based on the Group's risk tolerance and is subject to change dependent on market and Group-specific events.

The Liquidity Resources consist of cash at central banks and high-quality unencumbered assets. Eligible unencumbered highly liquid securities include primarily Level 1 (as defined in the Commission Delegated Regulation (EU) 2015/61) government bonds and German sub-sovereign obligations.

Refer to the section "Risk Report" for further information on the Liquidity Risk framework, Liquidity framework and Liquidity Stress Tests.

### Credit Ratings

The cost and availability of financing and cash collateral are impacted by the credit ratings of MSESE and MSBAG, among other variables. In addition, credit ratings can impact trading revenues, particularly in those businesses where longer-term counterparty performance is a key consideration, such as certain OTC derivative transactions. When determining credit ratings, rating agencies consider both company-specific and industry-wide factors. The Group's senior unsecured ratings are provided in the section "Non-financial key performance indicators".

### Recovery and Resolution Planning ("RRP")

The Group prepares a recovery plan which identifies mitigation tools available to the Group in times of severe stress. The recovery plan is updated on an annual basis and submitted to the ECB.

In terms of resolution planning, the Single Resolution Board ("SRB") as well as the BaFin as the national resolution authority are the responsible authorities for the Group. The Group produces information for the aforementioned authorities in the form of resolution reporting templates and ad-hoc regulatory submissions, in accordance with the EU statutory and regulatory requirements.

The Morgan Stanley Group has developed a resolution plan in accordance with the requirements of Section 165(d) of Title I of the Dodd-Frank Wall Street Reform and Consumer Protection Act and its implementing regulations adopted by the Federal Reserve Board and the Federal Deposit Insurance Corporation. The resolution plan presents the Morgan Stanley Group's strategy for resolution of the Morgan Stanley Group upon material financial distress or failure. Both MSESE and MSBAG are considered Material Operating Entities of the Morgan Stanley Group and are within the scope of the resolution strategy adopted by the Morgan Stanley Group.

### Minimum Requirement for own funds and Eligible Liabilities ("MREL") and Total Loss Absorbing Capacity ("TLAC")

MREL serves to ensure that the Group has sufficient eligible liabilities in a resolution scenario to absorb losses and safeguard existing capital requirements. The BaFin, as the Group's national supervisor, shares the responsibility to determine MREL requirements with the SRB. The Group is subject to internal MREL requirements. MSESE Consol is also subject to MREL requirements from 1 January 2024.

With a similar objective, TLAC requirements serve to ensure that the Group has sufficient resources to absorb losses. TLAC is applied only at the Group level.

## Financial and Non-financial Key Performance Indicators

The financial and non-financial key performance indicators ("KPIs") of the Group are aligned to its objective to further expand its business activities and strengthen performance, soundness and sustainability of the business considering regulatory requirements. To assess the effectiveness of the execution of the Group's strategy, a broad range of KPIs were set by the

Group Management Boards. These are assessed on a quarterly basis and include the following.

## Financial Key Performance Indicators

The major financial KPIs used to assess the performance of the Group include Profit before Tax (“PBT”), Return on Equity (“ROE”), Efficiency Ratio, Tier 1 Capital Ratio, Liquidity Coverage Ratio (“LCR”) and Net Stable Funding Ratio (“NSFR”).

ROE represents profit for the year in relation to year-to-date average equity.

Efficiency Ratio, defined as operating expenses as a percentage of net revenues, measures the Group’s year-to-date operating performance.

Tier 1 Capital Ratio is the sum of CET1 and AT1 capital of the Group expressed as a percentage of the total RWAs.

LCR measures the extent to which liquidity outflows less liquidity inflows in stressed conditions are covered by high quality liquid assets.

NSFR is defined as the amount of available stable funding relative to the amount of required stable funding, both calculated using factors, which reflect the liquidity characteristics of each category of instruments according to the supervisory assumptions.

The Group’s financial KPIs at the years ended 31 December 2023 and 31 December 2022 are as follows:

| | 2023 | 2022 |
|---|---|---|
| PBT (€ millions) | 265 | 236 |
| ROE | 2.6% | 2.6% |
| Efficiency Ratio | 75% | 75% |
| Tier 1 Capital Ratio | 26.2% | 21.9% |
| LCR | 151% | 145% |
| NSFR | 213% | 194% |

Forecast expectations for financial KPIs in 2023 were disclosed in the 2022 Management Report. Actual year on year performance versus those expectations are summarised below. Refer to the section “Opportunities and Outlook” for forecast expectations in 2024.

The increase in PBT was less than forecast, as a result of lower underwriting revenues.

ROE remained flat year on year at 2.6%. This is in line with expectations. PBT was lower than forecast, however this was offset by a lower effective tax rate and lower than forecast capital increase.

Efficiency Ratio remained at 75%. The Group had expected a moderate decrease in Efficiency Ratio due to expected growth in business. The actual performance was lower than expected mainly driven by lower revenue growth.

Tier 1 Capital Ratio increased from 21.9% to 26.2%. The Group had expected a moderate decrease in the ratio. The increase in ratio reflected lower than expected growth in RWAs.

The increase in LCR was less than forecast as a result of lower inflows. The LCR remained significantly above the minimum regulatory requirement of 100%.

NSFR increased from 194% to 213% as at 31 December 2023. The Group had expected a moderate decrease. The increase which was observed was as a result of a lower required stable funding than forecast.

## Non-financial Key Performance Indicators

### *Credit Ratings*

The credit ratings of the Group’s main operating entities, MSESE and MSBAG, were stable and have not changed in the financial year.

| | | 2023 | 2022 |
|---|---|---|---|
| Moody’s Investor Service, Inc (“Moody’s”) | Short Term | P-1 | P-1 |
| | Long Term | Aa3 | Aa3 |
| | Outlook | Stable | Stable |
| Standard & Poor’s Rating Service (“S&P”) | Short Term | A-1 | A-1 |
| | Long Term | A+ | A+ |
| | Outlook | Stable | Stable |

In February 2024, Fitch Ratings assigned a Long-Term Issuer Default Rating (IDR) of 'AA-' and a Short-Term IDR of 'F1+' to MSESE. The Rating Outlook is Stable.

# Risk Report

During 2023, the Group's Risk Division continued to focus on enhancing the Group's Risk Management Framework and on regulatory engagements. Key areas of focus included:

- evolution of the Risk Management Framework to support business expansion;
- management of risks primarily from volatility in interest rates markets within the Group's Risk Appetite;
- further incorporation of climate risk in the Risk Management Framework; and
- regulatory approvals for the use of advanced capital models.

## Risk Management Framework

Risk taking is an inherent part of the Group's business activities and effective risk management is vital to the success of the Group.

Consistent with the waivers granted to the entities of the Group, and as described in the "Capital Management" and "Liquidity and Funding Management" sections, the MSEHSE Group's Risk Management Framework has been established at the MSESE Consol and MSEHSE Group levels, encompassing the risk management culture, risk governance, approach and practices that support risk identification, measurement, monitoring, escalation and decision-making processes. The Risk Management Framework is consistent between MSESE Consol and MSEHSE Group. Given the group structure, the risk, capital and liquidity profile of MSESE Consol largely reflects the risk profile of MSEHSE Group.

The Group's Risk Management culture is rooted in the following key principles: integrity, comprehensiveness, independence, accountability and transparency. The MSEHSE Group Management Boards are responsible for overseeing the adoption of the Morgan Stanley Group's risk culture.

The MSEHSE Group Management Boards have established a Risk Management Framework, including a Committee Structure and a "Three Lines of Defence" framework. The framework creates a clear delineation of responsibilities between risk owners and independent risk control functions with a view to addressing potential conflicts of interest. The structure applies to all legal entities and branches within the Group. The functions responsible for carrying out the activities across the Three Lines of Defence are summarised below:

- First Line of Defence: Business Units are responsible for managing their strategy and business activities in accordance with the Group's Risk Strategy and Risk Appetite. This includes the consideration of risks arising from climate change and environmental degradation. Support functions are independent of the Business Units and support strategy execution of the Group's revenue-generating activities.
- Second Line of Defence: Responsible for independent identification, analysis, reporting, management and escalation of risks arising from the Group's activities, including the risks arising from climate change and environmental degradation. It further sets policies and monitors adherence with these policies. This includes (but is not limited to) the below:
  - The Risk Division is responsible for the independent identification, measurement, monitoring and reporting of credit, market, liquidity and model risk arising from the Group's business activities. It reports to the Chief Risk Officer ("CRO"), who is also a member of the MSEHSE Group Management Boards.
  - The Operational Risk Department ("ORD") provides independent oversight of Operational Risk and assesses, measures and monitors Operational Risk against tolerances. ORD works with the divisions and control groups to help ensure a transparent, consistent and comprehensive framework for managing Operational Risk within each area and across the Group.
  - The Compliance Department maintains an enterprise-wide Compliance Risk Management Programme and is responsible for the design and development of the overall Conduct Risk Framework of the Group. The Compliance Department is independent

of the business units and reports directly to the MSEHSE Group Management Boards.

- The Global Financial Crimes Department is responsible for the Financial Crimes Risk Management Framework covering money laundering as well as fraud and other relevant criminal offences. The department acts independently from the business units, reporting directly to the MSEHSE Group Management Boards.

- The Compliance Department, the Global Financial Crimes Department and ORD form the Non-Financial Risk ("NFR") organisation.

- The Group's Central Outsourcing Control Office ("COCO") is independent of individual business divisions and is responsible for ensuring the proper execution of outsourcing frameworks and guidelines, working closely with divisional management accountable for supervising any outsourcings by their division to ensure outsourcing regulatory requirements are maintained on a continuous basis.

- Third Line of Defence: The Internal Audit Department ("IAD") is independent of the First and Second Lines of Defence. The IAD provides an independent assessment of the Group's control environment and risk management processes and further reviews and tests the Group's compliance with internal guidelines set for risk management and risk monitoring, as well as external rules and regulations governing the Group.

Morgan Stanley Group has several well-established policies and procedures which set out the standards that govern the identification, measurement, monitoring, management and reporting of the various types of risk involved in its business activities. The MSEHSE Group has implemented specific risk management policies to address local business and regulatory requirements, where appropriate. These policies are approved by the MSEHSE Group Management Boards, as required, and reviewed at least annually.

## Committee Governance

The MSEHSE Group Management Boards are responsible for the establishment, implementation and oversight of an effective Risk Management Framework. Therefore, the MSEHSE Group Management Boards have established a committee structure for the governance of material risks. This includes the cross-divisional MSEHSE Group Executive Risk Committee and MSESE Executive Risk Committee ("ERCs"), which are chaired by the CRO and assist the MSEHSE Group Management Boards in the oversight of the Group's management of risk (including financial and non-financial risks). The Committees are responsible for overseeing:

(i) the development and implementation of a risk strategy, including the risk appetite statement;

(ii) risk identification and measurement;

(iii) risk framework and policies;

(iv) risk culture;

(v) financial resource management and capital; and

(vi) assessment of recovery and/or resolution limits.

The ERCs have established a series of sub-committees with dedicated responsibilities for particular risk matters directly reporting to the ERCs. The following provides an overview of these sub-committees:

- MSESE Credit Risk Committee: Reviews, approves and recommends actions on matters related to Credit Risk Management ("CRM") as well as provides oversight of policies, procedures and frameworks.

- MSESE Market Risk Committee: Provides oversight of the risk profile, control and governance framework on matters related to the Market Risk Department ("MRD") as well as provides oversight of policies, procedures and frameworks.

- MSEHSE Group Operational Risk Oversight Committee and MSESE Operational Risk Oversight Committee: Assist the ERCs to discharge its responsibilities in relation to Operational Risk.

- MSEHSE Group Stress Testing Committee and MSESE Stress Testing Committee: Review all aspects of the MSEHSE Group and MSESE Stress Testing Framework.

- MSEHSE Group Model Oversight Committee and MSESE Model Oversight Committee ("MOCs"): Provide MSEHSE Group and MSESE with oversight of the development, validation, performance and management of the Market, Credit, Operational, Liquidity Risk and Stress Testing models.
- MSEHSE Group Data Governance Forum: Reviews and monitors MSEHSE Group impacting data quality issues, reviews consolidated data quality reporting and data quality KPIs for the MSEHSE Group risk reports and assists in the oversight and management of MSESE Group impacting data initiatives.

In addition to the Committees directly reporting to the ERCs outlined above, the MSEHSE Group Risk Governance Committee ("RGC") provides the CRO with oversight of the control framework within the Risk Division and the MSEHSE Group Risk Capital Committee ("RCC") provides the CRO with oversight of the calculations under advanced capital models for the Normative Perspective and the capital assessment under the Economic Perspective.

Furthermore, the MSEHSE Group Asset and Liability Committee and MSESE Asset and Liability Committee assist the MSEHSE Group Management Boards in the oversight of the capital adequacy, funding and liquidity risk management.

## Risk Identification, Risk Appetite and Risk Limits/Tolerances

### *Risk Identification*

The Group has established a framework to identify and assess material risks and risk factors stemming from the Group's business activities. The materiality of risks is assessed quarterly on a quantitative and qualitative basis, using risk specific stress tests where possible. In addition, other risk management processes such as regular risk reviews, horizon scanning and ad-hoc stress tests are conducted to assess impacts of potential market events and regulations and thereby support the continuous process of risk identification. Material risks identified through these processes inform the design of key risk and capital management processes, including the Group's Risk Strategy and Risk Appetite Statement, individual risk management frameworks, macroeconomic stress testing scenarios, as well as the Group's Internal Capital and Liquidity Adequacy Assessment Processes ("ICAAP" / "ILAAP").

The following risk types involved in the Group's business activities were assessed as material as determined through the Group's Risk Identification Framework.

- Credit Risk;
- Market Risk;
- Liquidity Risk;
- Operational Risk;
- Model Risk;
- Conduct Risk;
- Compliance Risk;
- Leverage Risk;
- Valuation Risk;
- Earnings at Risk / Strategic Risk;
- Reputational Risk.

For information on the incorporation of climate and environmental risks into the Risk Management Framework, refer to the "ESG Report".

The MSEHSE Group Management Boards have established frameworks to identify, analyse, monitor, mitigate and report these risks. Information on how these risks are managed is summarised in the respective sections of this Risk Report.

### *Risk Appetite*

The MSEHSE Group Management Boards determine the Risk Strategy of the Group consistent with the business strategy and the risks stemming from it. The Risk Strategy sets the framework for how risks will be identified, measured, monitored and reported.

The centrepiece of the Risk Strategy are the Risk Appetite Statements for MSEHSE Group and MSESE Consol ("RAS"), which articulate the aggregate level and type of risk that the Group entities are willing to accept in executing the business strategy while protecting the capital and liquidity resources. The RAS consist of both qualitative and quantitative statements.

To remain adequate in a changing environment, the RAS and the underlying limits and tolerance frameworks are reviewed by the MSEHSE Group Management Boards when required (e.g.,

when the business strategy is amended by the Management Boards), but at least annually. This review takes into account changes in the Group's business strategy, financial resources and plans as well as any anticipated changes in risk appetite.

### *Risk Limits / Tolerances*

The Risk Appetite of the MSEHSE Group and MSESE Consol is translated into a comprehensive set of risk limits and risk tolerances across credit risk, market risk, operational risk and liquidity risk, each at different granularity levels to manage risk taking in line with the MSEHSE Group's and MSESE Consol's Risk Appetite.

The Group's aggregate Risk Appetite for Market and Credit Risk is expressed as a percentage of Total Capital Resources. It is operationalised through the Macroeconomic Stress Loss Limit ("MSLL") and monitored through a suite of severe, but plausible Macroeconomic Scenarios, designed to capture key portfolio vulnerabilities of the Group. The credit and market risk limits are calibrated to reflect the MSEHSE Group's and MSESE Consol's Market and Credit Risk Appetite. As at 31 December 2023, the stress loss in the Group's binding macroeconomic stress scenario was €238 million.

## Stress Testing

Stress testing provides a flexible approach to understanding the aggregate risk for the Group and assessing the Group's resilience to different scenarios over a range of severities. At a more granular level, stress tests provide detailed insights of potential areas of weakness in portfolios at the business area and counterparty level, respectively. Stress testing is a key risk management tool for the Group, informing a number of processes and associated decisions and is performed in line with internal and external regulatory requirements. The Group conducts both cross-risk stress tests and risk specific stress tests with the following objectives:

- Risk Identification: Identification of material risk concentrations and vulnerabilities in adverse scenarios;
- Risk Aggregation: Estimation of aggregate size of exposure and losses in adverse shocks;
- Risk Management: Management of tail risks or vulnerabilities against risk appetite;
- Capital and Liquidity Management: Informing capital and liquidity risk assessment processes and plans (ICAAP, ILAAP, Recovery Plan);
- Regulatory Requirements: Meeting regulatory requirements.

Results are communicated to interested parties and committees, such as the ERCs, the MSEHSE Group Management Boards and the Group's Supervisory Boards and their Risk Committees on a regular basis.

### *Cross-risk Stress Tests*

Cross-risk stress tests ensure that concentration risks are captured and measured across the material risks. Cross-risk stress tests can be classified into macroeconomic stress tests, reverse stress tests and topical stress tests.

Macroeconomic scenarios are the Group's primary stress testing tool to monitor, assess and manage the Group's vulnerability to downside risk. The Group runs a suite of macroeconomic stress test scenarios on a regular basis to measure its market and credit risk loss potential and monitor those against the MSLL. Each scenario is supported by a macroeconomic narrative, a detailed set of macroeconomic projections and instantaneous market shocks, and selected credit risk default rules as appropriate.

There are internal models in place to quantify stress losses for credit risk, market risk and risks from Derivative Valuation Adjustments ("xVA").

- Stress losses for credit risk are calculated as the sum of a portfolio loss (stressed expected loss) and an unexpected loss (concentration add-on supplemented with idiosyncratic default losses).
- Stress losses for market risk (including xVA) are computed by applying risk factor shocks across all asset classes, either using full revaluation or a combination of full revaluation and a sensitivities based approach.

The potential impact of climate-related risks on Credit and Market Risk is assessed through a specific transition risk/carbon repricing scenario and managed via the Climate Stress Loss Limit ("CSLL"). For more information refer to the "ESG Report; Climate and Environmental Risk Management" section.

Existential threats to the Group's business model are captured through the Group's Reverse Stress Tests ("RST"). The scenarios used in RST are extreme and border-line plausible and are designed to test a pre-defined outcome (e.g., viability of the Group's business model). RST are used to inform capital and liquidity planning and are a key input for recovery planning.

Specific market events or portfolio vulnerabilities are assessed through Topical Stress Tests, such as scenarios related to the war and increased tensions in the Middle East, to evaluate a possible impact of "downside" scenarios on the Group's risk and resource profile.

#### *Risk-specific Stress Tests*

Risk-specific stress tests identify and measure vulnerabilities and concentrations that may arise in a particular risk area, country or industry. The Group conducts risk-specific stress tests for Operational Risk, Market Risk, Credit Risk and Liquidity Risk.

### Risk Reporting

The Group has put in place a Risk Reporting Framework to monitor and report the Group's risk profile against set risk limits and tolerances, and to provide timely risk information and/or escalation to responsible limit owners, relevant Group governance forums and the MSEHSE Group Management Boards, as appropriate. The Group's Risk Reporting Framework covers all material risks, it identifies matters for escalation and decisions and highlights emerging risks, mitigating actions and other risk matters that are deemed significant to the Group's Risk Committees and/or the MSEHSE Group Management Boards.

The key purpose of risk reporting is to provide decision makers and risk managers with an accurate and timely representation of risk exposures, including risk concentrations, at the group level, across business lines and between legal entities. To provide this information, the Group generates various risk reports across individual risk functions, including Market, Credit, Operational, Liquidity and Model Risk, at different frequencies (e.g., daily, weekly).

In addition, the Group has established a set of principles for risk reports which are applied to risk reporting, such as the appropriate level of aggregation, balance between qualitative and quantitative information or implementation of controls to ensure reported information is complete and accurate. The Group's Data Quality ("DQ") monitoring and reporting processes are integrated into the Morgan Stanley Group's global DQ management processes. The data quality for risk-related data is reviewed through defined KPIs which are summarised in respective DQ Dashboards for certain risk areas such as Credit Risk, Market Risk and Liquidity Risk. At the Group level, any material data limitations/issues on risk data goes through governance and is escalated to the MSEHSE Group Management Boards if necessary.

Detailed information about the reporting for each risk type is included in the respective risk sections on the following pages.

## Internal Capital Adequacy Assessment Process

The ICAAP is a key information tool for the MSEHSE Group Management Boards to plan the Group's capital actions, approve capital adequacy targets and limits, establish ongoing monitoring processes and internal thresholds and review identified risks in line with the business strategy. As such, the ICAAP is designed to ensure that all material risks, which the Group is exposed to, are appropriately capitalised. The ICAAP is updated at the beginning of each year in line with the annual strategic planning process as well as quarterly for material changes.

The ICAAP comprises of two capital assessment perspectives, the "Normative Perspective" and the "Economic Perspective". While methodologies differ in forecasting horizon and objectives, the two perspectives complement and inform each other.

### Normative Perspective

The assessment under the Normative Perspective is conducted over a three-year planning horizon, assessing the Group's ability to fulfil all its capital-related supervisory requirements. It assesses the Group's capital adequacy under expected and stressed operating environments. It uses stress testing to size capital buffers aimed at ensuring the Group will continue to operate above regulatory requirements under a range of severe but plausible stress scenarios. The Normative Perspective takes into account all material risks affecting the relevant regulatory ratios, over the planning horizon. It is also used as a basis to set and review internal capital targets.

The Normative Perspective requires base and adverse scenarios to be assessed over the planning horizon. The Group's base scenario considers the main macroeconomic variables, including GDP growth, inflation rate changes, interest rates and currency market movements. These variables are applied on the business growth laid down in the Group's Business Strategy. In addition to the base forecast, the Group assesses its capital-related supervisory requirements in two macroeconomic stress scenarios. These scenarios comprehensively and conservatively measure the relevant risks for the Group.

To model stress capital impacts under the Normative Perspective, the Group uses internal models (refer to the "Stress Testing" section) that appropriately cover all material risk types.

Capital requirements are calculated in accordance with regulatory rules, taking into account the Group's permissions to use internal models. In addition to capital-related supervisory requirements, internal capital ratio minima are set to ensure the Group has sufficient capital to meet its regulatory requirements at all times.

Set out below are details of the Group's Capital Resources.

| € in millions | 2023 | 2022 |
|---|---|---|
| *Normative Perspective* | | |
| CET1 Capital | 6,136 | 5,069 |
| AT1 Capital | 1,000 | 1,000 |
| Tier 1 Capital | 7,136 | 6,069 |
| Tier 2 Capital | 1,000 | 1,000 |
| **Total Own Funds** | **8,136** | **7,069** |
| | | |
| Risk Weighted Assets ("RWAs") | 27,283 | 27,760 |
| CET1 Capital Ratio | 22.5% | 18.3% |
| Tier 1 Capital Ratio | 26.2% | 21.9% |
| **Total Capital Ratio** | **29.8%** | **25.5%** |

The Group's Tier 1 Capital Ratio increased from 21.9% as at 31 December 2022 to 26.2% as at 31 December 2023 due to the capital actions totaling €1,000 million executed in 2023, primarily required to support the execution of the Business Strategy.

Additional information is presented in the "Capital Management" section.

## Economic Perspective

In the Economic Perspective, the Group assesses its capital adequacy by ensuring that all material risks that could cause losses or have other material impacts on its capital position are quantified and adequately covered by its internal capital ("Risk Bearing Capacity" or "RBC"). In line with the ECB ICAAP guidelines, capital requirements are assessed using internal methodologies, which generally target a 99.9% loss severity over a time horizon of one year.

**Credit Risk:** For the calculation of credit risk capital requirements, the Group employs a multifactor credit concentration model, using internal credit risk parameters for Exposure at Default ("EAD"), Probability of Default ("PD") and Loss Given Default ("LGD"). The model simulates the asset returns of the individual counterparties in a correlated manner to capture the dependency between the defaults. The default triggers are derived from the PDs of the counterparties and internal downturn LGDs are used to quantify the default losses. Counterparty credit risk ("CCR") exposures are quantified using Morgan Stanley's global Internal Model Method ("IMM") model for the calculation of Own Funds Requirements, which has a wider product scope than the Group's IMM model. Default events are simulated using a Monte-Carlo model, and capital requirement is determined as the tail loss at a 99.9% confidence level.

**Operational Risk:** To calculate the capital requirements related to operational risk, the Group utilises an internal model. Under this model, operational risk capital is calculated for each of the Group's Risk Segments, some of which are designated as Top Operational Risks ("TORs") and Top Operational Risk Pathways ("TORPs"). Standalone capital is calculated for each of the Risk Segments by fitting parametric distributions to Scenario Analysis loss estimates. The aggregate loss distribution for the Group is derived from the marginal loss distributions of the Risk Segments. The 99.9% percentile of the final distribution is chosen as the loss estimate.

**Market Risk:** Market risk capital is primarily calculated using the Group's Economic Value-at-Risk ("EVaR") and Incremental Risk Charge ("IRC") models. The EVaR is calculated using historical simulation and includes xVA risk factors in its scope. The EVaR is derived as the 99.9% percentile of a loss distribution calculated using 15 years of historical returns. A six-month liquidity horizon is used for portfolios with low market depth or hedging ability (such as xVA),

while a three-month liquidity horizon is applied to portfolios with higher market activity and ability to hedge, such as market making portfolios. Risks Not in VaR ("RNIV") capital add-ons are also used as a component to calculate market risk capital. The IRC is calculated at 99.9% confidence level over a one-year time horizon. Refer to the "Market Risk" section for more information.

Other risks under the Economic Perspective include: Interest Rate Risk in the Banking Book and Credit Spread Risk in the Banking Book ("IRRBB" and "CSRBB") as well as pension risk and valuation risk.

Capital requirements are conservatively aggregated without diversification benefits. Total internal capital requirements are then compared with available internal capital resources, i.e., the RBC. The RBC are taken at regulatory Own Funds (CET1 capital) with minor adjustments made to reflect other risks.

The Group aims to maintain an Economic Capital Adequacy Ratio (RBC divided by Economic Capital requirements) of at least 100%. Economic Capital Adequacy is assessed on a quarterly basis.

The table below presents a comparison of internal capital (RBC) and economic capital requirements for year-end 2022 and 2023.

| € in millions | 2023 | 2022 |
|---|---|---|
| *Economic Perspective* | | |
| **Risk Bearing Capacity** | **6,184** | **5,053** |
| **Capital Requirements** | **3,211** | **2,870** |
| Credit risk | 2,038 | 1,929 |
| Market risk | 352 | 279 |
| Operational risk | 609 | 535 |
| Other | 212 | 127 |

As at 31 December 2023, the Group was adequately capitalised and reported an economic capital adequacy ratio of 193% (2022: 176%).

Under the Economic Perspective, the Group has performed stress testing to understand sensitivities of the capital assessment to severe, but plausible macroeconomic stress scenarios. At the time of assessment, the Group remains well capitalised under these stress scenarios.

## Credit Risk

Credit Risk is an inherent part of the Group's business activities. Credit Risk refers to the risk of loss arising when an obligor, i.e. a borrower, counterparty or issuer, does not meet its financial obligations. Credit Risk includes country risk – i.e., the risk that economic, social and political conditions and events in a country will adversely affect a client's[2] ability and/or willingness to fulfil its obligations. As part of credit risk, credit concentration risk refers to the risk of loss due to an outsized exposure to a client or a group of connected counterparties in the same industry or geographic region. The assessment of credit risk also considers climate risk, in particular the credit exposure to obligors and counterparties highly vulnerable to transition and/or physical climate risks. Respective definitions and further information are disclosed in the "ESG Report; Climate and Environmental Risk Management" section.

The CRM Department reports to the CRO and is independent from the business units. It is responsible for managing and overseeing the credit risk profile of the Group. CRM has put in place a Risk Management Framework to identify, measure, control and report credit risks. Key components of the Credit Risk Framework include:

(1) Risk Identification: The identification and assessment of credit risks forms an integral part of CRM and is performed on an ongoing, continuous basis. To identify and assess credit risks, CRM uses ongoing monitoring of clients' credit quality, the utilisation of credit limits, credit risk concentrations and single factor as well as multi-factor stress results. Additionally, the New Product Approval ("NPA") process is leveraged to identify and assess credit risks arising from new activities.

(2) Risk Measurement: The measurement of credit risks primarily comprises of the analysis of clients' credit quality and credit risk exposures generated from transactions.

The analysis of obligors' credit quality results in the assignment of internal credit ratings which reflect the obligor's likelihood

[2] Client refers to a borrower, counterparty or issuer in this context.

of default and are subject to credit officer review and approval. As part of this internal rating process, each rating is linked to a single name credit limit and mapped to a specific PD. The Group has developed industry specific rating templates, of which the templates for supranationals, financial institutions, including banks and broker-dealers, and corporates are the most material. To estimate the PD, the Group maps internal ratings to S&P ratings and then applies S&P's extensive default history to determine the PD. The Group takes different approaches to estimate PDs for its low default portfolio ("LDP") and its non-LDP. Internal models are used to estimate the expected loss in the event of default; these include, in addition to the PD, the LGD and EAD.

To measure credit risk exposures, the Group uses a range of metrics such as current and simulated future exposures, as well as single and multi-factor stress metrics and portfolio risk sensitivities, all of which are calculated using internal models.

(3) Risk Appetite and Limits: In order to ensure that credit losses remain within the defined risk appetite, CRM has implemented a Credit Limits Framework at the MSESE Consol level to manage credit risk on a single name and portfolio level, including limits on country, industry (including sub-industries such as shadow banks and climate segments), and product concentrations. The Credit Limit Framework also includes a Credit limit specific for Morgan Stanley Affiliates. The limits are subject to different levels of governance comprising the MSESE and MSBAG Management Boards, the MSESE ERC, the MSESE Credit Risk Committee and CRM.

(4) Risk Reporting: All significant credit risk exposures, concentrations and limit utilisations are reported on a regular and ad-hoc basis to the ERCs, the MSEHSE Group Management Boards and other interested parties.

The Group's credit risk results mainly from:

- **Treasury Placements:** Credit risk arising from Treasury activities primarily relates to deposit placements at the ECB via the Deutsche Bundesbank.
- **Counterparty Risk:** Counterparty risk arises from the Group's sales and trading business. The Group offers clients a wide spectrum of traded products, including listed and OTC derivatives, foreign exchange, secured financing transactions, all of which give rise to counterparty credit risk.
- **Lending:** Lending risk arises from extending loans in the form of relationship or event loans.
- **Morgan Stanley Affiliates:** Credit risk to Morgan Stanley Affiliates results from indirect activity with clearing houses via Affiliates, back-to-back trades with Morgan Stanley Group entities and loan sub-participations or guarantees.
- **Inventory:** Inventory risk arises from secondary trading activity and is mostly driven by European government bonds and covered bonds.

To reduce credit and counterparty risks, CRM relies on standard risk mitigants including netting provisions and the provision of collateral, including with Morgan Stanley Affiliates. Collaterals for derivatives are mostly cash and liquid securities. Lending risk may be mitigated through the transfer of risk to Morgan Stanley Affiliates, for example to reduce concentrations.

The Group's issuer risk exposures are managed within the market risk limits framework and feed into aggregated credit risk exposure metrics.

Consistent with its business and risk strategy, the Group's credit risk portfolio is dominated by investment grade quality obligors in the EEA.

The Group has established processes to calculate ECL for provisions in accordance with IFRS 9 "Financial Instruments". The Group's provisioning levels are not material which is a reflection of the high credit quality of the Group's loan book and the use of risk transfers within the Morgan Stanley Group.

The below table shows RWAs and EADs for credit risk as at 31 December 2023 and 31 December 2022, including Credit Valuation Adjustment risk ("CVA risk"). The RWAs calculated via the advanced capital models (IMM and Foundation Internal Ratings Based or "F-IRB") and under the standardised approach are shown separately. Consistent with its regulatory approvals, the Group calculates its own fund requirements for credit risk with an IMM and F-IRB approach. For counterparty credit risk, the EADs, which serve as an input for

the calculation of the own funds requirements, are computed with a IMM approach.

| € in millions | 2023 RWAs | 2023 EADs | 2022 RWAs | 2022 EADs |
|---|---|---|---|---|
| Credit risk[1] | 2,812 | 13,762 | 2,562 | 18,892 |
| *Of which, internal models (F-IRB)* | *2,249* | *3,015* | *2,028* | *2,801* |
| Counterparty credit risk (excluding CVA risk)[2] | 11,001 | 23,268 | 12,330 | 21,249 |
| *Of which, internal models (IMM)* | *6,997* | *10,426* | *8,165* | *11,503* |
| **Total (excluding CVA and Settlement risk)** | **13,813** | **37,030** | **14,892** | **40,141** |
| Credit Valuation Adjustment (CVA risk) | 4,246 | 9,915 | 3,415 | 9,228 |
| Settlement risk | 7 | 9 | 45 | 12 |
| **Total** | **18,066** | **46,954** | **18,353** | **49,382** |

(1) Credit risk from lending, treasury and other sources of credit risk.

(2) Exposures subject to Equity IRB approach are reported under Credit Risk. Exposures to central counterparties are reported under Counterparty credit risk.

The Group has implemented a Credit Limits Framework to monitor credit concentration risk. Credit risks are primarily concentrated in treasury and counterparty exposures with regional focus on EU 27-countries. From a counterparty perspective, the credit portfolio is primarily concentrated with Financials and from a country perspective in the US, France, Italy and Germany; whereas treasury exposures are mostly driven by cash balances placed with central banks. The country risk evaluation includes a determination of Country of Risk and Country of Jurisdiction. The Country of Risk is the country whose political, economic and commercial environment most affects an entity's ability to meet its obligations. The Country of Jurisdiction is defined as the country of registered incorporation or formation of the obligor. For calculation purposes, the breakdown in the following table is based on the Country of Risk whilst the Industry classifications are based on the Global Industry Classification Standards ("GICS").

The following tables provide an overview of the Group's industry and country concentration, whereby the exposure metric used is consistent with internal credit risk management. This metric captures exposure from Treasury placements, lending commitments and trading activities, offset by credit risk mitigants such as collateral.

**Breakdown per industry**

| Exposure € in millions | 2023 | 2022 |
|---|---|---|
| Financials | 8,866 | 9,534 |
| Sovereigns | 10,193 | 17,249 |
| All others | 5,907 | 3,588 |
| **Total** | **24,966** | **30,371** |

**Breakdown per country**

| Exposure € in millions | 2023 | 2022 |
|---|---|---|
| Supranational | 10,652 | 16,563 |
| US | 5,274 | 5,390 |
| France | 3,485 | 3,225 |
| Italy | 1,052 | 617 |
| Germany | 932 | 1,408 |
| All others | 3,571 | 3,168 |
| **Total** | **24,966** | **30,371** |

The Group's credit risk remained within risk appetite for 2023. The impact of the sharp rise in interest rates on credit risk exposures and obligors' credit quality was a key focus throughout 2023 and will remain a key focus throughout 2024. The volatility across interest rates and foreign exchange, led to selected single name and portfolio exposure increases, for which appropriate mitigation actions were taken.

## Market Risk

Market Risk is an inherent part of the Group's business activities. Market Risk is the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument

imputed from option prices), correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio. This includes risks from xVA, which refers to the risk of changes in derivative valuation adjustments due to changes in credit spreads and other market factors. Market Risk includes the consideration of financial risk arising from climate change as well as non-traded market risk such as IRRBB and CSRBB.

Price risk arises for example, in trading portfolios, lending portfolios measured at fair value and associated mark-to-market hedges.

The Market Risk Department ("MRD"), which is independent from the business units, has put in place a Risk Management Framework to identify, measure, control and report market risks. Key components of the Market Risk Framework include:

(1) Risk Identification: To identify and assess market risks, MRD monitors significant changes in the market risk profile on an ongoing basis, including key risk factor sensitivities, limit usage, risk concentrations, stress testing results, and exposure to climate risk. Additionally, the NPA process is leveraged to identify and assess market risks arising from new activities.

(2) Risk Measurement: Market risks are measured by applying shocks to a selection of input market parameters from securities and derivatives valuation models, the results of which are used as standard risk sensitivities and stress testing measures. MRD measures market risks using internal Value at Risk ("Management VaR"), Regulatory VaR, Regulatory Stressed VaR ("SVaR") and IRC models. The VaR models are maintained to be measured against limits and used for capital requirement purposes. The potential loss is calculated by the VaR model over a given time horizon (1 day or 10 days) and confidence interval (95% or 99%). For the Regulatory SVaR, the same methodology and portfolio composition as Regulatory VaR is used, however, the Regulatory SVaR is based on a continuous one-year historical period of significant market stress which is recalibrated on a regular basis. For the IRC model, a potential loss from default and migration risk of non-securitised credit products in the trading book over a one-year time horizon and 99.9% level of confidence is used.

(3) Risk Appetite and Limits: To ensure that market risk losses remain within risk appetite, MRD has established at the MSESE Consol level a comprehensive market risk limit framework, which includes VaR limits, exposure limits and stress exposure limits. The limits are subject to different levels of governance comprising the MSEHSE Group Management Boards, the ERCs, the CRO and MRD.

(4) Risk Reporting: All significant changes in market risk exposures, market risk concentrations and market risk limit utilisations are reported on a regular and ad-hoc basis to the ERCs, the MSEHSE Group Management Boards and other interested parties.

Interest rate risk is inherent in the business of financial institutions. Interest rate risk is the exposure of the Group's financial condition arising from adverse movements in interest rates and credit spreads both in absolute and relative terms. Interest Rate and Credit spread risk in the Banking Book are defined as the risk of losses arising from adverse changes in the interest rate and credit curves within the defined banking book population either from a present value (Delta Economic Value of Equity or "Delta EVE") or Net Interest Income (Delta Net Interest Income, or "Delta NII") perspective. Interest Rate and Credit spread risk arises from exposures derived from traditional treasury and banking activities such as customer lending as well as inter-affiliates borrowing and lending. The Group's Treasury Department and MRD are responsible for the monitoring and control of these exposures through the calculation of the measures Delta EVE and Delta NII. As at 31 December 2023, IRRBB exposure is a small component of the Group's market risk profile. Delta EVE and NII are monitored daily and monthly, respectively, and reported at least quarterly to senior management. Both, Delta EVE and NII are subject to risk limits to ensure the IRRBB remains within the Group's Risk Appetite.

The following table presents the results for the regulatory prescribed scenarios as at 31 December 2023:

| € in millions | 2023<br>Delta EVE |
|---|---|
| Parallel shock down | (2.8) |
| Parallel shock up | 1.4 |
| Flattener shock | 0.6 |
| Steepener shock | (0.6) |
| Short rates shock down | (1.9) |
| Short rates shock up | 1.0 |

As at 31 December 2023, IRRBB was approximately 0.04% of CET1 capital under the Delta EVE perspective with "Parallel shock down" as the relevant scenario as it results in the highest loss.

The following table presents the Delta NII results for the regulatory prescribed scenarios with a base NII of €279 million as at 31 December 2023:

| € in millions | 2023<br>Delta NII |
|---|---|
| 200 bps up | 159 |
| 200 bps down | -156 |

Market Risk from trading in EUR Interest Rate Swaps, EUR Inflation, European Government Bonds, Covered Bonds as well as Equity Automated Market Making ("AMM") is retained and managed by the Group. Risk from xVA is also hedged by a dedicated trading desk within the Group which manages exposures coming from counterparties such as credit and funding risk. The main risk factors resulting from these exposures are credit, interest rates, funding basis, equity and foreign exchange related exposures. The organic growth of the client activity in the EEA led to an increase in xVA risk.

The Group uses the Management and Regulatory VaR to assess portfolio market risk. The Regulatory VaR is calibrated and scoped using regulatory requirements to capitalise for market risk and is subject to a daily backtesting calculation validating the accuracy of the model. In addition, the Management VaR is used for internal risk management purposes to ensure the Group's risk appetite stays within approved limits. The average Management VaR of the Group for the year 2023 was €3.8 million (2022: €3.9 million), equally driven by credit, interest rate and basis risk sensitivities from fixed income trading activities and xVA.

The following shows the market risk RWAs as at 31 December 2023 and 31 December 2022, as calculated using the advanced capital model (Internal Model Approach, "IMA") and under the standardised approach, where applicable. Consistent with its regulatory approvals, the Group currently uses the advanced capital model for the calculation of own funds requirements for market risk.

RWAs

| € in millions | 2023 | 2022 |
|---|---|---|
| Standardised approach | 88 | 81 |
| Internal model approach(1) | 7,728 | 8,522 |
| **Total** | **7,816** | **8,603** |

(1) Including RWAs for Risk not in VaR ("RNIV")

The decrease in RWA under the IMA is attributable to a reduction in RNIV RWA due to a methodology change, which was partially offset by an increase in IRC and SVaR driven by changes in the risk profile throughout the year.

The first quarter of 2023 was characterised by US regional bank defaults which triggered sell-off across asset classes and led to increased volatility. In the second quarter of 2023 rates and prices increased alongside a reduction in volatilities. In the second half of the year a significant rates rally was observed driven by strong economic data and the "higher for longer" rates narrative.

The Group has ensured that appropriate mitigation actions were taken to remain within the Group's risk appetite throughout 2023. The continued impact of the high interest rate environment on market risk exposures will remain a key focus throughout 2024.

## Liquidity Risk

Liquidity Risk is an inherent part of the Group's business activities. Liquidity Risk is the risk that the Group's financial condition or overall soundness is adversely affected by an inability or perceived inability to meet its financial obligations in a timely manner. Liquidity Risk encompasses the associated funding risk triggered by stress events which may cause unexpected changes in funding needs or an inability to raise new funding.

Liquidity risks from the Group's business activities primarily arise from listed and OTC derivatives as well as its lending and secured funding activities. Intraday risk continues to be a

key driver of liquidity risk for the Group and remains a core focus area. These liquidity risks are covered by the Group's liquidity resources.

Treasury is responsible for daily liquidity management activities in their capacity as the First Line of Defence, while the Liquidity Risk Department ("LRD"), as the Second Line of Defence, is responsible for the independent oversight of liquidity risk. LRD has put in place a Risk Management Framework to identify, measure, control and report liquidity risks arising from business activities. Key components of the Liquidity Risk Framework include:

(1) Risk Identification: The identification and assessment of liquidity risks forms an integral part of the Group's liquidity risk management and is performed on an ongoing basis, considering risks to the financial condition or overall soundness in a business-as-usual environment and in stress conditions. To identify and assess liquidity risks, LRD uses ongoing monitoring of limit utilisations, regulatory as well as internal liquidity risk metrics, including the Internal Liquidity Stress Test ("ILST") results. Additionally, the NPA process is leveraged to identify and assess liquidity risks arising from new activities.

(2) Risk Measurement: Liquidity risks are measured using established methods and processes for the assessment of current and projection of future cash and securities flows over various time horizons (including intraday) in base and stress scenarios. Key metrics include the Liquidity Coverage Ratio, the Net Stable Funding Ratio and the coverage of assumed cash outflows under internally developed liquidity stress scenarios as part of the ILST, which consider market wide idiosyncratic as well as combined stress scenarios.

(3) Risk Appetite and Limits: Risk Appetite for Liquidity Risk is expressed via Liquidity and Funding Limits, which are owned by the MSEHSE Group Management Boards are are in place at the MSEHSE Group and MSESE Consol levels. These limits consider the ILST scenarios for a period of one day up to 12 months, the LCR and NSFR. The Group maintains limits, Key Risk Indicators ("KRIs"), targets and thresholds at various levels of the governance structure to support links between the Liquidity Risk Appetite and more granular risk-taking decisions and activities.

(4) Risk Reporting: The monitoring of adherence to relevant regulatory requirements, internal limits and KRIs, to ensure sufficient levels of highly liquid assets is reported on a regular and ad-hoc basis to the ERCs and the MSEHSE Group Management Boards.

The LCR, per the Delegated Act (EU) 2015/61 as a supplement to the CRR, is a regulatory stress test with the objective of promoting short-term resilience of the Group's liquidity risk profile by ensuring that it has sufficient high-quality liquid assets ("HQLA") to withstand a significant stress scenario lasting 30 days. The Group's LCR exceeded the regulatory minimum requirement as at 31 December 2023 and 31 December 2022. The details of the Group's LCR are presented in the following table:

| € in millions | 2023 | 2022 |
|---|---|---|
| HQLA | 11,783 | 16,801 |
| Cash Outflows | 14,477 | 18,248 |
| Cash Inflows | 6,696 | 6,653 |
| Net Outflow | 7,781 | 11,595 |
| LCR Ratio | 151% | 145% |

Cash outflows decreased during 2023 primarily due to a decrease in deposits received from other Morgan Stanley Group affiliates, which were subsequently deposited at the Deutsche Bundesbank. Cash inflows remained relatively stable during 2023. As of 31 December 2023, the Group's HQLA comprises of cash balances as well as central bank and government bonds.

The NSFR is another regulatory metric which measures the stability of the Group's funding profile over a one-year time horizon, as determined by the prescribed factors assigned to on-balance sheet and specific off-balance sheet assets (Required Stable Funding or "RSF") and liabilities (Available Stable Funding or "ASF"). It complements the LCR by requiring the Group to maintain minimum amounts of stable funding to support the Group's assets, commitments and derivatives exposures over the one-year horizon. The Group's NSFR ratio exceeded the regulatory minimum requirement as at 31 December 2023 and 31 December 2022.

The Group further uses Liquidity Stress Tests to model external and intercompany liquidity flows across multiple scenarios over a range of time horizons. The ILST is designed to simulate

severe but plausible stress conditions with eligible liquidity resources having to exceed ILST requirements for a period of one day up to 12 months with limited reliance on parent support beyond month one.

As at 31 December 2023, the Group maintained sufficient liquidity to meet current and contingent funding obligations as modelled in its Liquidity Stress Tests.

## Operational Risk

Operational Risk is defined as the risk of loss, or damage to the Group's reputation, resulting from inadequate or failed processes or systems, human factors or from external events (e.g., fraud, theft, legal and compliance risks, cyber-attacks or damage to physical assets). This includes legal risk and risks arising from Environmental, Social and Governance factors.

Business Units, Support and Control functions and the business managers therein are primary responsible for the management of operational risk. The business managers maintain processes and controls designed to identify, assess, manage, mitigate and report operational risk. In the event of a new product or a business activity, operational risks are considered and any necessary changes in processes or controls are implemented.

The Operational Risk Department ("ORD"), which is independent from the business units, is responsible for the assessment and monitoring of operational risks. ORD has put in place a comprehensive Risk Management Framework to identify, measure, control and report operational risks. Effective operational risk management is essential to reducing the negative impact of operational risk incidents and mitigating legal and regulatory risks. The Framework is continually evolving to account for changes in the Group and to respond to the changing regulatory and business environment. Key components of the Operational Risk Framework include:

(1) Risk Identification: The Operational Risk Identification Framework provides a consistent approach to identify, quantify and evaluate operational risk inherent to the Group's business operations under normal and stressed conditions. Operational risk data and assessment systems are employed to identify operational risk, they include: internal and external operational risk events, which are captured in dedicated databases; internal control factors; and scenario analysis. Internal operational risk events are captured in the Morgan Stanley Group's internal loss database. Operational Risk and Control Self-Assessments ("RCSA") are a key instrument for operational risk identification. RCSAs are executed by the business units while the ORD oversees the process and challenges the results. Additionally, the NPA process is leveraged to identify and assess operational risks arising from new activities.

(2) Risk Measurement: ORD leverages the internal operational risk capital model for measuring operational risk within the internal capital adequacy assessment process. The model encompasses both quantitative and qualitative assessments. The quantitative part is based on scenario analysis results, which are direct inputs into the model, while the qualitative measures such as internal and external operational incidents, business environment and internal control factors are evaluated as part of the scenario analysis process.

(3) Risk Appetite and Tolerances: To ensure that potential losses remain within the defined risk appetite the MSEHSE Group Management Boards have set risk tolerance levels for the Group and MSESE Consol in aggregate and for all Top Operational Risks. ORD monitors that tolerance levels are not exceeded through a combination of loss projections from scenario analysis and realised operational risk losses. As at 31 December 2023, the largest scenario loss was €218 million.

(4) Risk Reporting: All significant Operational Risk Incidents and the operational risk profile relative to the tolerance level are reported on a regular and ad-hoc basis to the ERCs, the MSEHSE Group Management Boards and other stakeholders.

Regulatory own funds requirements for operational risk are currently calculated under the Basic Indicator Approach ("BIA"). As at 31 December 2023, the Group's operational RWAs were €1,401 million (2022: €1,005 million). The Group recognises that the BIA is not a risk-based measure and therefore uses an operational risk modelling approach to calculate internal operational risk capital requirements

(refer to the operational risk figure disclosed in the table in the "Internal Capital Adequacy Assessment Process" section, "Economic perspective" sub-section).

The Group holds sufficient capital to cover the incremental capital requirement over and above the Pillar 1 requirement for Operational Risk.The ORD scope also includes oversight of technology risk, cybersecurity risk and information security risk. ORD partners with the Group Anti Money Laundering and Fraud Prevention Officer to oversee fraud risk. ORD, in conjunction with the COCO, oversees third party risk (supplier and affiliate risk).

### Cybersecurity

The Group's Cybersecurity and Information Security Framework, which includes policies, procedures and technologies, is designed to protect the Group's technology environment from operational risk failures due to the actions of a malicious cyber actor. This includes protecting the Group's own data, client data and the Group's employee data against unauthorised disclosure, modification or misuse and is also designed to address regulatory requirements. This Framework covers a broad range of areas including the following: identification of internal and external threats, access control, data security, protective controls, detection of malicious or unauthorised activity, incident response and recovery planning.

### Business Continuity Management and Disaster Recovery

Morgan Stanley Group's Resilience organisation maintains global programmes for Business Continuity Management, Disaster Recovery ("DR") and Third Party Resilience and Key Business Service Resilience that facilitates activities designed to protect the Morgan Stanley Group during a business continuity incident. A business continuity incident is an interruption with potential impact to normal business activity of the Morgan Stanley Group's personnel, technology, suppliers and/or facilities. These programmes require plans to be documented that identify and detail the options available to recover assets and services during an incident. Additionally, plans are required to be tested to provide a reasonable expectation that, during a business continuity incident, the Business Unit will be able to recover and perform its critical business processes and limit the impact of the incident to the Morgan Stanley Group, its clients and financial markets. Forming part of Morgan Stanley Group's Resilience organisation, the MSEHSE Group has staff dedicated to managing the aforementioned programmes, which are governed by the Business Resilience Governance Committee. In addition, the MSEHSE Group Management Boards oversee the programme implementation at the Group level.

### Third Party Risk Management

In connection with its ongoing operations, the Group utilises the services of third party suppliers which include other Morgan Stanley Group undertakings as well as external third party vendors. The Group mostly utilises the services of other Morgan Stanley Group undertakings as they are subject to the same global standards and frameworks. These services include, for example, outsourced processing and support functions and other professional services. The Group's risk-based approach to managing exposure to these services includes the execution of due diligence, risk assessments, implementation of service level and other contractual agreements as well as consideration of operational risks and performance of ongoing monitoring and supervision of the third party suppliers' performance. In addition, a dedicated Second Line of Defence control function (COCO) reviews adherence to applicable regulatory requirements. The Group maintains a third and fourth party inventory and an Outsourcing and Sourcing Framework which includes governance through policies, procedures, templates and technology and is designed to meet applicable regulatory requirements and be in line with the Morgan Stanley Group's third party risk management programme.

## Model Risk

Model Risk is the potential for adverse consequences from decisions based on incorrect or misused model outputs. Model risk can lead to financial loss, poor business and strategic decision-making, or damage to the Morgan Stanley Group's reputation.

The independent Model Risk Management ("MRM") department performs the Second Line of Defence function with the objective that all models in use are fit for purpose. MRM establishes the standards, principles, practices, governance processes, definitions, and roles and responsibilities for sound model risk

management. Key components of the Model Risk Framework include:

(1) Risk Identification: MRM employs model identification and tiering frameworks, aligning model risk management activities with the level of models' inherent risk.

(2) Risk Management and Monitoring: MRM conducts independent review and validation of models to verify that the models are performing as expected and in line with their designed objectives and intended use. Ongoing monitoring ensures that models continue to perform consistently with their intended purpose and that the outputs of models remain reliable.

(3) Risk Appetite and Tolerances: To ensure that model risk does not pose a material risk to capital adequacy, reputation and regulatory standing, model governance and control processes have been established.

(4) Risk Reporting: MRM reports on model risk to the MOCs and provides a quarterly report on model risk to the ERCs and the MSEHSE Group Management Boards.

The Group uses internal models for valuation, risk management and capital calculations. Valuation models include models that are used to produce valuation and/or risk measures for end of day books and records related to a position and models that are used to adjust a portfolio's value. Risk models are used for the measurement and management of credit risk, market risk, counterparty risk, operational risk and liquidity risk, for stress testing, and for the calculation, planning and management of regulatory and internal capital requirements. Algorithmic trading models are in use for electronic trading activities.

## Conduct Risk

Conduct Risk is defined as the risk arising from misconduct by individual employees or contingent workers (collectively, "Covered Persons") or groups of Covered Persons, or the risk arising from conduct by the Morgan Stanley Group where the outcome has an adverse impact on clients or markets.

The Group's independent Compliance Department is responsible for the design and development of a Conduct Risk Framework and for the execution of compliance-related responsibilities as defined in the Group's policies and procedures. A consistent global framework is in place for managing conduct risk and Conduct Risk Incidents ("CRIs") including within the Group.

Key components of the Conduct Risk Framework include:

(1) Risk Identification: Business units as well as support and control functions are responsible for identifying, assessing, managing and recording the conduct risks, which arise from their current or planned strategies and activities.

(2) Risk Management and Monitoring: Internal controls and processes have been established to manage conduct risks identified. CRIs are identified and escalated through a range of processes within the Three Lines of Defence. A review will be performed by the appropriate division and recommendations made to relevant decision-makers on next steps.

(3) Risk Appetite and Tolerances: The Group does not have an appetite for conduct risk. However, the Group acknowledges that it remains inherent in the Group's products, activities, processes and systems and, therefore, cannot be eliminated entirely.

(4) Risk Reporting: Processes have been established to ensure reporting of risks and incidents as well as prompt escalation and appropriate notification. The Group's Head of Compliance attends the Europe, Middle East and Africa ("EMEA") Conduct Risk Committee and reports to the MSEHSE Group Management Boards periodically on the Group relevant conduct matters and on developments in the Conduct Risk Framework as well as on developments in the applicable regulatory environment.

The MSEHSE Group Management Boards hold executive management accountable for compliance with business conduct risk standards through a variety of measures and controls.

## Compliance Risk

Compliance Risk is defined as the risk of legal or regulatory sanctions, material financial loss or damage to reputation resulting from the failure to comply with laws, rules, regulations, related self-regulatory organisation standards and

codes of conduct applicable to the Group's activities.

The Group's independent Compliance Department is responsible for identifying applicable compliance risks and obligations as well as for establishing and maintaining a Compliance Risk Management Programme for the Group. All of the Group's businesses and operations are subject to the Compliance Risk Management Programme. Key components of the Compliance Risk Management Programme include:

(1) Risk Identification: Business units as well as support and control functions are responsible for identifying, assessing, managing and reporting compliance risk. The Group's Compliance Department completes an annual Compliance Risk Assessment for the Group to identify material compliance risk.

(2) Risk Management and Monitoring: The annual Compliance Risk Assessment for the Group evaluates compliance risks and is reported to the MSEHSE Group Management Boards. In addition, the Compliance Department subsequently develops an Annual Compliance Plan for the Group that prioritises Compliance Department activities (including Compliance monitoring) based on the Compliance Risk Assessment and other inputs, as appropriate.

(3) Risk Appetite and Tolerances: The Group seeks to comply with applicable laws, rules and regulations. The Group has no appetite for transactions, business activities, or conduct by employees, contingents, customers, or counterparties that give rise to a significant breach of the Group's compliance obligations.

(4) Risk Reporting: The Group's Compliance Department reports to the ERCs and MSEHSE Group Management Boards on a quarterly basis on compliance risk, significant regulatory compliance related developments and the progress of the Annual Compliance Plan. The Group's Compliance Department also produces an annual Compliance report which is reviewed by the Management Boards.

## Other Material Risks

In addition to the above risks, the Group has put in place a framework to identify, measure, control and report on the following other material risks:

- **Leverage Risk:** Leverage Risk is defined as the risk resulting from an institution's vulnerability due to leverage or contingent leverage that may require unintended corrective measures to its business plan, including distressed selling of assets that might result in losses or in valuation adjustments to its remaining assets.
- **Valuation Risk:** Valuation Risk represents the possibility that a valuation estimate of a position would differ from the price in an actual close-out transaction due to uncertainty around the actual price that could be obtained.
- **Earnings at Risk / Strategic Risk:** Earnings at Risk / Strategic Risk are defined as risks to baseline earnings stability that are generally manifested over a longer time horizon rather than an instantaneous market shock. Risk can arise from a decline in key revenue generators, significant loss of customer base, reduced standing amongst competitors, macroeconomic stress conditions, idiosyncratic or industry-wide factors, significant changes to expected expenses, transfer pricing impacts and shifting of business/product mix. This includes risks to Net Revenue, Net Interest Income ("NII"), Non-Interest Income, Non-Interest Expense and Balance Sheet that are impacted by more than just Market Risks and Credit Risks.
- **Reputational Risk:** Reputational Risk (also referred to as Franchise Risk) describes potential risks associated with the way in which the Group conducts its business and the perception of the Group by external parties including its shareholders, clients, regulators and the public. Reputational risks may be triggered by either the nature of the transaction (e.g., unusual complexity) or business practice (e.g., a transaction without appropriate economic substance or business purpose) or by the identity or reputation of the client or counterparty (e.g., a client linked to alleged corruption or other improper activities).

## Risk Summary

The Group's Risk Strategy and Risk Appetite are aligned with the Group's business strategy as well as capital and liquidity resources and are embedded into risk management processes.

The Group remained within the set Risk Appetite throughout 2023 and the Group's risk bearing capacity was sufficient at each quarter-end during 2023. In addition, the Group's capital and liquidity are deemed sufficient to exceed regulatory minimums under both normal and in stressed market environments. Adequate capital and liquidity were maintained as at 31 December 2023. The Group's Risk Management Framework and the Group's Risk Governance structures are effective and commensurate with the size and complexity of the Group's risk profile and the Group's Risk Division is appropriately staffed with experienced risk managers.

# Opportunities and Outlook

The outlook for global markets and economic environment, summarised in this section, represents the Group's internal projections and expectations based upon proprietary models and research as of March 2024. The assumptions underpinning particular forward-looking statements are disclosed where appropriate.

## Global Markets and Economic Outlook

In 2024, the Group anticipates the global economy to exhibit a steady growth at 2.8%, marginally below the 3.2% expansion recorded in 2023, reflecting a dynamic and adaptive economic environment. The adjustments to the monetary policy are expected to influence the broader economy gradually, with continued recalibration of demand dynamics. The deceleration of inflation is projected to proceed at a more measured pace compared to the previous year, closely aligning with (yet slightly above) the targeted benchmark in most developed markets, signalling a strategic approach to achieving price stability. Central banks are expected to start their cutting cycle only in mid-June, remaining above their respective neutral rates in 2024. Restrictive monetary policy can be expected to continue to exert pressure on the global cycle over the forecast horizon.

Despite the ongoing challenges, robust labour markets are likely to provide the backbone of a consumption led recovery in an environment of falling inflation. Looking further ahead, the international response to geopolitical dynamics and Europe's strategic recalibration of its energy strategy in response to current challenges will be pivotal in shaping the economic outlook.

In the Euro area, the Group forecasts modest annual growth of 0.5% for 2024, still reflecting a significant drag from the subdued dynamic at the end of last year. As the year progresses, quarterly growth rates are projected to accelerate on the back of increasing real incomes boosting consumer spending.

## Business Priorities

The Group's business strategy remains in line with the Global and EMEA strategies, supporting the Morgan Stanley Group's overarching objective of helping people, institutions and governments raise, manage and distribute the capital they need to achieve their goals. A more stable macro environment should give rise to stronger performance in 2024, although any signs of resurgent inflation and higher rates for longer could put downside risk on the wallet and impact the delivery of the Business units' revenue ambitions. The Group continues to prioritise long-term revenue growth and wallet share expansion. The latter should be driven across ISG by local and regional collaboration and efficient resource deployment, leveraging the integrated investment bank. The Group aims to book durable revenue supported by a robust and effective risk and control framework that evolves in-line with the business strategy.

## Financial Projections

The Group is currently forecasting a significant increase in PBT in 2024 in comparison to 2023, primarily due to the assumption of increased activity in investment banking, continued elevated interest rates, increased trading revenues from client activity and the impact of increased market risk management in the Group as noted in the 'Group Overview' section. This should result in a significant increase in ROE and a moderate reduction in Efficiency Ratio.

Tier 1 Capital Ratio is expected to moderately decrease in 2024 in comparison to 2023, primarily due to an increase in RWAs. LCR is expected to moderately increase due to higher liquidity to cover the required liquidity target. NSFR is expected to moderately decrease primarily due to the impact of increased market risk management in the Group.

## Regulatory Developments

### Finalising Basel III Reforms

The Basel Committee on Banking Supervision ("BCBS") sets the standard for international banking prudential regulation in a series of accords ("Basel Accords") that are implemented in the EU via the CRR II and CRD V as transposed into German Law (mainly via the German Banking Act).

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, 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 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 EU. The proposal also includes an increased focus on Environmental, Social and Governance ("ESG") risks. These rules are expected to become effective from 1 January 2025.

### Swap Dealer Requirements for Non-US Domiciled Entities

The CFTC are developing specific requirements to allow registered non-bank swap dealers who are domiciled outside of the US 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.

# ESG Report

The sections "Climate and Environmental Risk Management" and "Climate Stress Loss Limit and Credit Exposures" are part of the risk reporting within the consolidated Management Report pursuant to section 315 para. 1 sentence 4 of the German Commercial Code (Handelsgesetzbuch, or "HGB") and have therefore been audited. All other sections of the ESG Report are unaudited.

## Approach to ESG (unaudited)

### ESG Strategy and Disclosures

The Group's approach to ESG is consistent with that of the Morgan Stanley Group.

The Morgan Stanley Group is committed to transparent disclosure of information relating to ESG and the full list of available disclosures is in the Morgan Stanley Group's ESG Report. The Report's data, content and narrative are informed by the Sustainability Accounting Standards Board ("SASB") standards for Investment Banking, Asset Management and Commercial Banking and the recommendations of the Task Force on Climate-Related Financial Disclosures ("TCFD"), both of which are now part of the International Sustainability Standards Board ("ISSB").

The Morgan Stanley Group's ESG Reports are available at [www.morganstanley.com/content/msdotcom/en/about-us/sustainability-at-morgan-stanley](www.morganstanley.com/content/msdotcom/en/about-us/sustainability-at-morgan-stanley). As at publication date of this Group Management Report, the latest Morgan Stanley ESG Report is the 2022 Report. The 2023 Report will be available at this link when published.

### Evolving Regulatory Developments

MSESE is subject to existing ESG reporting requirements which it complies with through the disclosures contained in this "ESG Report". It continues to monitor the regulatory landscape for developments which will further impact its ESG-related reporting.

The Taxonomy Regulation (Regulation (EU) 2020/852), ("Taxonomy Regulation") entered into force on 12 July 2020 and establishes criteria for determining whether an economic activity is "environmentally sustainable". Article 8 of the Taxonomy Regulation requires organisations subject to the Non-financial Reporting Directive ("NFRD") to report on their Taxonomy alignment i.e. how, and to what extent their activities are associated with environmentally sustainable economic activities. MSESE was subject to Taxonomy Regulation reporting requirements from the financial year ended 31 December 2022. MSBAG and MSF are subject to Taxonomy Regulation reporting requirements from the financial year ending 31 December 2025 due to the impact of the Corporate Sustainability Reporting Directive ("CSRD") as outlined below.

On 28 November 2022, the European Commission adopted the CSRD which replaces the existing reporting requirements of the NFRD. The requirements will apply to financial years commencing on or after 1 January 2024, with disclosures required by MSESE for the financial year ending 31 December 2024 and by MSBAG and MSF for the financial year ending 31 December 2025.

### Basis of Preparation

This ESG Report is prepared in accordance with section 340i (5) in conjunction with sections 315c and 289b - 289e HGB, collectively known as NFRD.

Due to evolving regulation in this area, the MSEHSE Group has elected not to employ any of the existing ESG reporting frameworks as permitted by section 289d HGB.

As required by section 289c (1) HGB, the Group has described its business model in the "Group Overview" section of this Group Management Report.

### Materiality Assessment

A double materiality assessment of ESG matters was conducted for the Group in 2023, to satisfy the requirements of section 289c of the HGB. The assessment aimed to identify material topics within each sustainability aspect of section 289c HGB, being those which have both a significant financial impact on the Group, and which the Group can have a significant impact on (the concept known as "double materiality"). In assessing topics, the Group engaged with internal and external stakeholders, considered internal policies and documentation, and performed quantitative analysis. Based on this, the below topics have been determined to be material for the Group.

| Sustainability Aspect according to HGB 289c | Material issue(s) |
|---|---|
| Environmental matters | Climate change |
| | Sustainable Finance Target |
| | Operational sustainability |
| Employee matters | Culture |
| | Wellbeing |
| | Talent management |
| | Diversity and Inclusion |
| Social matters | Supporting communities where we live and work |
| Respect for human rights | Human rights in the supply chain |
| Anti-corruption and bribery matters | Combatting corruption |

## Human Capital (unaudited)

The Group's employees are its greatest asset, and the diversity of the workforce brings expertise and points of view that contribute to the success of the Group.

To facilitate talent attraction and retention, the Group strives to create a diverse and inclusive workplace, with a strong culture and opportunities for employees to grow and develop in their careers and be supported by competitive compensation, benefits, and health and wellness programs.

### Culture

The Group's culture is built on the core values of the Morgan Stanley Group — Put Clients First, Do the Right Thing, Lead With Exceptional Ideas, Commit to Diversity & Inclusion, and Give Back.

Leadership, including the Boards, sets the tone for the Group, and the executive teams drive a culture that is central to how the Group serves clients, advances and develops the workforce, and how the Group supports the communities around it.

The Group's remuneration policies and programs are designed to motivate appropriate employee behaviours, deliver pay for sustainable performance, align with shareholder interests, support the recruitment and retention of top talent, and be consistent with the Group's strategy and values and legal and regulatory requirements.

The results of the most recent biennial employee engagement survey demonstrate the strength of the Morgan Stanley Group's commitment to its culture and employees, with 92% of EMEA employees being proud to work at Morgan Stanley.

### Wellbeing

Fostering a healthy and inclusive culture and supporting the positive physical, mental and financial wellbeing of the employees and their families is a priority. The global benefits strategy is informed by employee feedback, peer benchmarking and industry research.

The Group's wellbeing strategy centres around three pillars:

- Awareness - educating employees on health and wellbeing matters and engaging them to take charge of their health and wellbeing;
- Prevention - a focus on mitigating health risk and promoting healthy lifestyles; and
- Access - providing best-in-class resources for employees.

The EMEA Wellbeing Board sponsors strategy and drives programming to help employees access mental health and wellbeing care. Managers are also accountable for supporting employee mental health and wellbeing; employees are required to rate their managers' ability to support and prioritise employee mental health and wellbeing as part of the annual performance evaluation process. The Wellbeing Influencers are employee ambassadors who support colleagues by listening, advocating and sharing resources.

### Talent Management

The Group places considerable value on investment in its employees and continues the practice of keeping employees informed on matters affecting them. Employees are encouraged to present their suggestions and views on the Group's performance to management and employees participate directly in the success of the business through various compensation incentive plans.

The Group's recruiting strategy aims to attract top tier talent in all disciplines required for the execution of business activities. The recruitment priorities include a mandate seeking to identify a diverse pool of candidates with the requisite skills and demonstrated abilities to contribute meaningfully and productively to the Group's culture, consistent with its values and standards. Internal mobility is also encouraged to retain

talent and provide growth opportunities within the Morgan Stanley Group.

## Diversity and Inclusion

### *Diversity and Inclusion (“D&I”) Strategy*

A comprehensive diversity strategy is important to the Group’s continued success and its ability to support its workforce, serve its clients and engage with the communities in which employees live and work. To this end, the Group continues to deliver against a comprehensive diversity and inclusion strategy focused on the workforce, societal issues, and the marketplace.

Workforce - Continue to develop and invest in internal diversity, equity and inclusion efforts to enable the Group to become a leader in attracting, developing, and retaining diverse talent, and to create a culture of inclusion.

Society - Support underserved communities through employee engagement that addresses inequities in education, careers, economic prosperity and health, and also helps communities continue to grow and thrive.

Marketplace - Invest to advance economic outcomes in underserved communities through products, services, business practices, spending and thought leadership.

As of 31 December 2023, for the MSEHSE Group, 63% of employees were male and 37% female.

### *Supporting Colleagues Through D&I Efforts*

The Group is an equal opportunity employer committed to diversifying its workforce and to maintaining a professional workplace where everyone is treated with dignity and respect. In line with this commitment, the Group strives to have a supportive, diverse, open and inclusive culture in which all staff treat others in accordance with the Morgan Stanley Group’s core values and the Dignity at Work Policy.

There is a correlation between inclusive teams and improved decision-making, innovation and performance. The Group’s Diversity Action Council acts as a catalyst to drive forward its diversity strategy. Accountability is underscored by regular meetings with the Group’s Management Boards.

## Supporting Communities Where We Live and Work

The Group is committed to giving back to the communities in which it operates through a range of philanthropic programs. The scope of these philanthropic initiatives includes:

### *Volunteering*

In 2023, employees participated in the annual Global Volunteer Month, engaging employees across all offices globally to give back to the communities where they live and work. 85% of the Group’s employees were involved, supporting local community organisations.

### *Giving*

Employees in offices across Europe nominate charity partners, raising funds over a two-year period, with employees raising funds and donations that are matched by the Morgan Stanley International Foundation, the philanthropic arm of Morgan Stanley Group’s EMEA efforts. The employee-nominated charity partners in Europe include: L’Envol in Paris, and Deutscher Kinderschutzbund in Frankfurt. These charities work to support a range of children’s issues in their respective locations.

Frankfurt employees supported Kinderschutzbund and raised €140,000, enabling the charity to establish a Family House, where families with young children who are in need of help are provided with a place to talk about their situation and also provided with clothing, baby equipment and supplies.

In 2024, the Morgan Stanley International Foundation will be increasing both the funding and length of support for selected charity partners.

### *Community Impact*

The Morgan Stanley International Foundation has partnered with charities across Europe, supporting healthy starts and solid educations for the children in local communities. For example, in Paris support has been provided to Alliance pour l’education, a charity supporting young people in accessing equal opportunities and making informed choices about their future and professional careers. In Frankfurt, the Morgan Stanley International Foundation has partnered with Anna-Freud-Institut Frankfurt e.V., to enable the charity to extend its mental health support to children and adolescents through qualified youth psychoanalysts. As part of this, the Institute has worked with 8 high schools to raise awareness and provide education on mental health, reaching over 7,200 children and their teachers through consultations, group sessions and seminars.

# Climate and Environment

## Climate Strategy (unaudited)

The Group's strategy is to support the Morgan Stanley Group in achieving the overall goal of net-zero financed emissions across its global business by 2050. It will contribute to each of the following pillars of the Morgan Stanley Group climate strategy:

- Support the transition to a low-carbon and green economy;
- Manage climate risk (see "Climate and Environmental Risk Management" section);
- Provide relevant, transparent, useful and timely climate-related disclosures (see "ESG Strategy and Disclosures" section); and
- Enhance the climate resilience of operations (see "Operational Sustainability" section).

The Morgan Stanley Group aims to meet its climate commitments and contribute to real-economy decarbonisation by supporting clients in achieving their own climate-related commitments. Its approach to meeting its net-zero commitment is described in the Morgan Stanley Group ESG Report and includes scaling low-carbon opportunities, supporting clients through climate transitions, and managing its lending portfolio.

To demonstrate progress toward its net-zero by 2050 commitment, the Morgan Stanley Group set interim 2030 financed emissions lending intensity ("FELI") targets for the three most emissions-intensive sectors: Auto Manufacturing, Energy and Power. Progress against these targets is reported in the Morgan Stanley Group ESG Report. The Group maintains a KPI to monitor alignment of lending exposure retained on MSEHSE Group to Morgan Stanley Group's Net Zero commitment and global targets in these three sectors. Accountability for this KPI sits with the Group's Management Boards.

The Morgan Stanley Group Climate Strategy Assessment Framework ("CSAF") provides additional insight into clients' approaches to climate. The CSAF will help the Morgan Stanley Group to assess company targets, climate governance, plans and actions taken toward meeting targets, and Greenhouse Gas ("GHG") emissions performance.

The Morgan Stanley Group is also involved in industry-led initiatives that inform how financial institutions set net-zero targets, and measure and disclose financed emissions, including the Net-Zero Banking Alliance ("NZBA") and the Partnership for Carbon Accounting Financials ("PCAF"). While these initiatives help inform Morgan Stanley Group's approach to net zero, it makes independent decisions regarding climate strategy.

## Climate and Environmental Risk Management (audited)

Climate and environmental risks include impacts to biodiversity, pollution of land, water or air, climate change, deforestation and forest degradation and other negative impacts on the environment as a result of human activities. Within climate and environmental risks, the risks arising from climate change are a particular area of focus.

The Group considers climate and environmental risks through two main categories: transition risks and physical risks.

- **Transition Risks**: Transitioning to a low-carbon and more environmentally sustainable economy will entail extensive regulatory, policy, legal, technology and market initiatives as society adapts to climate change, mitigates its causes and promotes a more sustainable environment. Depending on the nature, speed and focus of these changes, transition risks may pose varying types and levels of financial and reputational risk to businesses and other organisations.
- **Physical Risks**: These risks include both acute physical events such as flooding, and chronic physical risks related to longer-term shifts in climate patterns such as more frequent and prolonged drought and progressive shifts like biodiversity loss, land use change, habitat destruction and resource scarcity. Financial implications for organisations can range from direct damage to assets to indirect impacts from supply chain disruption, driven by factors such as changes in water availability, food security and agricultural productivity. Extreme temperature changes may affect an organisation's physical locations, operations, supply chain, transport needs and employee safety.

In addition, the Group may be exposed to litigation risk or reputational risk losses arising from compliance risks related to increasing and evolving ESG-focused regulation.

### *Managing Climate and Environmental Risks*

The Central Climate Risk Team within Risk Management is responsible for working with stakeholders in Risk and across the Morgan Stanley Group to identify, monitor, mitigate and report on the climate-related financial risks it may face. The EMEA team is led out of the MSEHSE Group with primary responsibilities consisting on partnering with stakeholders to manage and embed climate and environmental risks in the risk management framework including regional regulatory requirements and with consideration of the Group's portfolio.

Climate and environmental risks are incorporated into the MSEHSE Group Risk Management Framework as drivers of credit, market, operational and liquidity risk. The management of climate and environmental risks is also incorporated into policies and procedures. The MSEHSE Group Risk Management Framework continues to be enhanced to meet requirements set out in new and evolving regulations.

### *Risk Identification and Materiality Assessment*

#### *Materiality Assessment in the Short-term*

As part of its Risk Identification and Materiality Assessment process, the Group conducts granular risk assessments of short-term climate and environmental risks. These include:

- **Risk Inventory:** The risk inventory captures climate and environmental risks as drivers of existing risks. In 2023, the Group expanded the assessment to consider additional risk events. Risk events assessed for their impact on credit, market, liquidity and operational risks include:

    1) Transition risk driven by climate policy (carbon repricing and accelerated green technology) and other environmental policies (reduction of pollution); and

    2) Physical risk driven by climate events (extreme temperature, wildfire, drought, riverine flood, coastal floods and storms) and other environmental events (biodiversity loss). In addition, the Group has assessed the impact of climate and environmental risks to litigation, reputational, collateral, and strategic risks.

- **Materiality Assessment:** A quantitative assessment is performed across risk types to determine the materiality of the impact of climate and environmental risks. A risk is considered material if the estimated stress loss or outflow is above the existing risk identification materiality thresholds.

#### *Results of Short-term Materiality Assessment*

In 2023 for the Group, climate transition risk driven by a carbon repricing or an accelerated green energy technology transition was assessed as material for credit risk exposures. Climate physical risks were assessed as non-material for credit risk. Climate transition and physical risks were assessed as non-material for the Group's collateral positions given low concentration in the Group's portfolio to these types of risks. Climate and environmental risks were assessed as non-material for operational risk (business disruption, litigation risk and reputational risk), market risk, liquidity risk and strategic risk given estimated losses fall below respective materiality thresholds. The assessment is performed quarterly.

#### *Materiality Assessment in the Long-term*

The Group also performed a long-term assessment of climate risks using 30-year scenarios. Long term assessments consider a late climate policy action focusing on transition risk and a no action scenario focusing on physical risk. This materiality assessment concluded that the late action scenario focused on transition risk is material for credit risk in the long term. In 2023, the two long term scenarios were assessed as non-material for market and liquidity risks.

### *Risk Appetite and Limit framework*

#### *Credit and Market Risk Limits: Climate Risk*

Climate transition risk is incorporated into the Group's Risk Appetite and Limit Frameworks. The MSEHSE Group Management Boards set a Climate Stress Loss Limit ("CSLL") across credit and market risks which is reviewed on an annual basis.

In addition to the CSLL, climate risk is incorporated into the Credit Risk Management Framework through industry sector limits as well as country and obligor ratings. Limits and ratings are monitored as per standards in credit risk management policies and procedures.

- **Climate Stress Loss Limit:** The MSEHSE Group Management Boards express risk appetite via the CSLL. To monitor potential

credit and market risk losses against this limit, the Group runs a short-term transition risk carbon repricing scenario that assumes a global effort to address carbon emissions leads to sudden and sustained carbon repricing across all countries. The results of this scenario are reported to the Group's Management Boards on a monthly basis.

- **Industry Sector Limits:** Credit risk limits are established for industries that are highly exposed to climate risk. This process includes a portfolio segmentation of industries into groups with common climate risk profiles. The credit limits for the industry sectors highly exposed to transition and physical risks enable the Group to monitor and manage credit risks arising from climate change.
- **Country Ratings:** ESG considerations are incorporated into the internal sovereign credit rating assessment. The sovereign rating is an important input in determining country limits, therefore ESG considerations influence risk appetite at the country level.
- **Obligor Ratings:** Climate risk is incorporated into the rating assessment for corporates. The corporate rating is an important input in determining single name limits, therefore climate risk influences risk appetite at a single name level.

In addition to the credit limits, the Group includes an assessment of ESG risks in the lending transaction approval documentation in line with the European Banking Authority's guidelines on loan origination and monitoring.

***Liquidity and Operational Risk Limits: Climate Risk***

In 2023, climate risks are assessed as non-material for liquidity and operational risk. Hence, the Group has not established specific climate risk limits for liquidity and operational risks.

***Credit, Market, Liquidity and Operational Risk Limits: Other Environmental Risks***

In 2023, other environmental risks were assessed as non-material for credit, market, liquidity and operational risk. Hence, the Group manages other environmental risks within the existing risk appetite and limit frameworks.

***Scenario Analysis and Stress Testing***

Scenario Analysis is central to the Group's Climate Risk Management Framework.

Both transition and physical risks can materialise over different time horizons. For example, extreme flooding events present near-term physical risks to vulnerable regions and populations, while e.g., certain climate policy measures, particularly those implemented over several years, present longer-term challenges as economies adjust to increased costs and market or technological changes stemming for new policies.

Therefore, scenarios may be developed to assess potential losses over the short, medium, or long term. Morgan Stanley Risk Management defines these time horizons as:

Short Term: 0 - < 1 year

Medium Term: 1 - < 5 years

Long Term: > 5 years

The Group has implemented short term and long term scenarios to assess the impact of climate risks.

- **Short-term Credit and Market Risk Scenario Analysis**: Informed by carbon emissions data from external providers, the Group employs a bottom up approach in assessing the financial impact of climate policy (carbon repricing) in a scenario that captures both counterparties' probability of default and market price movements. An additional credit risk scenario that considers an accelerated transition to green energy technology is assessed for the counterparties in the Energy sector and updated on a quarterly basis. As transition risk is a material credit risk, a CSLL was established for a transition risk scenario. Physical risk vulnerabilities are assessed on a quarterly basis and as of 2023 are deemed as non-material.
- **Operational Risk Scenario Analysis:** A number of physical risk scenarios are assessed focusing on business disruption due to climate change events (including extreme weather). Physical risk scenarios are selected based on a combination of probability and severity.
- **Litigation and Reputational Risk Scenarios:** Litigation risk arising from Product Design is assessed, including inadequate due diligence and disclosure. Reputational risk losses are assessed for the

scenario that is expected to result in the greatest harm to clients.

- **Strategic Risk:** The transition risk carbon repricing scenario was assessed for Strategic Risk.
- **Long-term Strategy Scenarios:** The Group conducted an exploratory long term scenario analysis, running two 30-year quantitative scenarios to model late action (transition risk) and no additional action (physical risk) scenarios on a static and dynamic balance sheet, to inform the Group's materiality assessment and business strategy.

## Climate Metrics and Targets

### *Climate Stress Loss Limit and Credit Exposures (audited)*

### *Climate Stress Loss Limit*

The Group remained within its portfolio CSLL throughout 2023.

### *Credit Exposures*

The Group's exposure to industries identified as highly exposed to climate transition or physical risk is a small percentage of overall credit exposure.

Exposure to industries with high climate transition or physical risk is subject to credit industry sector limits and both independently comprise 15% of the Group's aggregate credit risk exposure. The increase in exposure to sectors highly vulnerable to transition and physical risks in 2023 compared to the previous year relates to the Group's loan retention exercise that has led to an increase in the overall MSEHSE Group loan portfolio. Further information can be found in the 'Credit Risk' section of the Risk Report. Regarding loans in the Energy, Power and Auto Manufacturing sectors, the MSEHSE Group maintains a KPI to monitor alignment of lending exposure retained on MSEHSE Group to Morgan Stanley Group's Net Zero commitment and global targets in these three sectors (further information can be found in the "Climate Strategy" section). Credit exposures to climate risk in the table below include treasury placements, lending commitments and trading activities, offset by credit risk mitigants such as collateral. Trade and other receivables are excluded.

### *Credit Exposures to Climate Risk*

| Climate Risk | 2023 | | 2022 | |
|---|---|---|---|---|
| € in millions | Expo-sure | % of Port-folio Total | Expo-sure | % of Port-folio Total |
| Transition Risk (1) | 3,213 | 15% | 2,091 | 8% |
| Physical Risk | 3,352 | 15% | 2,515 | 9% |
| **Portfolio Total (2)** | **22,028** | | **26,651** | |

(1) The industries identified as having high climate transition risk were updated in 2023. The 2022 figures included in this table have been revised accordingly.
(2) Total portfolio exposures exclude Morgan Stanley Group Affiliates.

The table includes the credit exposure to industry sectors highly vulnerable to climate transition and climate physical risks. The vulnerability of obligors is assessed based on a segmentation approach which differentiates between low, medium, high and very high (high and very high presented in the table). The segments are sub-industries with consistent climate risk profile. The assessment considers expert credit assessment, greenhouse gas emissions data and external physical risk scores.

### *Operational Sustainability (unaudited)*

### *Achieving Carbon-Neutral Operations*

In 2022, the Morgan Stanley Group achieved its commitment to carbon neutrality across its global operations[3]. The Morgan Stanley Group's carbon neutrality status covers direct scope 1 emissions from own operations, scope 2 location-based emissions from purchasing energy and scope 3 emissions from business travel and downstream leased assets.

### *Financed Emissions* (unaudited)

The Morgan Stanley Group's financed emissions are disclosed in the 2022 Morgan

[3] Morgan Stanley's carbon-neutral status reflects the actions in the 2022 Morgan Stanley Group ESG Report. This is a management-determined metric that may be viewed or calculated differently by others who may use the same "carbon-neutral" terminology. Morgan Stanley has determined that the boundary around its carbon-neutrality status is Scope 1, Scope 2 location-based emissions, Scope 3 business travel and downstream leased assets, carbon offsets purchased from the voluntary carbon market, green power contracts and market instruments (e.g., Renewable Energy Certificates ("RECs"), Energy Attributable Certificates ("EACs")). There are instances in which green power contracts and instruments that are accepted for the purpose of meeting carbon neutrality do not align with the criteria required to reflect those purchases in the Scope 2 market-based figure in accordance with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition) ("GHG Protocol"). For the Morgan Stanley global emissions data aligned with the GHG Protocol, please see the 2022 Morgan Stanley Group ESG Report.

Stanley Group ESG Report for lending activities in the sectors for which the Morgan Stanley Group has established interim targets. These were reported in close alignment with PCAF's Global Greenhouse Gas Accounting and Reporting Standard and according to the Morgan Stanley Group's Financed Emissions Lending Intensity metric methodology. For more details on the methodology, refer to https://www.morganstanley.com/about-us/sustainability-at-morgan-stanley/net-zero-financed-emissions.

The MSEHSE Group exposure and GHG Lending Intensity for its lending portfolio is shown in the table below. This is based on the ECB 2022 Climate Risk Stress Test methodology and includes lending exposure in emissions-intensive sectors for which the Morgan Stanley Group has set interim targets as well as lending exposure in other emissions-intensive sectors. This methodology is similar but distinct from the PCAF methodology the Morgan Stanley Group utilised to calculate and report its financed emissions in the 2022 ESG Report. For further information on the ECB methodology, refer to https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.climateriskstresstest2021~a4de107198.en.pdf.

As discussed in the "Climate Data Limitations and Challenges" section, carbon data for the emissions of the Group's clients is evolving and improving. The Group has reviewed emissions data disclosed previously to determine whether a revision is warranted, given that more accurate emissions data has become accessible since last year's report. Included in the below table are the 2022 originally reported and 2022 revised values, which reflect the use of updated Scope 3 emissions based on actual emissions where now available. The sectors with the largest impact are the Energy and Other sectors. There is also a small increase in the Weighted Average Lending Intensity of 2.5%. As data and methodologies continue to improve, the Group may make additional revisions as appropriate.

As presented in the following table, the Group's credit exposure to emissions-intensive sectors has increased approximately 59% since 31 December 2022 to €3,357 million as at 31 December 2023. The weighted average GHG Lending Intensity of the portfolio decreased by 32% to 1,718 tonnes per 3-year average revenue. The decrease is primarily driven by a decrease in the average emissions intensity across Energy, Utilities, and Automobile and Components counterparty sectors, mostly in relation to Scope 3 emissions. The decrease in Lending Intensity is primarily driven by higher average revenues for the Group's counterparties. A higher allocation of total credit exposure to less emissions-intensive sectors also played a minor role. This is subject to the data limitations noted in the 'Note' to the table below and the "Climate Data Limitations and Challenges" section.

MSEHSE Group GHG Lending Intensity as per ECB Climate Risk Stress Test Methodology

| Sector | 2023 | | | 2022 | | | |
|---|---|---|---|---|---|---|---|
| | | | | REPORTED | | | REVISED* |
| | Number of Counter-parties | Exposure (%) | GHG Lending Intensity (tCO2e/ € in millions of 3-year average revenue) | Number of Counter-parties | Exposure (%) | GHG Lending Intensity (tCO2e/ € in millions of 3-year average revenue) | GHG Lending Intensity (tCO2e/ € in millions of 3-year average revenue) |
| Utilities | 10 | 33% | 1,311 | 10 | 29% | 2,205 | 2,142 |
| Transportation | 5 | 12% | 808 | 6 | 18% | 690 | 710 |
| Automobiles and Components | 3 | 9% | 4,374 | 3 | 12% | 5,001 | 5,233 |
| Energy | 2 | 7% | 3,942 | 2 | 9% | 10,014 | 7,542 |
| Pharma, Biotech & Life Sciences | 2 | 11% | 109 | 2 | 9% | 160 | 155 |
| Other as per ECB Climate Stress Test | 21 | 28% | 1,755 | 8 | 23% | 636 | 1,841 |
| **Weighted average** | | | **1,718** | | | **2,451** | **2,513** |
| **Total (%)** | | **100%** | | | **100%** | | |
| **Total** | **43** | **€3,357 million** | | **31** | **€2,112 million** | | |

*As noted in the "Climate Data Limitations and Challenges" section below, emissions data from companies and third-party data providers is subject to data lag. This can lead to a requirement to revise where actual emissions data becomes available. The 2022 revised values in the above table reflect the use of updated Scope 3 emissions data based on actual emissions where now available.

Note:
Exposure considers corporate exposures to non-SME ("non-small and medium enterprises") and non-financial obligors. Emissions-intensive sectors according to Statistical Classification of Economic Activities in the European Community Codes ("NACE-Codes"), as defined in the ECB Climate Risk Stress Test methodology, have been mapped to GICS codes in the table. Within each sector, a materiality threshold of 1% of total non-SME corporate credit exposures by sector (i.e., by group of NACE codes) applies, the exposure below that threshold is not reported.

GHG lending intensity metric for counterparties is the counterparties' Scope 1, 2 & 3 GHG emissions in tonnes ($tCO_2e$) / counterparties' average revenues for the last 3 years (subject to revenue data availability). The sector intensity metric is the weighted average (based on exposure) of the GHG intensity of the counterparties in the sector.

The most recent GHG emissions data is for the year 2022. Morgan Stanley Group performs a data quality review of GHG vendor data, ensuring sufficient coverage and a best effort toward accuracy. For further detail on how the Morgan Stanley Group sources GHG data, refer to https://www.morganstanley.com/content/dam/msdotcom/about-us/netzero/Morgan-Stanley-Net-Zero-Target-Methodology.pdf.

## *Taxonomy Regulation Article 8 Disclosure (unaudited)*

### *Overview*

The Taxonomy Regulation provides a system for classification of economic activities deemed as environmentally sustainable underpinned by six environmental goals:

- climate change mitigation ("CCM");
- climate change adaptation ("CCA");
- the sustainable use and protection of water and marine resources;
- transition to a circular economy;
- pollution prevention and control; and
- protection and restoration of biodiversity and ecosystems.

Under Article 8 of the Taxonomy Regulation and the related Disclosures Delegated Act (Regulation (EU) 2021/2178) ("Disclosures Delegated Act"), the MSEHSE Group must disclose its Taxonomy-eligible assets and, from year ended 31 December 2023, its Taxonomy-aligned assets, Taxonomy-aligned financial guarantees and its Green Asset Ratio ("GAR") KPIs.

Eligibility indicates whether the activities that the Group is financing are in scope of the Taxonomy Regulation, i.e., are potentially environmentally sustainable.

Alignment indicates whether the Taxonomy-eligible activities that the Group is financing are environmentally sustainable. A Taxonomy-eligible activity becomes Taxonomy-aligned when:

- It contributes substantially to one or more of the environmental objectives set out in the regulation.
- It does not significantly harm any of these environmental objectives.

- It is carried out in compliance with the minimum safeguards set out in the Taxonomy Regulation.
- It complies with technical screening criteria set up by the European Commission in accordance with the Taxonomy Regulation.

Green Asset Ratio ("GAR") is the Group's Taxonomy-aligned assets as a percentage of its "covered assets" (see Definitions section, "Assets in scope of GAR denominator" in the appendix to the ESG Report, for a definition of "covered assets").

### *GAR KPIs*

The following table shows the GAR KPIs in respect of the Group's taxonomy-aligned assets as at 31 December 2023 ("GAR stock").

On 21 December 2023, draft additional guidance was published by the European Commission which addresses frequently asked questions on the implementation of the Taxonomy Regulation disclosures, including the requirement for first disclosure of the GAR Flow KPI to be in 2024 relating to fiscal year 2023. As at 31 December 2023, the Group's GAR Flow KPI is 0%.

The Group's GAR KPIs are limited as the numerator of each is mandatorily restricted to certain exposures facing undertakings subject to NFRD reporting obligations in the EU.

In addition, 36% (2022: 46%) of the Group's total assets are held for trading and are mandatorily excluded from GAR, even where the counterparty is within the scope of NFRD. 7% (2022: 6%) of the trading portfolio faces non-financial corporations and 93% (2022: 94%) faces financial corporations.[4]

For a further analysis of the KPIs below, please refer to the Appendix to the ESG Report which includes the mandatory templates required under Article 8 of the Taxonomy Regulation in respect of credit institutions.

| | | Total environmentally sustainable assets | | KPI [Turnover]* | KPI [CapEx]* | % coverage (over total assets)* | % of assets excluded from | |
|---|---|---|---|---|---|---|---|---|
| | € millions | Turnover | CapEx | | | | numerator of the GAR(1) | denominator of the GAR(2) |
| Main KPI | Green asset ratio (GAR) stock | 37 | 100 | 0.1% | 0.2% | 42.8% | 31.8% | 57.2% |

(1) per Article 7(2) and (3) and Section 1.1.2. of Annex V of the "Disclosures Delegated Act"
(2) per Article 7(1) and Section 1.2.4 of Annex V of the "Disclosures Delegated Act"
(*) for definitions, please refer to the Appendix to the Group Management Report Template 0

### *Incorporating the Taxonomy into Business Strategy*

The Morgan Stanley Group partners with clients and stakeholders to mobilise capital at scale to tackle sustainability challenges and embed ESG considerations in business processes (as set out below under "Sustainable Finance Target" and "Environmental and Social Risk Management" and in the above "Climate Strategy" section). The MSEHSE Group will continue to consider the incorporation of the Taxonomy into business strategy, internal processes and client engagement as reported data improves and client needs evolve.

### *Climate Data Limitations and Challenges (unaudited)*

Climate data is subject to significant limitations and challenges. These challenges are described below in order to educate stakeholders about the complexity in providing the mandatory Article 8 Taxonomy Regulation disclosures and the disclosures required by the ECB. Given the data limitations and challenges noted below, overall reliability, accuracy and comparability of the climate disclosures may be impacted.

*GAR Structure and Constrained Coverage*: Green lending included in the GAR numerator is restricted to certain exposures facing EU undertakings subject to NFRD reporting obligations. Green lending towards Small and Medium-sized entities or to companies outside of the EU or to companies in the EU but not subject to NFRD reporting obligations do not contribute to increasing the GAR as they are excluded from the GAR numerator, however, are included in the GAR denominator. In addition, trading assets and exposures to governments, central banks and supranationals are excluded entirely from GAR. Owing to these structural

[4] Held for trading assets facing central banks, governments and supranationals are excluded from this number, as they are reported on a separate row in Template 1 in the Appendix to the Group Management Report

limitations and constrained coverage, the GAR does not provide a complete view of the Group's financing of the green transition and should be viewed alongside complementary information contained elsewhere in the Group Management Report and in the 2022 Morgan Stanley Group ESG Report.

*Data Lag*: Emissions data from companies and third-party data providers is often unavailable until 12-18+ months after the reporting year end, far exceeding common financial reporting timeframes. This lag is due to a range of factors including company greenhouse gas (GHG) data and Taxonomy Regulation reporting cycles; the time it takes for vendors to source, aggregate and analyse data; vendors populating missing or incomplete information; and vendor data quality checks. This results in the Group making internal decisions utilising data that is often not up to date and therefore not reflective of current practices from clients.

*Limited Company Reporting*: Another limitation is the lack of company reporting across GHG scopes, especially for scope 3 emissions. Scope 3 data is generally estimated by third-party providers because it is often underreported. Therefore, scope 3 emissions data is heavily dependent on estimation methodologies which can differ across data providers, and are subject to methodological updates, making year-over-year result comparisons more challenging. Furthermore, the GHG Protocol methodology[5] directs companies to decide which underlying scope 3 emissions sub-categories are most relevant to their respective operations. Companies within the same sub-sector may determine different underlying categories as relevant in their emissions disclosures. In some cases, companies may determine categories relevant, but may opt to not report.

The Group's mandatory Article 8 Taxonomy Regulation disclosures are based on actual information provided by the Group's financial or non-financial counterparties. Owing to the narrowly defined scope of companies reporting Taxonomy Regulation disclosures as noted above, the GAR is further limited. Where a counterparty has not disclosed GAR information, as prescribed by the Regulation, the Group has not used calculations or estimates to close this data gap. Availability of required external data is expected to continue to expand in future years as more companies are required to adopt the Taxonomy Regulation disclosures.

[5] https://ghgprotocol.org/

Taxonomy eligibility and Taxonomy alignment counterparty data is not yet available for the following four Taxonomy Regulation objectives: the sustainable use and protection of water and marine resources; transition to a circular economy; pollution prevention and control; and protection and restoration of biodiversity and ecosystems, therefore, these objectives are excluded from the templates in the Appendix to the ESG Report.

*Data Provider-Specific Methodology Decisions:* The Group's financed emissions calculations depend on GHG data from two primary sources —company-reported emissions data and third-party data provider estimations. For company-reported emissions data, companies report different GHG emission figures across different disclosure channels. For example, a company might report different emissions figures in its Carbon Disclosure Project ("CDP") report, its annual report, and/or its sustainability report. Third-party data providers do not uniformly select one disclosure source over another source, resulting in data discrepancies across these data providers. In addition, third-party data providers can retroactively implement changes in their own estimation methodology year on year, which could lead to revision of prior years' data. On the other hand, some third-party data providers may choose not to revise or update their prior years' emissions data sets when companies revise their own data. These third-party data providers may also choose to estimate emissions data even where reported data is available if the company underwent a significant corporate action such as an initial public offering or a corporate merger, or if they believe the reported data was under-reported or incomplete. In other cases, third-party data providers may implement methodological changes to improve accuracy but may limit such changes to certain years or certain reporting boundaries. Any of these instances potentially create anomalous results when comparing these estimates to prior year reported emissions, complicating trend analysis.

## Solutions and Services (unaudited)

As part of its focus on Sustainable Solutions and Services, the Morgan Stanley Group is responding to client demand with financial solutions and services designed to help deliver both competitive financial returns as well as environmental or social benefit. For more

information, refer to http://www.morganstanley.com/about-us/sustainable-solutions-services.

### Sustainable Finance Target

The Morgan Stanley Group is committed to mobilising $1 trillion in sustainable finance by 2030, which includes $750 billion to support low-carbon and green solutions. Low-carbon and green solutions will help commercialise and deploy new and existing technologies necessary for the global economy, and clients, to significantly decarbonise.

Progress toward this goal is guided by Morgan Stanley's Sustainable Finance Framework ("the Framework") and tracked at global Morgan Stanley level. The Framework is maintained by the Global Sustainability Office, which considers the United Nations ("UN") Sustainable Development Goals and industry frameworks and standards such as the International Capital Markets Association's Green and Social Bond Principles when evaluating the Framework on an annual basis to help ensure alignment with evolving industry best practices. The Framework is further informed by input from contributing business units and relevant committees across the Morgan Stanley Group in order to remain aligned with the Morgan Stanley Group's ESG priorities and changes in business activities and products. Eligible themes and products under the Framework as well as progress towards this goal are reported in the 2022 Morgan Stanley Group ESG Report.

### The Morgan Stanley Institute for Sustainable Investing ("ISI")

The Morgan Stanley Institute for Sustainable Investing (ISI) aims to accelerate sustainable finance by driving innovation, empowering investors with insights and supporting the development of the next generation of sustainable investing leaders. The ISI supports two capacity-building efforts that help emerging talent contribute their ideas to sustainable solutions: the Sustainable Investing Challenge and the Sustainable Investing Fellowship. The ISI also runs the Sustainable Solutions Collaborative that grants $250,000 awards to innovators engaged in breakthrough sustainable solutions that range from commercial to non-profit. For more on this core focus area, refer to https://www.morganstanley.com/what-we-do/institute-for-sustainable-investing.

### Inclusive Ventures Group

The Morgan Stanley Inclusive Ventures Group ("MSIVG") works to address the significant market inefficiency limiting access to capital for underrepresented startup founders. MSIVG's innovative approach to bridging investment gaps focuses on changing investor attitudes and behaviours, accelerating growth and investing directly in early-stage, technology-enabled companies founded by underserved entrepreneurs. MSIVG's mission is to deliver strong returns and long-term value by creating a more equitable investment landscape.

#### *Morgan Stanley Inclusive Ventures Lab*

The Morgan Stanley Inclusive Ventures Lab ("the Lab") is an intensive, five-month, in-house accelerator designed to help further develop and scale startups, culminating in a showcase presentation and Demo Day to the investor community. After its US launch in 2017, the Lab expanded to EMEA in 2021 and hosted its first regional cohort comprising of 5 companies. Through the Lab, the Morgan Stanley Group makes direct investments in early-stage, technology and technology enabled companies, and supports each founder's growth and development through a rigorous program and a global ecosystem of internal and external partners. The Lab provides startups in the program with much-needed access to investors - along with the tools, resources and connections to grow and thrive. The EMEA Lab has invested in 14 high-potential companies to date and has raised approximately €6 million during the accelerator program.

## Sustainability Governance and Risk Management (unaudited)

### ESG Governance

The Group takes an integrated approach to ESG management with oversight from senior management and input from across core business and support functions. The Group's efforts around sustainability are supported by a management-level EMEA ESG Committee which is in place to provide ongoing consideration, governance and oversight of the incorporation of ESG risks into strategy, business processes and risk management. In particular, the EMEA ESG Committee assists in the development of a ESG strategy, oversees the embedding of ESG risks into the risk and control framework and oversees the tracking, analysis and implementation of key regulatory

requirements related to ESG. The EMEA ESG Committee reports on at least an annual basis to the Morgan Stanley Group ESG Committee. The MSEHSE Group COO Co-Chairs the EMEA ESG Committee, and the MSEHSE Group Chief Risk Officer, Chief Finance Officer, Head of Compliance and Head of Legal are members of the Committee.

During 2023, the Group's Management Boards and Supervisory Board had oversight of various climate related matters on a regular basis. In particular, the Group's Management Boards received an update on the MSEHSE Group Climate Strategy which included a detailed analysis of climate scenarios and the resulting impact on the Group's business activity and approved the annual review and update of the Carbon Repricing scenario. The Group's Management Boards also received updates on the focus areas of the MSEHSE Group Risk Management Framework, including enhancing climate and environmental risk management capabilities, preparing for upcoming disclosure obligations and progress towards meeting climate supervisory deliverables. Furthermore, the Group's Management Boards and Supervisory Board received an update on Morgan Stanley Group's progress with integrating ESG related considerations both at a global and at an MSEHSE Group level. The update included EMEA ESG related business highlights, the approach to meeting ESG regulatory requirements impacting the Group and how climate and environmental risks are monitored and managed within the MSEHSE Group Risk Management Framework. The MSEHSE Group Supervisory Board Risk Committee also received updates on the framework to embed the KPI based on financed emissions lending intensity into the loan approval process.

Under the Group's remuneration policies, the Group's Supervisory Board considers whether the amount of remuneration proposed to be distributed amongst the Management Board includes adjustments for relevant financial and non-financial risks, including climate and environmental risk.

## Environmental and Social Risk Management

In addition to the management of financial risks arising from climate change and environmental degradation, which is described in the section "Climate and Environmental Risks", a Morgan Stanley Group-wide approach is taken to the management of environmental and social risks that could impact its reputation. Morgan Stanley's Environmental and Social Risk Management Group ("ESRM") provides internal subject matter expertise on environmental and social risk, manages development and implementation of the Morgan Stanley Group's Environmental and Social Policy Statement and related policies and procedures, conducts diligence on relevant transactions, engages with stakeholders and monitors emerging risks and developments in partnership with the business units, Global Sustainability Office and other relevant control functions.

Due diligence and risk management processes are designed to identify, assess and address potentially significant environmental and social issues that may impact Morgan Stanley Group, clients and other stakeholders and apply globally to the following types of transactions:

- lending (corporate and project);
- debt and equity underwriting;
- private placements;
- investment banking and capital markets advisory assignments;
- investment management activities related to private equity, private real assets and private credit investing; and
- other transactions or activities as applicable and appropriate.

Business units and internal control functions refer transactions to ESRM for due diligence when they identify potential environmental and social issues that may pose franchise risk to Morgan Stanley. ESRM analyses environmental and social risks through a due diligence process that incorporates international frameworks, such as the International Finance Corporation ("IFC") Performance Standards, the World Bank Group Environmental, Health and Safety Guidelines, and the OECD Guidelines for Multinational Enterprises as well as relevant industry good practices and sector-specific internal guidelines. Clients are expected to comply with all relevant local and national laws, as well as with host-country obligations under international laws.

As outlined in Morgan Stanley Group's Environmental and Social Policy Statement, Morgan Stanley Group has tailored approaches to certain sectors and cross-sector environmental and social issues. Transactions that carry potential franchise risks associated

with environmental and social issues may be escalated to the Global Franchise Committee, or regionally to the EMEA Franchise Committee, as well as senior management. The Policy Statement is reviewed annually and updated as necessary to reflect strategy and key developments. For further detail, refer to Morgan Stanley Group's Environmental and Social Policy Statement which can be found at http://www.morganstanley.com/about-us-governance.

## Ethical Business Conduct

### *Human Rights in the Supply Chain*

The Morgan Stanley Group is committed to being a responsible corporate citizen and fulfilling the important role business can play in protecting and advancing global standards for human rights, including equal opportunity, the freedom to associate and bargain collectively, and the elimination of modern slavery, human trafficking and harmful or exploitative forms of child labour.

Human rights considerations are incorporated into transaction due diligence processes, engagement with companies, supplier expectations and own operations.

The Morgan Stanley Group is committed to complying with the laws and regulations of the countries in which it operates while simultaneously conducting its business and encouraging the promotion of human rights through its policies, standards and practices. Its approach is guided by leading frameworks, including the Universal Declaration of Human Rights, adopted by the UN General Assembly, and the UN Guiding Principles on Business and Human Rights.

Morgan Stanley Group's Supplier Code of Conduct outlines its expectations for suppliers with regard to human rights, employment and non-discrimination practices, health and safety, diversity and inclusion, data protection, and is included in supplier agreements. As outlined in the Supplier Code of Conduct, suppliers must conduct their operations in a socially responsible, non-discriminatory manner, and in full compliance with applicable laws including, but not limited to, those associated with personal information, equal opportunity, child labour, forced or compulsory labour, working hours and compensation, freedom of association, collective bargaining and harassment-free work environment.

Each year the Morgan Stanley Group publishes a Modern Slavery and Human Trafficking Statement that outlines the steps taken by the Morgan Stanley Group during the preceding financial year to address the risk of modern slavery in its own operations or any of the suppliers of the Morgan Stanley Group and its consolidated subsidiaries, as well as its future plans in that regard.

The Modern Slavery and Human Trafficking Statement is part of the supplier agreements. If Morgan Stanley finds information through its negative media searches that a supplier is violating the statement, they may be considered in breach of contract, and subject to termination of the agreement.

In 2023, the Group has not found any instances of suppliers practising modern slavery or human trafficking.

For further detail, refer to the Morgan Stanley Group's Human Rights Statement, Modern Slavery and Human Trafficking Statement, Environmental and Social Policy Statement, and Supplier Code of Conduct, which can be found at http://www.morganstanley.com/about-us-governance.

### *Combatting Corruption*

The Group, principally through Morgan Stanley Group's Legal and Compliance Division, has established and implemented policies, procedures and internal controls reasonably designed to comply with applicable anti-corruption laws and regulations in the jurisdictions in which it operates, including Germany.

The Morgan Stanley Group's Global Anti-Corruption Policy and the local country supplement for Germany, which are updated annually by the Morgan Stanley Group's Legal and Compliance Division, address corruption risks and prohibit offering, promising, giving or authorising others to give anything of value, either directly or indirectly, to any party, to improperly obtain or retain business or gain an improper business advantage. The policies also prohibit receiving, or agreeing to receive, anything of value that results or may result in the improper performance of employees' duties at Morgan Stanley. These values are embedded within the Morgan Stanley Group's Code of Conduct and a local country supplement for Germany, which employees must attest their understanding of, and adherence to, on an annual basis. For details, refer to https://www.

morganstanley.com/about-us-governance/code-of-conduct.

An annual risk assessment is performed to consider key areas of potential corruption risk to the Group.

Anti-corruption training is provided to all staff globally on an annual basis and targeted training is additionally conducted as necessary. In 2023 all MSEHSE Group employees have completed corresponding annual training on financial crimes risk.

The Morgan Stanley Group maintains whistleblowing policies and procedures to ensure that individuals can confidentially report concerns when these arise. Management information regarding the anti-corruption program is reported to appropriate senior management personnel through Legal and Compliance Division governance frameworks.

# CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Changes in Equity

Consolidated Statement of Financial Position

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

## CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2023

| € in millions | Note | 2023 | 2022 |
|---|---|---|---|
| Net gains from financial instruments at fair value through profit or loss | 4 | 430 | 245 |
| Fee and commission income | 5 | 528 | 587 |
| Other revenue | | 25 | 114 |
| **Total non-interest revenues** | | **983** | **946** |
| | | | |
| Interest income | 6 | 2,018 | 198 |
| Interest expense | 6 | (1,953) | (197) |
| **Net interest income** | | **65** | **1** |
| | | | |
| **Net revenues** | | **1,048** | **947** |
| | | | |
| **Non-interest expense:** | | | |
| Operating expense | 7 | (784) | (706) |
| Net impairment reversal/(loss) on financial instruments | | 1 | (5) |
| | | | |
| **PROFIT BEFORE TAX** | | **265** | **236** |
| | | | |
| Income tax expense | 8 | (78) | (94) |
| | | | |
| **PROFIT FOR THE YEAR** | | **187** | **142** |

All operations were continuing in the current and prior year.

The notes on pages 52 to 100 form an integral part of the consolidated financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2023

| € in millions | Note | 2023 | 2022 |
|---|---|---|---|
| **PROFIT FOR THE YEAR** | | **187** | **142** |
| | | | |
| **Items that will not be reclassified subsequently to profit or loss:** | | | |
| Remeasurement of net defined benefit liability | 8 | (7) | 31 |
| Changes in fair value attributable to own credit risk on financial liabilities designated at fair value | 9 | (1) | – |
| | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Foreign currency translation differences arising on foreign operations | 8 | – | (2) |
| | | | |
| **OTHER COMPREHENSIVE (LOSS)/INCOME AFTER INCOME TAX** | | **(8)** | **29** |
| | | | |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **179** | **171** |

The notes on pages 52 to 100 form an integral part of the consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2023

| € in millions | Note | Equity instruments | Capital contribution reserve | Currency translation reserve | Pension reserve | Debt valuation adjustment reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2022** | | **800** | **3,471** | **1** | **(22)** | **–** | **131** | **4,381** |
| **Profit for the year** | | **–** | **–** | **–** | **–** | **–** | **142** | **142** |
| Other comprehensive income for the year: | | | | | | | | |
| Remeasurement of defined benefit liability | 8 | – | – | – | 31 | – | – | 31 |
| Foreign currency translation differences arising on foreign operations | 8 | – | – | (2) | – | – | – | (2) |
| **Total comprehensive income for the year** | | **–** | **–** | **(2)** | **31** | **–** | **142** | **171** |
| **Transactions with owners:** | | | | | | | | |
| Issue of share capital | 18 | 1,450 | – | – | – | – | – | 1,450 |
| Conversion of capital contribution reserve to share capital | 18 | 3,000 | (3,000) | – | – | – | – | – |
| Issue of Additional Tier 1 capital | 18 | 400 | – | – | – | – | – | 400 |
| Coupons on Additional Tier 1 capital | 18 | – | – | – | – | – | (41) | (41) |
| **Balance at 31 December 2022** | | **5,650** | **471** | **(1)** | **9** | **–** | **232** | **6,361** |
| **Profit for the year** | | **–** | **–** | **–** | **–** | **–** | **187** | **187** |
| Other comprehensive income for the year: | | | | | | | | |
| Remeasurement of defined benefit liability | 8 | – | – | – | (7) | – | – | (7) |
| Changes in fair value attributable to own credit risk on financial liabilities designated at fair value | 9 | – | – | – | – | (1) | – | (1) |
| **Total comprehensive income for the year** | | **–** | **–** | **–** | **(7)** | **(1)** | **187** | **179** |
| **Transactions with owners:** | | | | | | | | |
| Capital contribution | 18 | – | 1,000 | – | – | – | – | 1,000 |
| Coupons on Additional Tier 1 capital | 18 | – | – | – | – | – | (48) | (48) |
| **Balance at 31 December 2023** | | **5,650** | **1,471** | **(1)** | **2** | **(1)** | **371** | **7,492** |

The notes on pages 52 to 100 form an integral part of the consolidated financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2023

| € in millions | Note | 2023 | 2022 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and short-term deposits | 19 | 9,982 | 16,125 |
| Trading financial assets (of which €7,939 million (2022: €583 million) were pledged to various parties) | 10 | 49,843 | 58,821 |
| Secured financing | 9 | 29,575 | 18,267 |
| Loans and advances | 9 | 120 | 107 |
| Trade and other receivables | 12 | 16,927 | 25,474 |
| Current tax assets | | 104 | 44 |
| Deferred tax assets | 17 | 30 | 40 |
| Property, plant and equipment | | 125 | 98 |
| Other assets | | 5 | 1 |
| **TOTAL ASSETS** | | **106,711** | **118,977** |
| **LIABILITIES AND EQUITY** | | | |
| **LIABILITIES** | | | |
| Bank loans and overdrafts | 19 | 3,892 | 7,632 |
| Trading financial liabilities | 10 | 52,457 | 61,051 |
| Secured borrowing | 9 | 22,797 | 18,446 |
| Trade and other payables | 14 | 16,222 | 21,281 |
| Debt and other borrowings | 15 | 3,776 | 4,125 |
| Provisions | 16 | 13 | 9 |
| Current tax liabilities | | 38 | 51 |
| Deferred tax liabilities | 17 | 1 | 1 |
| Post-employment benefit obligations | 28 | 23 | 20 |
| **TOTAL LIABILITIES** | | **99,219** | **112,616** |
| **EQUITY** | | | |
| Share capital | 18 | 4,650 | 4,650 |
| Additional Tier 1 capital | 18 | 1,000 | 1,000 |
| Currency translation reserve | 18 | (1) | (1) |
| Pension reserve | 18 | 2 | 9 |
| Debt valuation adjustment reserve | 18 | (1) | – |
| Capital contribution reserve | 18 | 1,471 | 471 |
| Retained earnings | | 371 | 232 |
| **TOTAL EQUITY** | | **7,492** | **6,361** |
| **TOTAL LIABILITIES AND EQUITY** | | **106,711** | **118,977** |
| **Contingencies and Commitments** | | | |
| Contingent liabilities | 16 | 5 | 7 |
| Commitments | 16 | 71,374 | 13,649 |

The notes on pages 52 to 100 form an integral part of the consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**
**Year ended 31 December 2023**

| € in millions | Note | 2023 | 2022 |
|---|---|---|---|
| **NET CASH USED IN OPERATING ACTIVITIES** | **19b** | **(3,168)** | **(2,598)** |
| | | | |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | (19) | (5) |
| Transfer of activities | | – | 90 |
| **NET CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES** | | **(19)** | **85** |
| | | | |
| **FINANCING ACTIVITIES** | | | |
| Issue of ordinary share capital | | – | 1,450 |
| Capital contribution | 18 | 1,000 | – |
| Issuance of Additional Tier 1 capital | | – | 400 |
| Coupons on Additional Tier 1 capital | 18 | (48) | (41) |
| Payment of principal portion of lease liabilities | 19c | (12) | (10) |
| Issue of senior subordinated loan liabilities | | – | 1,000 |
| Interest on senior subordinated loan liabilities | | (114) | (25) |
| Interest on subordinated loan liabilities | | (44) | (13) |
| **NET CASH FLOWS FROM FINANCING ACTIVITIES** | | **782** | **2,761** |
| | | | |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | | **(2,405)** | **248** |
| | | | |
| Foreign currency translation differences on cash and short-term deposits | | 2 | 19 |
| | | | |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | **19a** | **8,493** | **8,226** |
| | | | |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | **19a** | **6,090** | **8,493** |

The notes on pages 52 to 100 form an integral part of the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS


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# 1. Corporate Information

Morgan Stanley Europe Holding SE (the "Company" or "MSEHSE") is incorporated and domiciled in Germany, at the following address: Grosse Gallusstrasse 18, 60312 Frankfurt am Main. The registered number of the Company in the Commercial Register of the Local Court in Frankfurt am Main is HRB 109678.

The Company together with its subsidiaries form the Morgan Stanley Europe Holding SE Group (the "Group" or the "MSEHSE Group").

The Group's immediate parent undertaking is Morgan Stanley International Limited ("MSI"), which is registered in England and Wales. Copies of its financial statements can be obtained from the Registrar of Companies for England and Wales, Companies House, Crown Way, Cardiff CF14 3UZ.

The Group's ultimate parent undertaking and controlling entity is Morgan Stanley which, together with the Group and Morgan Stanley's other subsidiary undertakings, form the Morgan Stanley Group. Morgan Stanley is incorporated in the State of Delaware, in the United States of America ("U.S."). Copies of its financial statements can be obtained from www.morganstanley.com/investorrelations.

# 2. Basis of Preparation

## Statement of Compliance

The Group has prepared its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") as adopted by the European Union ("EU"), Interpretations issued by the IFRS Interpretations Committee ("IFRIC") and the additional requirements pursuant to section 315e (1) of the German Commercial Code (Handelsgesetzbuch, or "HGB").

Disclosures relating to management of capital as required by IAS 1, *'Presentation of Financial Statements'* are included in the "Capital Management" section of the Group Management Report.

## New Standards and Interpretations Adopted During the Year

The following amendments to standards relevant to the Group's operations were adopted during the year. Except where otherwise stated, these amendments to standards did not have a material impact on the Group's consolidated financial statements.

Amendments to IAS 8 *'Accounting Policies, Changes in Accounting Estimates and Errors':* Definition of Accounting Estimates were issued by the IASB in February 2021, for prospective application in accounting periods beginning on or after 1 January 2023. The amendments were endorsed by the EU in March 2022.

Amendments to IAS 1 *'Presentation of Financial Statements' ('IAS 1'):* Disclosure of Accounting Policies were issued by the IASB in February 2021, for prospective application in accounting periods beginning on or after 1 January 2023. The amendments were endorsed by the EU in March 2022.

Amendments to IAS 12 *'Income Taxes' ('IAS 12'):* Deferred Tax related to Assets and Liabilities arising from a Single Transaction were issued by the IASB in May 2021, for retrospective application in accounting periods beginning on or after 1 January 2023. The amendments were endorsed by the EU in August 2022.

Amendments to IAS 12: International Tax Reform — Pillar Two Model Rules were issued by the IASB in May 2023, for application in accounting periods beginning on or after 1 January 2023. The amendments were endorsed by the EU in November 2023. See note 8 for further details.

There were no other standards, amendments to standards or interpretations relevant to the Group's operations which were adopted during the year.

## New Standards and Interpretations Not Yet Adopted

At the date of authorisation of these consolidated financial statements, the following amendments to standards relevant to the Group's operations were issued by the IASB but not mandatory for accounting periods beginning 1 January 2023. The Group does not expect that the adoption of the following amendments to standards will have a material impact on the Group's consolidated financial statements.

Amendments to IFRS 16 '*Leases*': Lease Liability in a Sale and Leaseback were issued by the IASB in September 2022 for prospective application in accounting periods beginning on or after 1 January 2024. Earlier application is

permitted. The amendments were endorsed by the EU in November 2023.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current were issued by the IASB in January 2020 and revised in July 2020 and October 2022, for retrospective application in accounting periods beginning on or after 1 January 2024. Earlier application is permitted. The amendments were endorsed by the EU in January 2024.

Amendments to IAS 1: Non-current Liabilities with Covenants were issued by the IASB in October 2022 for application in accounting periods beginning on or after 1 January 2024. Earlier application is permitted. The amendments were endorsed by the EU in January 2024.

## Basis of Measurement

The consolidated financial statements of the Group are prepared under the historical cost basis, except for certain financial instruments that have been measured at fair value as explained in note 3 'Summary of material accounting policies'.

## Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In preparing the consolidated financial statements, the Group makes judgements and estimates that affect the application of accounting policies and reported amounts.

Critical accounting judgements are key decisions made by management in the application of the Group's accounting policies, other than those involving estimations, which have the most significant effects on the amounts recognised in the consolidated financial statements.

Key sources of estimation uncertainty represent assumptions and estimations made by management that can result in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

No critical accounting judgements have been made in the process of applying the Group's accounting policies that have had a significant effect on the amounts recognised in the consolidated financial statements.

The Group's key sources of estimation uncertainty are as follows:

- *Recognition and measurement of deferred tax balances:* assumptions and estimations are used as to whether there will be sufficient taxable profits in future years to recognise deferred tax assets. See accounting policy note 3(j) and note 8.
- *Valuation of Level 3 financial instruments:* Valuation techniques used to measure the fair value of instruments categorised in Level 3 of the fair value hierarchy are dependent on unobservable parameters, and as such require the application of judgement, involving estimations and assumptions. The fair value for these financial instruments has been determined using parameters appropriate for the valuation methodology based on prevailing market evidence. It is recognised that the unobservable market parameters could have a range of reasonable possible alternate values. See accounting policy note 3(d) and note 25(d)(ii) 'Sensitivity of fair values to changing significant assumptions to reasonably possible alternatives'.

The Group evaluates the critical accounting judgements and key sources of estimation uncertainty on an ongoing basis and believes that these are reasonable.

## Basis of Consolidation

The consolidated financial statements of the Group comprise the financial statements of the Company and its subsidiaries as at 31 December 2023. Subsidiaries are all entities over which the Group has direct or indirect control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements for the subsidiaries are prepared for the same reporting year as the Group , using consistent accounting policies. Subsidiaries are consolidated from the date that the Group gains control until the date that control ceases.

Intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in preparing the consolidated financial statements.

Details of the Group's interests in subsidiaries are given in note 13 to these consolidated financial statements.

## The Going Concern Assumption

The Group's business activities, together with the factors likely to affect its future development, performance and position, and the Group's objectives, policies and processes for managing its capital; its financial risk management; and its exposures to credit risk and liquidity risk, are reflected in the Group Management Report. As set out in the Group Management Report, retaining sufficient liquidity and capital remains central to the Morgan Stanley Group's and the MSEHSE Group's strategy.

Taking the above factors into consideration, the Management Board believes that the Group will have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Management Board continues to adopt the going concern basis in preparing the consolidated financial statements.

## Change in Presentation

The Group has updated the presentation of 'Other liabilities', which is now presented in the 'Trade and other payables' in the consolidated statement of financial position. In prior reporting periods, 'Other liabilities' were presented as a separate line item in the consolidated statement of financial position. This revised presentation provides more relevant information with appropriate detail being provided in the note 14 to the consolidated financial statements. The comparative period has also been re-presented.

# 3. Summary of Material Accounting Policies

## a. Functional Currency

Items included in the consolidated financial statements are measured and presented in Euros, the currency of the primary economic environment in which the Group operates.

All currency amounts in the consolidated financial statements are rounded to the nearest million Euros (unless otherwise stated).

## b. Foreign Currencies

All monetary assets and liabilities denominated in currencies other than Euros are translated into Euros at the rates ruling at the reporting date. Transactions and non-monetary assets and liabilities denominated in currencies other than Euros are recorded at the rates prevailing at the dates of the transactions. Assets and liabilities of foreign operations outside of the Eurozone are translated into Euros using the closing rate. Translation differences arising from the net investments in foreign operations outside of the Eurozone are taken to the 'Currency translation reserve'. All other translation differences are taken through the consolidated income statement. Exchange differences recognised in the consolidated income statement are presented in 'Other revenue' or 'Operating expense', except where noted in note 3(c) below.

## c. Financial Instruments

### Financial Instruments Mandatorily at Fair Value through Profit or Loss

#### *Trading Financial Instruments*

Trading financial instruments include government debt securities, corporate and other debt as well as corporate equities where the Group acquires the financial asset or financial liability for the purpose of selling or repurchasing in the near term or is part of a portfolio for which there is evidence of a recent actual pattern of short-term profit taking, and all derivative contracts. Guarantees received or provided in respect of derivative contracts are accounted for also as derivative contracts.

Purchases and sales of non-derivative financial instruments classified as trading are initially recognised on settlement date at fair value, including regular way securities transactions. For purchases of non-derivative financial instruments classified as trading, from the date that the terms are agreed (trade date) until the settlement date, the Group recognises any unrealised fair value changes in the consolidated statement of financial position as 'Trading financial instruments' with corresponding profit or loss recognised within the consolidated income statement in 'Net gains from financial instruments at fair value through profit or loss'. Upon settlement date the sales of non-derivative financial instruments are recognised or derecognised from the consolidated statement of financial position.

All subsequent changes in fair value and foreign exchange differences are reflected in the consolidated income statement in 'Net gains from financial instruments at fair value through profit or loss'.

Derivatives are initially recorded on trade date at fair value (see note 3(d) below). All subsequent changes in fair value are reflected in the consolidated income statement in 'Net gains

from financial instruments at fair value through profit or loss'.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. For all trading financial instruments, transaction costs are excluded from the initial fair value measurement of the financial instrument. These costs are recognised in the consolidated income statement in 'Operating expense'.

***Non-trading Financial Assets at Fair Value through Profit or Loss***

Non-trading financial assets at fair value through profit or loss ("FVPL") include secured financing transactions such as cash collateral on securities borrowed and securities purchased under agreements to resell, prepaid over-the-counter ("OTC") contracts and certain other financial assets.

Non-trading financial assets at FVPL are principally non-derivative financial assets where the Group makes decisions based upon the assets' fair values. These assets are generally recognised on settlement date at fair value (see note 3(d) below). From the date the terms are agreed (trade date), until the financial asset is settled (settlement date), the Group recognises any unrealised fair value changes in the financial asset as non-trading financial assets at FVPL. On settlement date, the fair value of consideration given is recognised as a non-trading financial asset at FVPL.

All subsequent changes in fair value and foreign exchange differences are reflected in the consolidated income statement in 'Net gains from financial instruments at fair value through profit or loss'. For these instruments, interest is included within 'Interest income' or 'Interest expense'.

Transaction costs are excluded from the initial fair value measurement of the financial assets and are recognised in the consolidated income statement in 'Operating expense'.

### Financial Liabilities Designated at Fair Value through Profit or Loss

Financial liabilities designated at FVPL include prepaid OTC contracts, cash collateral on securities loaned, securities sold under agreements to repurchase and other financial liabilities.

The Group has designated certain financial liabilities at FVPL when the designation at fair value eliminates or significantly reduces an accounting mismatch which would otherwise arise. The Group has also designated certain financial liabilities at FVPL where:

- the financial liability forms part of a group of financial assets or financial liabilities or both which are managed, evaluated and reported internally on a fair value basis; or
- the financial liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

From the date the transaction in a financial liability designated at FVPL is entered into (trade date) until settlement date, the Group recognises any unrealised fair value changes as a financial liability designated at FVPL in the consolidated statement of financial position. On settlement date, the fair value of consideration received is recognised as a financial liability designated at FVPL (see note 3(d) below).

All subsequent changes in fair value, foreign exchange differences and dividends are reflected in the consolidated income statement in 'Net gains from financial instruments at fair value through profit or loss' other than Debt Valuation Adjustment ("DVA") on financial liabilities designated at FVPL which is recognised in other comprehensive income after tax where those changes do not create or enlarge an accounting mismatch. For these instruments, interest is included within 'Interest income' or 'Interest expense'.

DVA presented within other comprehensive income is not subject to reclassification to the consolidated income statement, but is transferred to 'Retained earnings' when realised.

Transaction costs are excluded from the initial fair value measurement of the financial instrument. These costs are recognised as incurred in the consolidated income statement in 'Operating expense'.

See note 9 for an analysis of financial liabilities designated at FVPL.

### Financial Assets and Financial Liabilities at Amortised Cost

Financial assets at amortised cost include cash and short-term deposits, certain trade and other receivables and certain loans and advances.

Financial assets are recognised at amortised cost when the Group's business model objective is to collect the contractual cash flows of the

assets and where these cash flows are Solely Payments of Principal and Interest ("SPPI") on the principal amount outstanding until maturity. Such assets are recognised when the Group becomes a party to the contractual provisions of the instrument. The instruments are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost less expected credit losses ("ECL") allowance. Interest is recognised in the consolidated income statement in 'Interest income', using the effective interest rate ("EIR") method. Transaction costs that are directly attributable to the acquisition of the financial asset are added to the fair value on initial recognition. ECL, and reversals thereof, are recognised in the consolidated income statement in 'Net impairment reversal/(loss) on financial instruments'.

Financial liabilities classified at amortised cost include bank loans and overdrafts, certain secured borrowings, certain trade and other payables, and certain debt and other borrowings.

Financial liabilities are classified as being subsequently measured at amortised cost, except where they are held for trading or are designated as measured at FVPL. They are recognised when the Group becomes a party to the contractual provisions of the instrument, are initially measured at fair value (see note 3(d) below) and subsequently measured at amortised cost. Interest is recognised in the consolidated income statement in 'Interest expense' using the EIR method. Transaction costs that are directly attributable to the issue of a financial liability are deducted from the fair value on initial recognition.

### Secured Financing and Secured Borrowings

In the course of financing its business, the Group enters into arrangements which involve the sale of securities with agreements to repurchase, the purchase of securities with resale agreements, the lending of securities with collateral received and the borrowing of securities with collateral given.

Securities received by the Group under resale arrangements and securities borrowing arrangements are generally not recognised on the consolidated statement of financial position. Where cash collateralised, the resulting cash collateral receivable and accrued interest arising under resale agreements and securities borrowing arrangements are classified as 'Non-trading at FVPL' as they are managed on a fair value basis.

Securities pledged or sold by the Group under sale and repurchase agreements and securities lending arrangements are generally not derecognised from the consolidated statement of financial position. Where cash collateralised, the resulting cash collateral balances repayable and accrued interest are designated at FVPL where the financial liability forms part of a group of financial assets or financial liabilities or both, which are managed, evaluated and reported internally on a fair value basis; or at amortised cost if not so designated.

### Environmental and Social Linked Clauses in Loans and Loan Commitments

Lending arrangements may also contain various environmental and social features that impacts their interest rate margin. Cash flows linked to such features generally are not consistent with basic lending arrangements unless the terms are deemed to compensate for the credit risk of the counterparty over the terms of the loan, but not where the features are deemed to only impact the long term creditworthiness of the counterparty over a longer time frame than the actual loan's term. Thus, these loans are measured at FVPL.

Loan commitments containing various environmental and social features do not contain embedded derivatives that require bifurcation so are not recognised in the consolidated financial statements.

## d. Fair Value

### Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants at the measurement date.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, assumptions are set to reflect those that the Group believes market participants would use in pricing the asset or liability at the measurement date.

Where the Group manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risk or credit risk, the Group measures the fair value of that group of financial instruments consistently with how market participants would price the net risk exposure at the measurement date.

In determining fair value, the Group uses various valuation approaches and establishes a hierarchy for inputs used in measuring fair value that requires the most observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability that were developed based on market data obtained from sources independent of the Group. Unobservable inputs are inputs that reflect assumptions the Group believes other market participants would use in pricing the asset or liability, that are developed based on the best information available in the circumstances.

The fair value hierarchy is broken down into three levels based on the observability of inputs as follows, with Level 1 being the highest and Level 3 being the lowest level:

- Level 1 - Quoted prices (unadjusted) in an active market for identical assets or liabilities

  Valuations are based on quoted prices in active markets that the Morgan Stanley Group has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgement.

- Level 2 - Valuation techniques using observable inputs

  Valuations based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, significant market inputs other than quoted prices that are observable, for the asset or liability, or market-corroborated inputs.

- Level 3 - Valuation techniques with significant unobservable inputs

  Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including the type of product, whether the product is new and not yet established in the marketplace, the liquidity of markets and other characteristics particular to the product. To the extent that a valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgement. Accordingly, the degree of judgement exercised by the Group in determining fair value is greatest for instruments categorised in Level 3 of the fair value hierarchy.

The Group considers prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2 or from Level 2 to Level 3 of the fair value hierarchy.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the total fair value amount is disclosed in the level appropriate for the lowest level input that is significant to the total fair value of the asset or liability.

For assets and liabilities that are transferred between levels in the fair value hierarchy during the period, fair values are ascribed as if the assets or liabilities had been transferred as of the beginning of the period.

### Valuation Techniques

Many cash instruments and OTC derivative contracts have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that a party is willing to pay for an asset. Ask prices represent the lowest price that a party is willing to accept for an asset. The Group carries positions at the point within the bid-ask range that meets its best estimate of fair value. For offsetting positions in the same financial instrument, the same price within the bid-ask spread is used to measure both the long and short positions.

Fair value for many cash instruments and OTC derivative contracts is derived using pricing models. Pricing models take into account the contract terms, as well as multiple inputs including, where applicable, commodity prices, equity prices, interest rate yield curves, credit

curves, correlation, creditworthiness of the counterparty, creditworthiness of the Group, option volatility and currency rates.

Where appropriate, valuation adjustments are made to account for various factors such as liquidity risk (bid-ask adjustments), credit quality, model uncertainty and concentration risk and funding in order to arrive at fair value.

Adjustments for liquidity risk adjust model-derived mid-market amounts of Level 2 and Level 3 financial instruments for the bid-mid or mid-ask spread required to properly reflect the exit price of a risk position. Bid-mid and mid-ask spreads are marked to levels observed in trade activity, broker quotes or other external third-party data. Where these spreads are unobservable for the particular position in question, spreads are derived from observable levels of similar positions.

The Group applies credit-related valuation adjustments to its Borrowings which are designated at FVPL and to OTC derivatives. The Group considers the impact of changes in own credit spreads based upon observations of the secondary bond market spreads when measuring the fair value for Borrowings.

For OTC derivatives, the impact of changes in both the Group's and the counterparty's credit rating is considered when measuring fair value. In determining the expected exposure the Group simulates the distribution of the future exposure to a counterparty, then applies market-based default probabilities to the future exposure, leveraging external third-party credit default swap ("CDS") spread data. Where CDS spread data is unavailable for a specific counterparty, bond market spreads, CDS spread data based on the counterparty's credit rating or CDS spread data that references a comparable counterparty may be utilised. The Group also considers collateral held and legally enforceable master netting agreements that mitigate its exposure to each counterparty.

The Group incorporates Funding Valuation Adjustment ("FVA") into the fair value measurements of OTC uncollateralised or partially collateralised derivatives and in collateralised derivatives where the terms of the agreement do not permit the re-use of the collateral received. In general, the FVA reflects a market funding risk premium inherent in the noted derivative instruments. The methodology for measuring FVA leverages the Group's existing credit-related valuation adjustment calculation methodologies, which apply to both assets and liabilities.

Adjustments for model uncertainty are taken for positions whose underlying models are reliant on significant inputs that are neither directly nor indirectly observable, hence requiring reliance on established theoretical concepts in their derivation. These adjustments are derived by making assessments of the possible degree of variability using statistical approaches and market-based information where possible.

The Group may apply concentration adjustments to certain of its OTC derivative portfolios to reflect the additional cost of closing out a particularly large risk exposure. Where possible, these adjustments are based on observable market information but in many instances significant judgement is required to estimate the costs of closing out concentrated risk exposures due to the lack of liquidity in the marketplace.

### Valuation Process

Valuation Control ("VC") within Finance is responsible for ensuring that the inventory carried at fair value in the Group's consolidated financial statements and associated disclosures is presented in accordance with applicable accounting standards. VC is independent of the business units and reports to the Chief Financial Officer of the Group, who has final authority over the valuation of the inventory. VC implements valuation control processes designed to validate the fair value of the Group's financial instruments measured at fair value including those derived from pricing models.

### Model Control

VC, in conjunction with the Model Risk Management ("MRM") department, which reports to the Chief Risk Officer of the Group, independently reviews valuation models. VC is responsible for reviewing that the model valuation methodology is appropriate, model inputs and valuations are consistent with accounting standards and an independent price verification can be performed. The Group generally subjects valuations and models to a review process initially and on a periodic basis thereafter.

### Independent Price Verification

The business units are responsible for determining the fair value of financial instruments using approved valuation models

and valuation methodologies. Generally on a monthly basis, VC performs an independent review of the valuation in the books and records by determining the appropriateness of the inputs used by the business units and by testing compliance with the documented valuation methodologies approved in the model review process described above. External pricing data used to validate the valuation must meet minimum quality standards set by VC.

The results of this independent price verification and any adjustments made to the fair value generated by the business units are presented to management of the Morgan Stanley Group's three business segments (i.e. Institutional Securities, Wealth Management and Investment Management) and the Management Board of the Group on a regular basis.

VC reviews the models and valuation methodology used to price new material Level 2 and Level 3 transactions and both Finance and MRM must approve the fair value of the trade that is initially recognised.

### Gains and Losses on Inception

In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (i.e. the fair value of the consideration given or received). In certain circumstances, however, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises a gain or loss on inception of the transaction.

When the use of unobservable market data has a significant impact on determining the fair value at the inception of the transaction, the entire initial gain or loss indicated by the valuation technique as at the transaction date is not recognised immediately in the consolidated income statement. Instead it is deferred and recognised over the life of the instrument or at the earlier of when the unobservable market data become observable, maturity or disposal of the instrument.

## e. Derecognition of Financial Assets and Liabilities

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset or enters into certain pass through arrangements on the cash flows of the financial asset and substantially all the risk and rewards of ownership of the asset.

If the asset has been transferred, and the Group neither transfers nor retains substantially all of the risks and rewards of the asset, then the Group determines whether it has retained control of the asset.

If the Group has retained control of the asset, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. If the Group has not retained control of the asset, it derecognises the asset and separately recognises any rights or obligation created or retained in the transfer.

Upon derecognition of a financial asset, the difference between the previous carrying amount and the sum of any consideration received, together with the transfer of any cumulative gain/(loss) previously recognised in equity, are recognised in the consolidated income statement within 'Net gains/(losses) on derecognition of financial assets measured at amortised cost'.

The Group derecognises financial liabilities when the Group's obligations are discharged or cancelled or when they expire.

## f. Impairment of Financial Instruments

### Measurement of ECL

The Group applies a three stage approach to measuring ECLs based on the change in credit risk since initial recognition:

- Stage 1: if the credit risk of the financial instrument at the reporting date has not increased significantly since initial recognition then the loss allowance is calculated weighted with the probability of default within the next 12 months.
- Stage 2: if there has been a significant increase in credit risk ("SICR") since initial recognition, the loss allowance is calculated as the ECL over the remaining life of the financial instrument. If it is subsequently determined that there has no longer been a SICR since initial recognition, then the loss allowance reverts to reflecting 12 month expected losses.
- Stage 3: if there has been a SICR since initial recognition and the financial instrument is deemed credit-impaired, the loss allowance is

calculated as the ECL over the remaining life of the financial instrument. If it is subsequently determined that there has no longer been a SICR since initial recognition, then the loss allowance reverts to reflecting 12 month expected losses.

Notwithstanding the above, for trade receivables a lifetime ECL is always calculated, without considering whether a SICR has occurred.

### Assessment of SICR

When assessing SICR, the Group considers both quantitative and qualitative information and analysis. These are based on historical information and conditions expected in the future, which are assessed by credit risk experts.

The determination of a SICR is generally based on changes in the probability of default ("PD"), in conjunction with a rebuttable presumption that a SICR has occurred if a financial asset is more than 30 days past due.

### Calculation of ECL

ECL is calculated using three main components:

- PD: for accounting purposes, the 12 month and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and over the remaining lifetime of the financial instrument respectively, based on conditions existing at the balance sheet date and future economic conditions.
- Loss given default ("LGD"): the LGD represents expected loss conditional on default, taking into account the mitigating effect of collateral, including the expected value of the collateral when realised and the time value of money.
- Exposure at default ("EAD"): this represents the expected EAD, taking into account the expected repayment of principal and interest from the balance sheet date to the date of default event together with any expected drawdowns of the facility over that period.

These parameters are generally derived from internally developed statistical models, incorporating historical, current and forward-looking macro-economic data and country risk expert judgement. The macro-economic scenarios are reviewed quarterly.

### Presentation of ECL

ECL is recognised in the consolidated income statement within 'Net impairment reversal/(loss) on financial instruments'.

## g. Revenue Recognition

Revenues are recognised when the promised services are delivered to the Group's customers, in an amount that is based on the consideration the Group expects to receive in exchange for those services when such amounts are not probable of significant reversal.

### Investment Banking

Revenue from investment banking activities consists of revenues earned from underwriting primarily equity and fixed income securities and advisory fees for mergers, acquisitions, restructuring and advisory assignments.

Underwriting revenues are generally recognised on trade date, if there is no uncertainty or contingency related to the amount to be paid. Underwriting costs are deferred and recognised when the related underwriting revenues are recorded.

Advisory fees are recognised over time based on estimated progress of work as advice is provided to the client and when the revenue is not probable of a significant reversal. Advisory expenses are recognised as incurred, including when reimbursed.

### Fee and Commission Income

Fee and commission income results from transaction-based arrangements in which the client is charged a fee for the execution of transactions. Such revenues primarily arise from services related to sales and trading activities. Fee and commission income is recognised on trade date when the performance obligation is satisfied.

Fee and commission income in the consolidated income statement includes sales commissions, placement fees and advisory fees.

## h. Impairment of Non-financial Assets

Non-financial assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's

carrying amount exceeds its recoverable amount.

## i. Cash and Cash Equivalents

For the purpose of the consolidated statement of cash flows, 'Cash and cash equivalents' comprise cash and demand deposits with banks, net of outstanding bank loans and overdrafts, along with highly liquid investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and subject to insignificant risk of change in value. This may include segregated client funds that are not available for use by the Group.

## j. Income Tax

The income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is calculated based on taxable profit for the year. Taxable profit may differ from profit/(loss) before taxation as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Taxable profit is also adjusted if it is considered that it is not probable that a taxation authority will accept an uncertain tax treatment. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date. Current tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the current tax is also recorded within other comprehensive income or equity respectively.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that sufficient taxable profits will be available in the future against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and limited to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is reflected within other comprehensive income or equity, respectively.

Current tax assets are offset against current tax liabilities when there is a legally enforceable right to set off current tax assets against current tax liabilities and the Group intends to settle its current tax assets and current tax liabilities on a net basis or to realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and current tax liabilities on a net basis.

The income tax effect of distributions are recognised in profit or loss, other comprehensive income or equity dependent on where those past transactions that generated the distributable profits were recognised. The income tax effect of coupons of AT1 capital instruments accounted for as distributions must be recognised in profit or loss.

## k. Provisions, Contingent Liabilities and Commitments

Provisions are recognised when the Group has an identified present obligation as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle that obligation and when a reliable estimate can be made of the amount of the obligation.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future

events not wholly within the control of the Group or a present obligation that arises from past events but is not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured.

A commitment is any legal obligation to potentially make or receive cash payments or transfer cash.

Certain loan commitments are recognised in the financial statements in accordance with the accounting policies discussed in note 3(c) *Trading financial instruments* and 3(c) *Non-trading financial assets at fair value through profit or loss.* Otherwise commitments and contingent liabilities are not recognised in the financial statements. Disclosure is made unless the probability of settlement is remote.

## l. Offsetting of Financial Assets and Financial Liabilities

Where there is a currently legally enforceable right to set off the recognised amounts and an intention to either settle on a net basis or to realise the asset and the liability simultaneously, financial assets and financial liabilities are offset and the net amount is presented on the consolidated statement of financial position. In the absence of such conditions, financial assets and financial liabilities are presented on a gross basis.

## m. Employee Compensation Plans

### Equity-settled Share-based Compensation Plans

Morgan Stanley issues awards in the form of restricted stock units ("RSUs") to employees of the Morgan Stanley Group for services rendered to the Group. Awards are equity-settled and the cost of the equity-based transactions with employees is measured based on the fair value of the equity instruments at grant date. The fair value of RSUs is based on the market price of Morgan Stanley common stock measured as the volume-weighted average price on the grant date ("VWAP"). The fair value of RSUs not entitled to dividends until conversion is measured at VWAP reduced by the present value of dividends expected to be paid on the underlying shares prior to the scheduled conversion date.

Awards generally contain clawback and cancellation provisions. Certain awards also provide Morgan Stanley the discretion to clawback or cancel all or a portion of the award under specified circumstances. Where award terms are considered subjective, a grant date cannot be established, and compensation expense is adjusted for changes in the fair value of Morgan Stanley's common stock until conversion. Following amendments to clarify subjective award terms, in April 2023, a grant date for the awards was established such that compensation expense for those awards is no longer adjusted for changes in the fair value of Morgan Stanley common stock.

The Group recognises compensation cost over the relevant vesting period for each separately vesting portion of the award. An estimation of awards that will be forfeited prior to vesting due to the failure to satisfy service conditions is considered in calculating the total compensation cost to be amortised over the relevant vesting period.

Under Morgan Stanley Group chargeback agreements, the Group pays Morgan Stanley for the procurement of shares. Prior to December 2023, the Group paid Morgan Stanley the grant date fair value and any subsequent movement in fair value up to the time of conversion of the award and delivery of shares to the employees. In December 2023, the Group's chargeback agreement was amended such that the Group no longer pays Morgan Stanley any subsequent movement in fair value up to the time of conversion. This change applied to all outstanding awards granted to current and former employees of the Group.

Share based compensation expense is recorded within 'Operating expense' in the consolidated income statement (see note 7).

## n. Post-employment Benefits

The Group operates defined contribution and defined benefit post-employment plans.

Contributions due in relation to the Group's defined contribution post-employment plans are recognised in 'Operating expense' in the consolidated income statement when payable.

Obligations of the Group's defined benefit post-employment plans are measured on an actuarial basis in accordance with the advice of an independent qualified actuary using the projected unit credit method and discounted using a high quality corporate bond rate.

Insurance policies with third parties are held to fund defined benefit pension obligations. These policies are accounted for as plan assets as the

proceeds of the policies are restricted such that they can only be used by the Group to pay employee benefits under the plan and are protected from the Group's other creditors in the event of bankruptcy. Plan assets consisting of insurance contracts are measured at their fair value at the reporting date. A surplus or deficit of plan assets over liabilities is recognised in the consolidated statement of financial position as an asset or a liability respectively. If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the asset ceiling. The asset ceiling is the present value of economic benefits that are unconditionally available to the Group in the form of refunds or reductions in future contributions, and the related adjustment is recognised in other comprehensive income.

The current service cost and any past service costs together with the net interest on the net defined benefit obligation/asset is charged to 'Direct staff costs' within 'Operating expense' in the consolidated income statement. Remeasurements that arise in calculating the Group's net obligation in respect of defined benefit plans are recognised in other comprehensive income, in the period in which they occur.

The Group also participates in a multi-employer defined benefit plan and accounts for this plan as a defined contribution plan in accordance with IAS 19 '*Employee Benefits*'.

Details of the plans are given in note 28 to these consolidated financial statements.

# 4. Net Gains from Financial Instruments at Fair Value through Profit or Loss

| € in millions | 2023 | 2022 |
|---|---|---|
| **Assets and liabilities held for trading** | **392** | **243** |
| Non-trading financial assets at FVPL: | | |
| Secured financing | 52 | 4 |
| Loans and advances | | |
| Corporate loans | 1 | 2 |
| **Total non-trading financial assets at FVPL** | **53** | **6** |
| Financial liabilities designated at FVPL: | | |
| Secured borrowing | (11) | (4) |
| **Total financial liabilities designated at FVPL** | **(11)** | **(4)** |
| **Debt and other borrowings** | **(4)** | **–** |
| **Net gains from financial instruments at fair value through profit or loss** | **430** | **245** |

Non-trading financial assets at FVPL and financial liabilities designated at FVPL are frequently economically hedged with trading financial instruments. Accordingly, gains or losses arising from Non-trading financial assets at FVPL and Financial liabilities designated at FVPL can be partially offset by gains or losses reported in 'Assets and liabilities held for trading'.

# 5. Fee and Commission Income

| € in millions | 2023 | 2022 |
|---|---|---|
| Commission income | 294 | 285 |
| Investment banking[1] | 192 | 257 |
| Other fee and commission income | 42 | 45 |
| **Total fee and commission income** | **528** | **587** |
| *Of which, revenue from contracts with customers* | *289* | *288* |

[1] Includes advisory and underwriting revenues

Total fee and commission income is stated after the transfer of revenues totalling €239 million (2022: €299 million) from other Morgan Stanley Group undertakings. These transfers are in accordance with the Morgan Stanley Group Global Transfer Pricing Policy, refer to note 29, and do not relate to revenue from contracts with customers.

# 6. Interest Income and Interest Expense

The table below presents interest income and expense by accounting classification. Interest income and expense is calculated using the effective interest rate method for financial assets and financial liabilities measured at amortised cost.

| € in millions | 2023 | 2022 |
|---|---|---|
| Financial assets measured at amortised cost | 1,104 | 162 |
| Trading financial assets | 9 | 1 |
| Non-trading financial assets at FVPL | 905 | 35 |
| **Total interest income** | **2,018** | **198** |
| *Of which, negative interest income* | *1* | *103* |
| Financial liabilities measured at amortised cost | (1,383) | (208) |
| Financial liabilities designated at FVPL | (570) | 11 |
| **Total interest expense** | **(1,953)** | **(197)** |
| *Of which, positive interest expense* | *–* | *(175)* |

The recognition of negative interest income and positive interest expense may result from transactions in certain currencies which may at times have negative interest rates. In addition, 'Interest income' includes fees paid on securities borrowed transactions. 'Interest expense' includes fees received on securities loaned and fees from prime brokerage customers for stock loan transactions incurred to cover customers' short positions.

# 7. Operating Expense

| € in millions | 2023 | 2022 |
|---|---|---|
| Direct staff costs | 364 | 328 |
| Management charges from other Morgan Stanley Group undertakings relating to staff costs | 49 | 42 |
| **Staff-related expense** | **413** | **370** |
| Management charges from other Morgan Stanley Group undertakings relating to other services | 136 | 127 |
| Brokerage fees | 53 | 52 |
| Administration and corporate services | 32 | 22 |
| Professional services | 27 | 17 |
| Other taxes | 97 | 93 |
| Auditor's remuneration: | | |
| Fees payable to the Group's auditor and its associates for: | | |
| Audit services | 3 | 3 |
| Other services to the Group | 1 | 1 |
| Other | 22 | 21 |
| **Non-staff related expense** | **371** | **336** |
| **Total operating expense** | **784** | **706** |

The Group employs staff directly and also utilises the services of staff who are employed by other Morgan Stanley Group undertakings.

Further information regarding employee compensation plans is provided in note 27.

The average number of direct employees of the Group is analysed below:

| | 2023 | 2022 |
|---|---|---|
| Institutional Securities | 465 | 400 |
| Investment Management | – | 20 |
| Infrastructure and Control | 445 | 385 |
| **Total** | **910** | **805** |

# 8. Income Tax

| € in millions | 2023 | 2022 |
|---|---|---|
| **Current tax** | | |
| Current year | 80 | 88 |
| Adjustment in respect of prior years | (10) | – |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | 16 | 5 |
| Adjustment in respect of prior years | (8) | 1 |
| **Income tax expense** | **78** | **94** |

## Reconciliation of Effective Tax Rate

The Group's tax rate is sensitive to the geographic mix of profits and tax rates in jurisdictions outside Germany, as well as the non-deductibility of certain expenses for tax purposes. The current year income tax expense is lower (2022: higher) than that resulting from applying the average standard rate of corporation tax in Germany for the year of 31.92% (2022: 31.92%). The main differences are explained below:

| € in millions | 2023 | 2022 |
|---|---|---|
| Profit before income tax | 265 | 236 |
| Income tax expense using the average standard rate of corporation tax for banking companies in Germany of 31.92% | 85 | 75 |
| Impact on tax of: | | |
| Expenses not deductible for tax purposes | 15 | 33 |
| Tax deductible coupons on AT1 capital instruments | (9) | (9) |
| Effect of tax rates in foreign jurisdictions | (4) | (6) |
| Tax (over)/under provided in prior years | (9) | 1 |
| **Total income tax expense in the consolidated income statement** | **78** | **94** |

In addition to the amount reflected in the consolidated income statement, the aggregate

amount of current and deferred tax relating to each component of other comprehensive income was as follows:

2023

| € in millions | Before tax | Tax expense | Net of tax |
|---|---|---|---|
| Pension reserve: | | | |
| Remeasurement of net defined benefit liability | (5) | (2) | (7) |
| Debt valuation adjustment reserve: | | | |
| Changes in fair value attributable to own credit risk on financial liabilities designated at fair value | (1) | – | (1) |
| **Other comprehensive income** | **(6)** | **(2)** | **(8)** |

2022

| € in millions | Before tax | Tax expense | Net of tax |
|---|---|---|---|
| Pension reserve: | | | |
| Remeasurement of net defined benefit liability | 46 | (15) | 31 |
| Currency translation reserve: | | | |
| Foreign currency translation differences arising on foreign operations | (2) | – | (2) |
| **Other comprehensive income** | **44** | **(15)** | **29** |

The Group has applied the temporary exception to deferred tax disclosure and recognition as provided in the amendments to IAS 12 'Income Taxes': International Tax Reform – Pillar Two Model Rules. Based on preliminary assessments of potential future exposure, the financial impact is expected to be immaterial. The Group has no current tax exposure in relation to the OECD Pillar Two Model Rules because the Pillar Two legislation is not yet effective at the reporting date.

## 9. Financial Assets and Financial Liabilities by Measurement Category

The following table analyses financial assets and financial liabilities as presented in the consolidated statement of financial position by IFRS 9 classifications as at 31 December 2023 and 31 December 2022.

2023

| € in millions | FVPL (mandatorily) | FVPL (designated) | Amortised cost | Total |
|---|---|---|---|---|
| Cash and short-term deposits | – | – | 9,982 | 9,982 |
| Trading financial assets | 49,843 | – | – | 49,843 |
| Secured financing: | | | | |
| Cash collateral on securities borrowed | 1,457 | – | – | 1,457 |
| Securities purchased under agreements to resell | 27,224 | – | – | 27,224 |
| Other secured financing | 894 | – | – | 894 |
| Loans and advances | 37 | – | 83 | 120 |
| Trade and other receivables | – | – | 16,883 | 16,883 |
| **Total financial assets** | **79,455** | **–** | **26,948** | **106,402** |
| | | | | |
| Bank loans and overdrafts | – | – | 3,892 | 3,892 |
| Trading financial liabilities | 52,457 | – | – | 52,457 |
| Secured borrowings: | | | | |
| Cash collateral on securities loaned | – | 1,672 | 846 | 2,518 |
| Securities sold under agreements to repurchase | – | 16,078 | 4,112 | 20,190 |
| Other financial liabilities | – | 89 | – | 89 |
| Trade and other payables | – | – | 15,931 | 15,931 |
| Debt and other borrowings | – | 93 | 3,683 | 3,776 |
| **Total financial liabilities** | **52,457** | **17,932** | **28,464** | **98,853** |

2022

| € in millions | FVPL (mandatorily) | FVPL (designated) | Amortised cost | Total |
|---|---|---|---|---|
| Cash and short-term deposits | – | – | 16,125 | 16,125 |
| Trading financial assets | 58,821 | – | – | 58,821 |
| Secured financing: | | | | |
| Cash collateral on securities borrowed | 3,642 | – | – | 3,642 |
| Securities purchased under agreements to resell | 13,995 | – | – | 13,995 |
| Other secured financing | 630 | – | – | 630 |
| Loans and advances | – | – | 107 | 107 |
| Trade and other receivables | 1,338 | – | 24,082 | 25,420 |
| **Total financial assets** | **78,426** | **–** | **40,314** | **118,740** |
| | | | | |
| Bank loans and overdrafts | – | – | 7,632 | 7,632 |
| Trading financial liabilities | 61,051 | – | – | 61,051 |
| Secured borrowings: | | | | |
| Cash collateral on securities loaned | – | 2,251 | 779 | 3,030 |
| Securities sold under agreements to repurchase | – | 7,768 | 7,447 | 15,215 |
| Other financial liabilities | – | 201 | – | 201 |
| Trade and other payables | – | 1,348 | 19,653 | 21,001 |
| Debt and other borrowings | – | – | 4,125 | 4,125 |
| **Total financial liabilities** | **61,051** | **11,568** | **39,636** | **112,255** |

## Financial Liabilities Designated at FVPL

The financial liabilities designated at FVPL consist primarily of the following:

Cash collateral on securities loaned and securities sold under agreements to repurchase: These balances are designated at FVPL where the financial liability forms part of a group of financial assets or financial liabilities or both, which are managed, evaluated and reported internally on a fair value basis; otherwise, they are classified as 'Financial liabilities at amortised cost'.

Other financial liabilities: These include financial liabilities that arise as a result of continuing recognition of certain financial assets and the simultaneous recognition of an associated financial liability.

The financial liabilities arising from continuing recognition are designated at FVPL in order to eliminate or significantly reduce an accounting

mismatch which would otherwise arise or, where the financial liabilities form a part of a group of financial assets and financial liabilities which are managed, evaluated and reported internally on a fair value basis.

Issued structured notes: These relate to financial liabilities which arise from selling structured products, generally in the form of notes or certificates. The structured notes are designated at FVPL as the risks to which the

Group is a contractual party are risk-managed on a fair value basis as part of the Group's trading portfolio and the risk is reported to key management personnel on this basis. Refer to note 15 for more information.

The cumulative change in fair value recognised through other comprehensive income attributable to own credit risk for financial liabilities designated at FVPL at 31 December 2023 is a loss of €1 million (2022: nil). There were no gains or losses realised as a result of the derecognition of such financial liabilities during the current and prior year.

The Group determines the amount of changes in fair value attributable to changes in counterparty credit risk or own credit risk, as relating to financial liabilities designated at FVPL, by first determining the fair value including the impact of counterparty credit or own credit risk, and then deducting those changes in fair value representing managed market risk. In determining fair value, the Group considers the impact of changes in own credit spreads based upon observations of the secondary bond market spreads when measuring the fair value for issued structured notes. The Group considers that this approach most faithfully represents the amount of change in fair value due to both counterparty credit risk and the Group's own credit risk.

The carrying amount of financial liabilities designated at FVPL for which the effect of changes in those liabilities' credit risk is presented within other comprehensive income was €3 million higher than the contractual amount due at maturity (2022: nil).

## 10. Trading Financial Assets and Liabilities

Trading assets and trading liabilities are summarised as follows:

**2023**

| **€ in millions** | **Assets** | **Liabilities** |
|---|---|---|
| Government debt securities | 8,743 | 12,507 |
| Corporate and other debt | 571 | 340 |
| Corporate equities | 4 | 15 |
| Derivatives (see note 11) | 40,525 | 39,595 |
| | **49,843** | **52,457** |

**2022**

| **€ in millions** | **Assets** | **Liabilities** |
|---|---|---|
| Government debt securities | 1,328 | 1,312 |
| Corporate and other debt | 62 | 24 |
| Corporate equities | 4 | 1 |
| Derivatives (see note 11) | 57,427 | 59,714 |
| | **58,821** | **61,051** |

# 11. Derivatives

Derivatives are summarised as follows:

2023

| € in millions | Bilateral OTC | Cleared OTC | Exchange-traded derivative contracts | Total |
|---|---|---|---|---|
| **Derivative assets:** | | | | |
| Interest rate contracts | 19,363 | 6,656 | – | 26,019 |
| Credit contracts | 694 | 20 | – | 714 |
| Foreign exchange and gold contracts | 11,368 | – | – | 11,368 |
| Equity and other contracts | 1,077 | – | 80 | 1,157 |
| Commodity contracts | 1,267 | – | – | 1,267 |
| | **33,769** | **6,676** | **80** | **40,525** |
| **Derivative liabilities:** | | | | |
| Interest rate contracts | 16,006 | 7,015 | – | 23,021 |
| Credit contracts | 654 | 38 | – | 692 |
| Foreign exchange and gold contracts | 13,377 | – | – | 13,377 |
| Equity and other contracts | 1,152 | – | 83 | 1,235 |
| Commodity contracts | 1,270 | – | – | 1,270 |
| | **32,459** | **7,053** | **83** | **39,595** |

2022

| € in millions | Bilateral OTC | Cleared OTC | Exchange-traded derivative contracts | Total |
|---|---|---|---|---|
| **Derivative assets:** | | | | |
| Interest rate contracts | 22,563 | 15,728 | – | 38,291 |
| Credit contracts | 492 | 63 | – | 555 |
| Foreign exchange and gold contracts | 14,952 | – | – | 14,952 |
| Equity and other contracts | 1,429 | – | 154 | 1,583 |
| Commodity contracts | 2,046 | – | – | 2,046 |
| | **41,482** | **15,791** | **154** | **57,427** |
| **Derivative liabilities:** | | | | |
| Interest rate contracts | 20,573 | 16,406 | – | 36,979 |
| Credit contracts | 513 | 33 | – | 546 |
| Foreign exchange and gold contracts | 18,536 | – | – | 18,536 |
| Equity and other contracts | 1,455 | – | 141 | 1,596 |
| Commodity contracts | 2,057 | – | – | 2,057 |
| | **43,134** | **16,439** | **141** | **59,714** |

# 12. Trade and Other Receivables

The following table provides an analysis of trade and other receivables by measurement classification:

| € in millions | 2023 | 2022 |
|---|---|---|
| **Trade and other receivables (amortised cost)** | | |
| **Trade receivables** | | |
| Contracts with customers | 52 | 22 |
| Amounts due from other Morgan Stanley Group undertakings | 5,055 | 9,217 |
| Cash collateral paid | 9,655 | 12,531 |
| Less: ECL allowance | (2) | (4) |
| **Total trade receivables** | **14,760** | **21,766** |
| **Other receivables** | | |
| Amounts held at exchanges | 2,045 | 2,200 |
| Amounts due from other Morgan Stanley Group undertakings | 78 | 106 |
| Other amounts receivable | 44 | 64 |
| **Total other receivables** | **2,167** | **2,370** |
| **Total trade and other receivables (amortised cost)** | **16,927** | **24,136** |
| **Trade and other receivables (FVPL)** | | |
| Prepaid OTC contracts | – | 1,338 |
| **Total** | **16,927** | **25,474** |

# 13. Investments in Subsidiaries

## Composition of the Group

Details of all investments in subsidiaries of the Company at 31 December 2023 and 31 December 2022 are as follows:

| Name of Company | Country of incorporation/ Principal place of business | Type of shares held | Proportion of shares held by the Group | | Proportion of voting rights held by the Group | | Nature of business |
|---|---|---|---|---|---|---|---|
| | | | 2023 | 2022 | 2023 | 2022 | |
| Morgan Stanley Europe SE | Germany | Ordinary | 100% | 100% | 100% | 100% | Credit institution |
| Morgan Stanley Bank AG | Germany | Ordinary | 100% | 100% | 100% | 100% | Credit institution |
| Morgan Stanley France Holdings I S.A.S. | France | Ordinary | 100% | 100% | 100% | 100% | Investment holding company |
| Morgan Stanley France Holdings II S.A.S. | France | Ordinary | 100% | 100% | 100% | 100% | Holding company |
| Morgan Stanley France S.A. | France | Ordinary | 100% | 100% | 100% | 100% | Investment firm |

All subsidiaries are included in the Group's consolidated financial statements.

# 14. Trade and Other Payables

The following table provides an analysis of trade and other payables by measurement classification:

| € in millions | 2023 | 2022 |
|---|---|---|
| **Trade and other payables (amortised cost)** | | |
| Trade payables | 15,720 | 19,477 |
| Other payables | | |
| Amounts due to other Morgan Stanley Group undertakings | 155 | 136 |
| Other amounts payable | 188 | 175 |
| Other taxation and social security | 14 | 12 |
| Accruals and deferred income | 145 | 133 |
| **Total trade and other payables (amortised cost)** | **16,222** | **19,933** |
| **Trade and other payables (designated at FVPL)** | | |
| Prepaid OTC contracts | – | 1,348 |
| **Total** | **16,222** | **21,281** |

# 15. Debt and Other Borrowings

Debt and other borrowings are summarised as follows:

| € in millions | 2023 | 2022 |
|---|---|---|
| **Debt and other borrowings (amortised cost)** | | |
| Senior subordinated debt | 2,501 | 2,500 |
| Subordinated debt | 1,000 | 1,000 |
| Other borrowings | 182 | 625 |
| | **3,683** | **4,125** |
| **Debt and other borrowings (designated at FVPL)** | | |
| Issued structured notes | 93 | – |
| **Total** | **3,776** | **4,125** |

The amounts subject to senior subordinated debt instruments are wholly repayable as shown below:

| | |
|---|---|
| **Counterparty** | Morgan Stanley |
| **Maturity** | 13 months evergreen, and maximum 10 years after issuance dates |
| **Interest Rate** | Morgan Stanley Proxy[(1)] |

| € in millions | 2023 | 2022 |
|---|---|---|
| **Accrued Interest** | 1 | – |
| **Balance** | 2,500 | 2,500 |

[(1)] Interest rate at which Morgan Stanley is offering loans, in the relevant currency, to members of the Morgan Stanley Group on the issuance date, which counterparties have acknowledged and agreed to apply to any loan, acting on an arm's length basis.

The amounts subject to subordinated debt instruments are wholly repayable as shown below:

| | |
|---|---|
| **Counterparty** | MSI |
| **Repayment Date** | 27 October 2031 |
| **Interest Rate** | EURIBOR[(1)] plus 1.6% |

| € in millions | 2023 | 2022 |
|---|---|---|
| **Accrued Interest** | 10 | 6 |
| **Balance** | 1,000 | 1,000 |

[(1)] European Interbank Offered Rate ("EURIBOR")

The Group has not defaulted on principal, interest or breached any terms of its subordinated debt or senior subordinated debt during the year.

All amounts outstanding under subordinated loan agreements are repayable on the repayment date.

### Issued Structured Notes

Refer to note 9 for details of issued structured notes included within debt and other borrowings designated at FVPL.

# 16. Provisions, Contingent Liabilities and Commitments

## Provisions

Details of provisions of the Group at 31 December 2023 and 31 December 2022 are as follows:

| € in millions | 2023 | 2022 |
|---|---|---|
| Provisions recognised under IAS 37 | 8 | 6 |
| Loan commitments issued | 5 | 3 |
| **Total** | **13** | **9** |

As at 31 December 2023, the Group had property provisions under IAS 37 of €3 million (2022: €3 million) and litigation provisions of €5 million (2022: €3 million).

Property provisions represent the net present value of expected future costs of reinstating leasehold improvements at the end of the lease term. Lease reinstatement provisions are released when the reinstatement obligations have been fulfilled. The related asset for lease reinstatement provisions is included within 'Property, plant and equipment' in the consolidated statement of financial position.

The provisions recognised for litigation under IAS 37 result from employment related litigations.

ECL provisions in the amount of € 5 million (2022: € 3 million) were recognised in respect of loan commitments issued.

## Contingent Liabilities Arising from Litigation Matters

In addition to the matter described below, in the normal course of business, the entities of the Group have been named, from time to time, as a defendants in various legal actions, including arbitrations, class actions and other litigation, arising in connection with their activities as affiliates of a global diversified financial services institution. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. In some cases, the third-party entities that are, or would otherwise be, the primary defendants in such cases are bankrupt, in financial distress, or may not honour applicable indemnification obligations. These actions have included, but are not limited to, antitrust claims and matters arising from the Group's sales and trading businesses and activities in the capital markets.

The entities of the group are also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and regulatory agencies regarding the Group's business, and involving, among other matters, sales, trading, financing, prime brokerage, market-making activities, investment banking advisory services, capital market activities, financial products or offerings sponsored, underwritten or sold by the Group, and accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, disgorgement, restitution, forfeiture, injunctions, limitations on the Group's ability to conduct certain business, or other relief.

The entities of the group contest liability and/or the amount of damages as appropriate in each pending matter. Where available information indicates that it is probable a liability had been incurred at the date of the financial statements and the Group can reliably estimate the amount of that loss or the range of loss, the Group accrues an estimated loss by a charge to income, including with respect to certain of the individual proceedings or investigations described below.

The Group's legal expenses can, and may in the future, fluctuate from period to period, given the current environment regarding government or regulatory agency investigations and private litigation affecting global financial services firms, including the Group.

In many legal proceedings and investigations, it is inherently difficult to determine whether any loss is probable or more than remotely possible, or to estimate the amount of any loss. In addition, even where the Group has determined that a loss is probable or more than remotely possible, the Group may be unable to reliably estimate the amount of the loss or range of loss. It is particularly difficult to determine if a loss is probable or more than remotely possible, or to reliably estimate the amount of loss, where the factual record is being developed or contested or where plaintiffs or government entities seek substantial or indeterminate damages, restitution, forfeiture, disgorgement or penalties. Numerous issues may need to be resolved in an investigation or proceeding before a determination can be made that a loss or additional loss (or range of loss or range of additional loss) is probable or more than remotely possible, or to reliably estimate the amount of loss, including through potentially lengthy discovery or determination of important factual matters, determination of issues related to class certification, the calculation of damages or other relief, and consideration of novel or unsettled legal questions relevant to the proceedings or investigations in question.

The Group has identified below any individual proceedings or investigations where the Group believes a material economic outflow to be more than remotely possible. In certain legal proceedings in which the Group has determined that a material economic outflow is more than remotely possible, the Group is unable to reliably estimate the loss or range of loss. There are other matters in which the Group has determined a loss or range of loss to be more than remotely possible, but the Group does not believe, based on current knowledge and after consultation with counsel, that such losses could have a material adverse effect on the Group's financial statements as a whole, although the outcome of such proceedings or investigations may significantly impact the Group's business or results of operations for any particular reporting period, or cause significant reputational harm.

While the Group has identified below certain proceedings or investigations that the Group believes to be material, individually or collectively, there can be no assurance that material losses will not be incurred from claims

that have not yet been asserted or those where potential losses have not yet been determined to be probable or more than remotely possible.

Entities within the Group are responding to requests for information and documents from authorities in Germany related to the period 2006 to 2022, including from the Federal Tax Office, the Düsseldorf Tax Office and the Cologne Public Prosecutor, in relation to certain equities transactions over dividend record dates and related tax matters. The Group is cooperating with the relevant authorities.

## Contingent Liabilities and Commitments from Other Matters

At 31 December, the Group had the following outstanding contingent liabilities arising from off-balance sheet financial instruments and commitments:

| € in millions | 2023 | 2022 |
|---|---|---|
| **Contingent liabilities** | | |
| Financial guarantees | 5 | 7 |
| | **5** | **7** |
| **Commitments** | | |
| Loan commitments | 10,746 | 10,160 |
| Unsettled securities purchased under agreements to resell[(1)] | 32,566 | 2,001 |
| Unsettled securities sold under agreements to repurchase[(1)] | 27,054 | 868 |
| Loans pending settlement | 1,008 | 620 |
| | **71,374** | **13,649** |

[(1)] Unsettled securities purchased under agreements to resell and sold under agreements to repurchase have a trade date at or prior to, and settle subsequent to, the year end.

# 17. Deferred Tax Assets and Liabilities

Deferred taxes are calculated on all temporary differences under the balance sheet liability method. The movement in the deferred tax account is as follows:

| | 2023 | | 2022 | |
|---|---|---|---|---|
| € in millions | Deferred tax asset | Deferred tax liability | Deferred tax asset | Deferred tax liability |
| At 1 January | 40 | (1) | 60 | (1) |
| Adjustments in respect of prior years | 8 | – | – | – |
| Amount recognised in the consolidated income statement | (17) | – | (6) | – |
| Amount recognised in other comprehensive income | (1) | – | (14) | – |
| **At 31 December** | **30** | **(1)** | **40** | **(1)** |

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The deferred tax included in the consolidated statement of financial position are as follows:

| | 2023 | | 2022 | |
|---|---|---|---|---|
| € in millions | Deferred tax asset | Deferred tax liability | Deferred tax asset | Deferred tax liability |
| Deferred compensation | 17 | – | 14 | – |
| Deductible temporary differences within interest expense | 11 | (1) | 24 | (1) |
| Other temporary differences | 2 | – | 2 | – |
| | **30** | **(1)** | **40** | **(1)** |

# 18. Equity Instruments

Equity instruments of the Group are summarised as follows:

| € in millions | Ordinary shares of €1 each | AT1 capital | Total equity instruments |
|---|---|---|---|
| **Issued and fully paid** | | | |
| **At 1 January 2022** | **200** | **600** | **800** |
| Ordinary shares issued | 4,450 | – | 4,450 |
| AT1 capital issued | – | 400 | 400 |
| **At 31 December 2022** | **4,650** | **1,000** | **5,650** |
| Issued in the year | – | – | – |
| **At 31 December 2023** | **4,650** | **1,000** | **5,650** |
| Voting rights at 31 December 2023 | 100% | Non-voting | |

## Equity Instruments

At 31 December 2023, the total equity instruments in issue of the Group amounted to €5,650 million (31 December 2022: €5,650 million) comprising 4,650,000,000 ordinary shares of €1 each (31 December 2022: 4,650,000,000 ordinary shares of €1 each), and AT1 capital instruments of €1,000 million (31 December 2022: €1,000 million). All equity instruments are fully paid. There have been no changes to equity instruments of the Group in 2023.

## Ordinary Shares

The subscribed capital amounts to €4,650 million and is entirely divided into 4,650,000,000 registered no par value shares of €1 each. Each registered no par value share has one voting right in the Annual General Meeting.

## AT1 Capital

AT1 capital of the Group comprises two instruments in the total amount of €1,000 million. One instrument in the amount of €600 million (120 notes, each with a principal amount of €5 million) was issued to MSI in 2020 with a non-cumulative coupon payable at a fixed rate of 4.7% per annum. The other instrument in the amount of €400 million (80 notes each with a principal amount of €5 million) was issued to Morgan Stanley on 12 April 2022 with a non-cumulative coupon payable at a fixed rate of 5% per annum.

The coupons of €48 million (2022: €41 million) on the instruments were paid on 30 November 2023 to MSI and Morgan Stanley out of reserves available for distribution.

To qualify as AT1 capital under the EU Capital Requirements Regulation (“CRR”) and EU Capital Requirements Directive (“CRD”), instruments must have principal loss absorption through a conversion to common shares or a write-up/write-down mechanism allocating losses at a trigger point and must also meet further requirements (perpetual with no incentive to redeem; institution must have full dividend/ coupon discretion at all times, etc.). The Group’s AT1 capital instruments are structured in line with the CRR/CRD requirements and features a temporary write-down mechanism. In the event of a local resolution action for the Group, the local resolution authority, BaFin, has the authority to trigger the write-down of the instruments upon the exercise of its statutory powers.

## Reserves

### Currency Translation Reserve

The ‘Currency translation reserve’ of €(1) million (2022: €(1) million) comprises all foreign exchange differences arising from the translation of the total assets less total liabilities of foreign operations, mainly in Sweden. The tax effect of these movements is also included in the ‘Currency translation reserve’.

### Capital Contribution Reserve

The ‘Capital contribution reserve’ of €1,471 million (2022: €471 million) comprises contributions of capital from the Group’s parent company to subsidiaries of the Group. The increase of €1,000 million is due to a CET1 capital infusion from MSI on 3 April 2023.

### Pension Reserve

The ‘Pension reserve’ of €2 million (2022: €9 million) comprises cumulative actuarial gains or losses on scheme assets and obligations net of current tax. Details of the plans are given in note 28 to these financial statements.

### Debt Valuation Adjustment Reserve

The ‘Debt valuation adjustment reserve’ of €(1) million (2022: nil) reflects the cumulative change in fair value of certain financial liabilities designated at fair value through profit or loss that is attributable to changes in the credit risk of those liabilities at the reporting date, together with the tax effect of these movements.

# 19. Additional Cash Flow Information

## a. Cash and Cash Equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances, which have less than three months maturity from the date of acquisition:

| € in millions | 2023 | 2022 |
|---|---|---|
| Cash and short-term deposits | 9,982 | 16,125 |
| Bank loans and overdrafts | (3,892) | (7,632) |
| | **6,090** | **8,493** |

Included within 'Cash and short-term deposits' is €20 million (2022: €351 million) of segregated client funds that are not available for use by the Group. The corresponding payable is recognised and included in 'Trade and other payables'.

Bank loans and overdrafts are repayable on demand and carry positive interest rates of 4% (2022: 2%). They primarily represent deposits received from Morgan Stanley Group undertakings.

## b. Reconciliation of Cash Flows from Operating Activities

| € in millions | Note | 2023 | 2022 |
|---|---|---|---|
| Profit for the year | | 187 | 142 |
| Adjustments for: | | | |
| Net impairment (reversal)/loss on financial instruments | | (1) | 5 |
| Depreciation on property, plant and equipment | | 18 | 15 |
| Provisions | | 3 | – |
| Difference between pension contributions paid and amount recognised in the consolidated income statement | | (3) | – |
| Interest income | | (2,018) | (198) |
| Interest expense | | 1,953 | 197 |
| Income tax expense | 8 | 78 | 94 |
| Gains on sale of business | | – | (90) |
| **Operating cash flows before changes in operating assets and liabilities** | | **217** | **165** |
| Changes in operating assets | | | |
| (Increase) in secured financing | | (11,308) | (5,932) |
| Decrease/(Increase) in trade and other receivables | | 8,637 | (9,271) |
| Decrease/(Increase) in trading financial assets | | 8,841 | (26,442) |
| Decrease in other operating assets | | 5 | 6 |
| (Increase) in loans and advances | | (12) | (90) |
| | | **6,163** | **(41,729)** |
| Changes in operating liabilities | | | |
| Increase in secured borrowing | | 4,351 | 8,698 |
| (Decrease)/Increase in trade and other payables | | (5,202) | 592 |
| (Decrease)/Increase in debt and other borrowings | | (351) | 252 |
| (Decrease)/Increase in trading financial liabilities | | (8,456) | 29,532 |
| (Decrease) in other operating liabilities | | (1) | (1) |
| | | **(9,410)** | **39,073** |
| Interest received | | 1,928 | 187 |
| Interest paid | | (1,677) | (143) |
| Income taxes paid | | (138) | (131) |
| Effect of foreign exchange movements | | (2) | (20) |
| **Net cash used in operating activities** | | **(3,168)** | **(2,598)** |

## c. Reconciliation of Liabilities Arising From Financing Activities

| € in millions | Lease liabilities |
|---|---|
| **Balance at 1 January 2022** | **71** |
| Cash flows | (10) |
| Non-cash changes: | |
| New leases | 6 |
| Modifications[1] | 15 |
| **Balance at 31 December 2022** | **82** |
| Cash flows | (12) |
| Non-cash changes: | |
| New leases | 18 |
| Modifications[1] | 7 |
| **Balance at 31 December 2023** | **95** |

[1] Lease modifications primarily represent the renewals of the Group's existing leases.

# 20. Expected Maturity of Assets and Liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered, realised or settled.

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| € in millions | Less than or equal to twelve months | More than twelve months | Total | Less than or equal to twelve months | More than twelve months | Total |
| ASSETS | | | | | | |
| Cash and short-term deposits | 9,982 | – | 9,982 | 16,125 | – | 16,125 |
| Trading financial assets | 49,843 | – | 49,843 | 58,821 | – | 58,821 |
| Secured financing | 29,575 | – | 29,575 | 18,267 | – | 18,267 |
| Loans and advances | 2 | 118 | 120 | – | 107 | 107 |
| Trade and other receivables | 16,927 | – | 16,927 | 25,474 | – | 25,474 |
| Current tax assets | 104 | – | 104 | 44 | – | 44 |
| Deferred tax assets | 23 | 7 | 30 | 16 | 24 | 40 |
| Property, plant and equipment | 23 | 102 | 125 | 17 | 81 | 98 |
| Other assets | 5 | – | 5 | 1 | – | 1 |
| | **106,484** | **227** | **106,711** | **118,765** | **212** | **118,977** |
| LIABILITIES | | | | | | |
| Bank loans and overdrafts | 3,892 | – | 3,892 | 7,632 | – | 7,632 |
| Trading financial liabilities | 52,457 | – | 52,457 | 61,051 | – | 61,051 |
| Secured borrowing | 22,797 | – | 22,797 | 18,446 | – | 18,446 |
| Trade and other payables | 16,106 | 116 | 16,222 | 21,161 | 120 | 21,281 |
| Debt and other borrowings | 182 | 3,594 | 3,776 | 624 | 3,501 | 4,125 |
| Provisions | 4 | 9 | 13 | 7 | 2 | 9 |
| Current tax liabilities | 15 | 23 | 38 | 4 | 47 | 51 |
| Deferred tax liabilities | – | 1 | 1 | – | 1 | 1 |
| Post-employment benefit obligations | – | 23 | 23 | – | 20 | 20 |
| | **95,453** | **3,766** | **99,219** | **108,925** | **3,691** | **112,616** |

# 21. Financial Risk Management

## 21.1. Risk Management Procedures

Risk taking is an inherent part of the Group's business activities and effective risk management is vital to the success of the Group. The Group seeks to identify, assess, monitor and manage each of the types of risk involved in its business activities in accordance with defined policies and procedures.

The Group has developed risk management policies and procedures which are consistent with the risk management policies and procedures of the Morgan Stanley Group and include escalation to the Group's Management Board.

Significant risks resulting from the Group's business activities are set out in the following chapters. A comprehensive overview of Risk Management is presented in the "Risk Report" section of the Group Management Report.

## 21.2. Market Risk

Market Risk is the risk that a change in the level of one or more market prices, rates, indices, volatilities, implied volatilities (the price volatility of the underlying instrument imputed from option prices), or other market factors, such as market liquidity, will result in losses for a position or portfolio. This includes risks from Derivative Valuation Adjustments ("xVA"), which refers to the risk of changes in derivative valuation adjustments due to changes in credit spreads and other market factors.Further, market risk includes the consideration of financial risk arising from climate change as well as non-traded market risk such as Interest Rate Risk and Credit Spread Risk in the Banking Book ("IRRBB" and "CSRBB").

Price risk arises, for example, in trading portfolios, lending portfolios measured at fair value, and associated mark-to-market hedges.

Additional information on market risk is presented in the Group Management Report and forms part of the consolidated financial statements.

### VaR for the Year Ended 31 December 2023 and 31 December 2022

The table below presents the Management VaR on a year end, average and annual high and low basis for 31 December 2023 and 31 December 2022.

The VaR resulting from interest rate and credit sensitivity from xVA is disclosed as a separate category from the Primary Risk Categories and includes counterparty credit valuation adjustments and related hedges.

| | 95 %/ one-day VaR for the year ended 31 December 2023[1] | | | | 95 %/ one-day VaR for the year ended 31 December 2022[1] | | | |
|---|---|---|---|---|---|---|---|---|
| **€ in millions** | Year end | Average | High | Low | Year end | Average | High | Low |
| *Market risk category:* | | | | | | | | |
| Interest rate and credit spread | 1.7 | 2.8 | 7.8 | 1.4 | 2.1 | 2.4 | 6.6 | 0.7 |
| Equity price | 0.1 | 0.1 | 0.5 | 0.1 | 0.1 | 0.2 | 0.4 | 0.1 |
| Foreign exchange rate | 0.1 | 0.1 | 0.5 | 0.0 | 0.1 | 0.0 | 0.3 | 0.0 |
| Commodity price | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Less diversification benefit[2][3] | (0.2) | (0.2) | N/A | N/A | (0.1) | (0.2) | N/A | N/A |
| Primary Risk Categories VaR | 1.7 | 2.8 | 7.7 | 1.4 | 2.2 | 2.4 | 6.6 | 0.7 |
| VaR resulting from "xVA" | 2.5 | 3.1 | 3.7 | 2.5 | 3.0 | 2.9 | 3.8 | 2.1 |
| Less diversification benefit[2][3] | (1.1) | (1.6) | N/A | N/A | (1.4) | (1.4) | N/A | N/A |
| **Total Management VaR** | **3.1** | **4.3** | **8.1** | **3.0** | **3.8** | **3.9** | **8.4** | **1.9** |

[1] The VaR is originally calculated in U.S. dollars and converted to Euros with the exchange rate as at 31 December.
[2] Diversification benefit equals the difference between total trading VaR and the sum of the standalone VaRs for the four market risk categories. This benefit arises because the simulated one-day losses for each of the four primary market risk categories occur on different scenario dates in the simulation; similar diversification benefits also are taken into account within each category.
[3] N/A - Not Applicable. The minimum and maximum VaR values for the total VaR and each of the component VaRs might have occurred on different scenario dates in the simulation and therefore the diversification benefit is not an applicable measure.

### Non-trading Risks for the Year Ended 31 December 2023 and 31 December 2022

The Group believes that sensitivity analysis is an appropriate representation of the Group's non-trading risks. The following sensitivity analysis covers all of the non-trading risk in the Group's portfolio.

### Interest Rate Risk

The Group's VaR excludes certain funding liabilities, lending and deposit transactions related to non-trading risks. The application of a

parallel shift in interest rates of 200 basis points decrease or increase to these positions would result in a net loss of €2.8 million and a net gain of €1.4 million respectively as of 31 December 2023. This compares to a net loss of €5.4 million and a net gain of €2.7 million respectively as of 31 December 2022.

### Currency Risk

The Group has foreign currency revaluation risk arising from its trading activities and assets and liabilities in currencies other than Euros. It actively manages this exposure by hedging it back to Euros. Foreign exchange exposure in the banking book as of 31 December 2023 was €10 million (2022: €22 million) primarily arising from short Swedish Krona positions (2022: long U.S. dollar positions).

The Group also has foreign currency exposures arising from foreign operations, primarily in Sweden. The majority of this foreign currency risk has been hedged by the Morgan Stanley Group, by putting in place forward foreign currency exchange contracts.

The tables below summarise the foreign currency exposure for the Group relating to the retranslation of its branches outside of the Eurozone. The tables summarise the impact on total comprehensive income of a reasonably possible parallel shift of the foreign currency in relation to Euro, with all other variables held constant. This analysis does not take into account the effect of the foreign currency hedges held by other members of the Morgan Stanley Group.

| | 2023 | | |
|---|---|---|---|
| € in millions | Swedish Krona | Polish Zloty | Danish Krona |
| Foreign Currency exposure | (5) | 1 | 0.2 |
| Percentage change applied | 8% | 7% | –% |
| Other Comprehensive Income | (0.4) | 0.1 | – |

| | 2022 | | |
|---|---|---|---|
| € in millions | Swedish Krona | Polish Zloty | Danish Krona |
| Foreign Currency exposure | (1) | 2 | 0.2 |
| Percentage change applied | 8% | 7% | –% |
| Other Comprehensive Income | (0.1) | 0.1 | – |

The reasonably possible percentage change in the currency rate in relation to Euro has been calculated based on the greatest annual percentage change over the 5 year period from 1 January 2019 to 31 December 2023 (2022: 1 January 2018 to 31 December 2022).

## 21.3. Credit Risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations. Credit risk includes country risk – i.e. the risk that economic, social and political conditions and events in a country will adversely affect an obligor’s ability and willingness to fulfil its obligations. As part of credit risk, credit concentration risk refers to the risk of loss due to an outsized exposure to a counterparty or a group of connected counterparties in the same industry or geographic region. This assessment also considers climate risk, in particular the credit exposure to obligors and counterparties highly vulnerable to transition and/or physical climate risks.

Additional information on credit risk management is presented in the Group Management Report and forms part of the consolidated financial statements.

### Exposure to Credit Risk

The maximum exposure to credit risk (“gross credit exposure”) of the Group as at 31 December 2023 is disclosed below, based on the carrying amounts of the financial assets and the maximum amount that the Group could have to pay in relation to unrecognised financial instruments which the Group believes are subject to credit risk. The table includes financial instruments subject to ECL and not subject to ECL. Those financial instruments that bear credit risk but are not subject to ECL are subsequently measured at fair value. Exposure arising from financial instruments not recognised on the consolidated statement of financial position is measured as the maximum amount that the Group could have to pay.

Where the Group enters into credit enhancements, including master netting agreements and receipt of cash and securities as collateral, in order to manage the credit exposure on these financial instruments, the financial effect of the credit enhancements is also disclosed below. The net credit exposure represents the credit exposure remaining after the effect of the credit enhancements.

Trading financial assets, excluding derivatives, are subject to traded credit risk through exposure to the issuer of the financial instrument; the Group manages this issuer credit risk through its market risk management infrastructure and this traded credit risk is incorporated within the VaR based risk measures included in the market risk disclosure.

| Exposure to credit risk by class | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| Class<br>€ in millions | Gross credit exposure[1] | Credit enhance-ments | Net credit exposure | Gross credit exposure[1] | Credit enhance-ments | Net credit exposure |
| **Subject to ECL:** | | | | | | |
| Cash and short-term deposits | 9,982 | – | 9,982 | 16,125 | – | 16,125 |
| Loans and advances | 83 | – | 83 | 107 | – | 107 |
| Trade and other receivables[2] | 16,882 | – | 16,882 | 24,082 | – | 24,082 |
| **Not subject to ECL:** | | | | | | |
| Trading financial assets | | | | | | |
| Derivatives | 40,525 | (38,965) | 1,560 | 57,427 | (55,632) | 1,795 |
| Secured financing | 29,575 | (29,555) | 20 | 18,267 | (17,953) | 314 |
| Loans and advances | 37 | – | 37 | – | – | – |
| Trade and other receivables[2] | – | – | – | 1,338 | (1,039) | 299 |
| | **97,084** | **(68,520)** | **28,564** | **117,346** | **(74,624)** | **42,722** |
| **Unrecognised financial instruments** | | | | | | |
| **Subject to ECL:** | | | | | | |
| Loan commitments | 9,271 | (74) | 9,197 | 7,823 | (247) | 7,576 |
| Financial guarantees | 4 | – | 4 | 7 | – | 7 |
| **Not subject to ECL:** | | | | | | |
| Loan commitments | 1,475 | (1,382) | 93 | 2,337 | (2,337) | – |
| Financial guarantees | 1 | (1) | – | – | – | – |
| Unsettled securities purchased under agreements to resell[3] | 32,566 | – | 32,566 | 2,001 | – | 2,001 |
| | **43,317** | **(1,457)** | **41,860** | **12,168** | **(2,584)** | **9,584** |
| | **140,650** | **(70,226)** | **70,424** | **129,514** | **(77,208)** | **52,306** |

[1] The carrying amount recognised in the consolidated statement of financial position, and in case of unrecognised financial instruments, nominal amount, best represents the Group's maximum exposure to credit risk.
[2] Trade and other receivables primarily include cash collateral pledged against the payables on OTC derivative positions.
[3] For unsettled securities purchased under agreements to resell, collateral in the form of securities will be received at the point of settlement.

The impact of master netting arrangements and similar agreements on the Group's ability to offset financial assets and financial liabilities is disclosed in note 24.

## Exposure to Credit Risk by Internal Rating Grades

Internal credit ratings are derived using methodologies generally consistent with those used by external agencies.

Investment grade: AAA - BBB

Non-investment grade: BB - CCC

Default: D

The table below shows gross carrying amounts and, in the case of unrecognised financial instruments, nominal amounts by internal rating grade. All exposures subject to ECL are Stage 1, unless otherwise shown.

2023

| € in millions | AAA | AA | A | BBB | Total Invest-ment Grade | Non-Invest-ment Grade | Unrated[1] | Total | Net of ECL |
|---|---|---|---|---|---|---|---|---|---|
| **Subject to ECL:** | | | | | | | | | |
| Cash and short-term deposits | 9,819 | 43 | 87 | 21 | 9,970 | – | 12 | 9,982 | 9,982 |
| Loans and advances | | | | | | | | | |
| Stage 1 | – | – | – | 47 | 47 | 37 | – | 84 | 83 |
| Trade and other receivables: | | | | | | | | | |
| Stage 1 | 31 | 3,227 | 10,896 | 1,729 | 15,883 | 552 | 36 | 16,471 | 16,471 |
| Stage 3 | 5 | 73 | 61 | 71 | 210 | 123 | 81 | 414 | 411 |
| **Total subject to ECL** | **9,855** | **3,343** | **11,044** | **1,868** | **26,110** | **712** | **129** | **26,951** | **26,947** |
| **Not subject to ECL:** | | | | | | | | | |
| Trading financial assets - derivatives | 2,138 | 10,585 | 20,947 | 5,396 | 39,066 | 1,457 | 2 | 40,525 | 40,525 |
| Secured financing | 821 | 8,597 | 14,867 | 4,696 | 28,981 | 592 | 2 | 29,575 | 29,575 |
| Loans and advances | – | – | – | 20 | 20 | – | 17 | 37 | 37 |
| **Total not subject to ECL** | **2,959** | **19,182** | **35,814** | **10,112** | **68,067** | **2,049** | **21** | **70,137** | **70,137** |
| **Unrecognised financial instruments subject to ECL:** | | | | | | | | | |
| Loan commitments | | | | | | | | | |
| Stage 1 | – | 454 | 6,034 | 2,230 | 8,718 | 353 | – | 9,071 | 9,067 |
| Stage 2 | – | – | – | 100 | 100 | 100 | – | 200 | 199 |
| Financial guarantees | – | 1 | – | – | 1 | 3 | – | 4 | 4 |
| **Total unrecognised financial instruments subject to ECL** | **–** | **455** | **6,034** | **2,330** | **8,819** | **456** | **–** | **9,275** | **9,270** |
| **Unrecognised financial instruments not subject to ECL:** | | | | | | | | | |
| Loan commitments | – | – | 355 | 432 | 787 | 688 | – | 1,475 | 1,475 |
| Financial guarantees | – | – | – | – | – | 1 | – | 1 | 1 |
| Unsettled securities purchased under agreements to resell | – | 16,780 | 10,775 | 5,006 | 32,561 | 5 | – | 32,566 | 32,566 |
| **Total unrecognised financial instruments not subject to ECL** | **–** | **16,780** | **11,130** | **5,438** | **33,348** | **694** | **–** | **34,042** | **34,042** |

(1) For the unrated trade receivables, a lifetime ECL is always calculated without considering whether SICR has occurred.

2022

| € in millions | AAA | AA | A | BBB | Total Invest-ment Grade | Non-Invest-ment Grade | Unrated[(1)] | Total | Net of ECL |
|---|---|---|---|---|---|---|---|---|---|
| **Subject to ECL:** | | | | | | | | | |
| Cash and short-term deposits | 15,498 | 148 | 297 | 163 | 16,106 | 6 | 13 | 16,125 | 16,125 |
| Loans and advances | | | | | | | | | |
| Stage 1 | – | – | – | 56 | 56 | 30 | – | 86 | 86 |
| Stage 3 | – | – | – | – | – | 22 | – | 22 | 21 |
| Trade and other receivables: | | | | | | | | | |
| Stage 1 | 8 | 5,272 | 15,580 | 2,372 | 23,232 | 367 | 469 | 24,068 | 24,068 |
| Stage 3 | – | – | 6 | 9 | 15 | 1 | 2 | 18 | 14 |
| **Total subject to ECL** | **15,506** | **5,420** | **15,883** | **2,600** | **39,409** | **426** | **484** | **40,319** | **40,314** |
| **Not subject to ECL:** | | | | | | | | | |
| Trading financial assets - derivatives | 2,223 | 22,169 | 24,117 | 7,744 | 56,253 | 1,143 | 31 | 57,427 | 57,427 |
| Secured financing | 1,791 | 1,638 | 13,653 | 1,135 | 18,217 | 50 | – | 18,267 | 18,267 |
| Loans and advances | – | – | – | – | – | 1 | (1) | – | – |
| Trade and other receivables | – | – | 1,338 | – | 1,338 | – | – | 1,338 | 1,338 |
| **Total not subject to ECL** | **4,014** | **23,807** | **39,108** | **8,879** | **75,808** | **1,194** | **30** | **77,032** | **77,032** |
| **Unrecognised financial instruments subject to ECL:** | | | | | | | | | |
| Loan commitments | | | | | | | | | |
| Stage 1 | – | 440 | 5,805 | 916 | 7,161 | 187 | – | 7,348 | 7,347 |
| Stage 2 | – | – | – | 354 | 354 | 121 | – | 475 | 473 |
| Financial guarantees | – | 6 | – | – | 6 | 1 | – | 7 | 7 |
| **Total unrecognised financial instruments subject to ECL** | **–** | **446** | **5,805** | **1,270** | **7,521** | **309** | **–** | **7,830** | **7,827** |
| **Unrecognised financial instruments not subject to ECL:** | | | | | | | | | |
| Loan commitments | – | 413 | 292 | 955 | 1,660 | 677 | – | 2,337 | 2,337 |
| Unsettled securities purchased under agreements to resell | 233 | 506 | 1,192 | 70 | 2,001 | – | – | 2,001 | 2,001 |
| **Total unrecognised financial instruments not subject to ECL** | **233** | **919** | **1,484** | **1,025** | **3,661** | **677** | **–** | **4,338** | **4,338** |

(1) For the unrated trade receivables, a lifetime ECL is always calculated without considering whether a SICR has occurred.

To align with the methodology used by the Group as at 31 December 2023 for the presentation of ‘Trade and other receivables’, the comparative period for these balances has been re-presented.

### Expected Credit Loss Allowance

As at 31 December 2023, ECL on trade receivables of €3 million, on loans of €1 million and on loan commitments of €5 million were recognised. (2022: €4 million, €1 million, €3 million, respectively).

ECL on cash and short-term deposits as of 31 December 2023 and 31 December 2022 is de minimis owing to either their short tenure and/or their low credit risk.

## 21.4. Liquidity Risk

Liquidity Risk is the risk that the Group’s financial condition or overall soundness is adversely affected by an inability or perceived inability to meet its financial obligations in a timely manner. Liquidity Risk encompasses the associated funding risk triggered by stress events, which may cause unexpected changes in funding needs or an inability to raise new funding.

Additional information on liquidity risk management is presented in the Group Management Report and forms part of the consolidated financial statements.

## Maturity Analysis

In the following maturity analysis of financial liabilities, derivative contracts and other financial liabilities held as part of the Group's trading activities are presented at fair value and disclosed as on demand. Financial liabilities designated at fair value through profit or loss are disclosed according to their earliest contractual maturity. All other amounts represent undiscounted cash flows payable by the Group arising from its financial liabilities to their earliest contractual maturities. Repayments of financial liabilities that are subject to immediate notice are treated as if notice were given immediately and are classified as on demand. This presentation of the maturity analysis is considered by the Group to appropriately reflect the liquidity risk arising from those financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial liabilities is managed by the Group.

2023

| € in millions | On demand | Less than 1 month | 1 month – 3 months | 3 months – 1 year | 1 year – 5 years | Greater than 5 years | Total |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Bank loans and overdrafts | 3,892 | – | – | – | – | – | 3,892 |
| Trading financial liabilities: | | | | | | | |
| Derivatives | 39,595 | – | – | – | – | – | 39,844 |
| Other | 12,862 | – | – | – | – | – | 12,862 |
| Secured borrowing | 15,831 | 4,594 | 813 | 1,559 | – | – | 22,797 |
| Trade and other payables | 15,827 | 12 | 1 | 12 | 62 | 24 | 15,938 |
| Debt and other borrowings | – | 29 | 218 | 133 | 2,686 | 1,174 | 4,240 |
| **Total financial liabilities** | **88,256** | **4,635** | **1,032** | **1,704** | **2,748** | **1,198** | **99,573** |
| | | | | | | | |
| **Unrecognised financial instruments** | | | | | | | |
| Loan commitments | 10,746 | – | – | – | – | – | 10,746 |
| Unsettled securities purchased under agreements to resell[1] | 32,566 | – | – | – | – | – | 32,566 |
| Financial guarantees | – | – | – | – | 5 | – | 5 |
| Loans pending settlement | 1,008 | – | – | – | – | – | 1,008 |
| **Total unrecognised financial instruments** | **44,320** | **–** | **–** | **–** | **5** | **–** | **44,325** |

(1) The Group enters into forward-starting reverse repurchase agreements (agreements which have a trade date at or prior to 31 December 2023 and settle subsequent to year end). These agreements are generally settled within three business days.

2022

| € in millions | On demand | Less than 1 month | 1 month – 3 months | 3 months – 1 year | 1 year – 5 years | Greater than 5 years | Total |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Bank loans and overdrafts | 7,632 | – | – | – | – | – | 7,632 |
| Trading financial liabilities: | | | | | | | |
| Derivatives | 59,714 | – | – | – | – | – | 59,714 |
| Other | 1,337 | – | – | – | – | – | 1,337 |
| Secured borrowing | 12,087 | 5,260 | 420 | 679 | – | – | 18,446 |
| Trade and other payables | 20,900 | 6 | 1 | 10 | 59 | 25 | 21,001 |
| Debt and other borrowings | – | 14 | 639 | 79 | 2,688 | 1,163 | 4,583 |
| **Total financial liabilities** | **101,670** | **5,280** | **1,060** | **768** | **2,747** | **1,188** | **112,713** |
| | | | | | | | |
| **Unrecognised financial instruments** | | | | | | | |
| Loan commitments | 10,160 | – | – | – | – | – | 10,160 |
| Unsettled securities purchased under agreements to resell[1] | 2,001 | – | – | – | – | – | 2,001 |
| Financial guarantees | – | – | – | 1 | 6 | – | 7 |
| Loans pending settlement | 620 | – | – | – | – | – | 620 |
| **Total unrecognised financial instruments** | **12,781** | **–** | **–** | **1** | **6** | **–** | **12,788** |

[1] The Group enters into forward-starting reverse repurchase agreements (agreements which have a trade date at or prior to 31 December 2022 and settle subsequent to year end). These agreements are generally settled within three business days.

The Group does not expect that all of the potential cash flows associated with financial guarantees and loan commitments will be required.

# 22. Transfers of Financial Assets, including Pledges of Collateral

## Transferred Financial Assets that are not Derecognised in their Entirety

In the ordinary course of business, the Group enters into various arrangements, including selling securities under agreements to repurchase, purchasing securities under agreements to resell, securities borrowed and securities loaned to, amongst other things, acquire securities to cover short positions and settle other securities obligations, to accommodate customers' needs and to finance the Group's inventory positions.

The Group pledges certain financial instruments to collateralise repurchase agreements and other securities financings. Pledged financial instruments that can be sold or repledged by the secured party are identified as trading financial instruments (pledged to various parties) in the consolidated statement of financial position. The Group has determined that it retains substantially all the risks and rewards of these financial instruments including credit risk, settlement risk, country risk and market risk, and therefore has not derecognised them. In addition, it recognises a financial liability in respect of the consideration received.

Other financial assets transferred that continue to be recognised for accounting purposes include pledges of securities as collateral for derivative transactions or otherwise, as well as certain sales of securities with related transactions, such as derivatives, that result in the Group retaining substantially all the risks and rewards of the financial assets transferred. In addition, it recognises a financial liability in respect of the consideration received.

All of these transactions are mostly conducted under standard agreements used by financial market participants and are undertaken with counterparties subject to the Group's normal credit risk control processes. The resulting credit exposures are controlled by daily monitoring and collateralisation of the positions. The carrying amount of the associated financial liabilities related to financial assets transferred that continue to be recognised is €7,182 million (2022: €566 million).

Trading financial assets of the Group include debt securities of €9,058 million (2022: €1,372 million) which have been sold or otherwise transferred, but which for accounting purposes remain recognised on the consolidated

statement of financial position. The prior year amount of trading financial assets pledged to various parties, disclosed in parenthesis on the face of the consolidated statement of financial position, has been corrected to reflect only those trading financial assets where the secured party has the right to repledge or sell the collateral.

## 23. Financial Assets Accepted as Collateral

The Group's policy is generally to take possession of securities received as collateral, securities purchased under agreements to resell and securities borrowed. The Group monitors the fair value of the underlying securities as compared with the related receivable or payable, including accrued interest, and, as necessary, requests additional collateral to ensure such transactions are adequately collateralised. The Group's agreements with third parties specify its rights to request additional collateral. These transactions are generally conducted under standard documentation used by financial market participants.

The fair value of collateral accepted under these arrangements, where the Group is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, as at 31 December 2023 was €55,463 million (2022: €25,939 million). Of this amount €51,903 million (2022: €22,921 million) has been sold or repledged to third parties in connection with financing activities, or to comply with commitments under short sale transactions.

## 24. Financial Assets and Financial Liabilities Subject to Offsetting

In order to manage credit exposure arising from its business activities, the Group applies various credit risk management policies and procedures, see note 21 for further details. Primarily in connection with securities purchased under agreements to resell and securities sold under agreements to repurchase, securities borrowed and securities loaned transactions and derivative transactions, the Group enters into master netting arrangements and collateral arrangements with its counterparties. These agreements provide the Group with the right, in the ordinary course of business and/or in the event of a counterparty default (such as bankruptcy or a counterparty's failure to pay or perform), to net a counterparty's rights and obligations under such agreement and, in the event of counterparty default, set off collateral held by the Group against the net amount owed by the counterparty.

However, in certain circumstances, the Group may not have such an agreement in place; the relevant insolvency regime (which is based on type of counterparty of the entity and the jurisdiction of organisation of the counterparty) may not support the enforceability of the agreement; or the Group may not have sought legal advice to support the enforceability of the agreement.

In the consolidated statement of financial position, financial assets and financial liabilities are only offset and presented on a net basis where there is a current legally enforceable right to set off the recognised amounts and an intention to either settle on a net basis or to realise the assets and the liabilities simultaneously. In the absence of such conditions, financial assets and financial liabilities are presented on a gross basis.

The following tables present information about the offsetting of financial instruments and related collateral amounts. The tables do not include information about financial instruments that are subject only to a collateral agreement The effect of master netting arrangements, collateral agreements and other credit enhancements, on the Group's exposure to credit risk is disclosed in note 21.

| € in millions | Gross amounts | Amounts offset[(1)] | Net amounts | Amounts not offset, collateralised by: Financial instruments | Cash collateral[(2)] | Net exposure[(3)] |
|---|---|---|---|---|---|---|
| **2023** | | | | | | |
| **Assets** | | | | | | |
| Secured financing: | | | | | | |
| Cash collateral on securities borrowed | 1,457 | – | 1,457 | (1,437) | – | 20 |
| Securities purchased under agreement to resell | 46,272 | (19,048) | 27,224 | (27,224) | – | – |
| Trading financial assets: | | | | | | |
| Derivatives | 366,236 | (325,711) | 40,525 | (30,876) | (8,088) | 1,561 |
| **Total assets** | **413,965** | **(344,759)** | **69,206** | **(59,537)** | **(8,088)** | **1,581** |
| **Liabilities** | | | | | | |
| Secured borrowing: | | | | | | |
| Cash collateral on securities loaned | 2,518 | – | 2,518 | (2,518) | – | – |
| Securities sold under agreement to repurchase | 39,238 | (19,048) | 20,190 | (20,190) | – | – |
| Trading financial liabilities: | | | | | | |
| Derivatives | 364,130 | (324,535) | 39,595 | (27,723) | (10,366) | 1,506 |
| **Total liabilities** | **405,886** | **(343,583)** | **62,303** | **(50,431)** | **(10,366)** | **1,506** |
| **2022** | | | | | | |
| **Assets** | | | | | | |
| Secured financing: | | | | | | |
| Cash collateral on securities borrowed | 3,642 | – | 3,642 | (3,615) | – | 27 |
| Securities purchased under agreement to resell | 15,450 | (1,455) | 13,995 | (13,708) | – | 287 |
| Trading financial assets: | | | | | | |
| Derivatives | 216,393 | (158,966) | 57,427 | (45,671) | (9,961) | 1,795 |
| **Total assets** | **235,485** | **(160,421)** | **75,064** | **(62,994)** | **(9,961)** | **2,109** |
| **Liabilities** | | | | | | |
| Secured borrowing: | | | | | | |
| Cash collateral on securities loaned | 3,030 | – | 3,030 | (3,030) | – | – |
| Securities sold under agreement to repurchase | 16,670 | (1,455) | 15,215 | (15,215) | – | – |
| Trading financial liabilities: | | | | | | |
| Derivatives | 222,226 | (162,512) | 59,714 | (41,841) | (16,160) | 1,713 |
| **Total liabilities** | **241,926** | **(163,967)** | **77,959** | **(60,086)** | **(16,160)** | **1,713** |

(1) Includes €4,529 million (2022: €3,987 million) and €3,353 million (2022: €7,533 million) of trading financial assets – derivatives and trading financial liabilities – derivatives, respectively, which have been offset against cash collateral received and cash collateral paid, respectively.
(2) Cash collateral not offset is recognised within Trade and other receivables and Trade and other payables, respectively.
(3) Includes €2 million (2022: €0.1 million) of cash collateral on securities borrowed, €54 million (2022: €79 million) of trading financial assets - derivatives and €79 million (2022: €132 million) of trading financial liabilities – derivatives which are either not subject to master netting agreements or collateral agreements or are subject to such agreements but the Group has not determined the agreements to be legally enforceable.

# 25. Financial Instruments Measured at Fair Value

## a. Financial Assets and Liabilities Recognised at Fair Value on a Recurring Basis

The following tables present the carrying value of the Group's financial assets and financial liabilities recognised at fair value on a recurring basis, classified according to the fair value hierarchy:

| 2023<br>€ in millions | Quoted prices in active market (Level 1) | Valuation techniques using observable inputs (Level 2) | Valuation techniques with significant unobservable inputs (Level 3) | Total |
|---|---|---|---|---|
| **Trading financial assets:** | | | | |
| Government debt securities | 8,742 | – | 1 | 8,743 |
| Corporate and other debt | – | 487 | 84 | 571 |
| Corporate equities | 4 | – | – | 4 |
| Derivatives | | | | |
| Interest rate contracts | 1 | 25,656 | 362 | 26,019 |
| Credit contracts | – | 707 | 7 | 714 |
| Foreign exchange and gold contracts | – | 11,351 | 17 | 11,368 |
| Equity and other contracts | 9 | 982 | 166 | 1,157 |
| Commodity contracts | 15 | 1,239 | 13 | 1,267 |
| **Total trading financial assets** | **8,771** | **40,422** | **650** | **49,843** |
| **Secured financing:** | | | | |
| Cash collateral on securities borrowed | – | 1,457 | – | 1,457 |
| Securities purchased under agreements to resell | – | 27,224 | – | 27,224 |
| Other secured financing | – | 894 | – | 894 |
| **Total secured financing** | **–** | **29,575** | **–** | **29,575** |
| **Loans and advances:** | | | | |
| Corporate loans | – | 38 | – | 38 |
| **Total loans and advances** | **–** | **38** | **–** | **38** |
| **Total financial assets measured at fair value** | **8,771** | **70,035** | **650** | **79,456** |
| | | | | |
| **Trading financial liabilities:** | | | | |
| Government debt securities | 12,507 | – | – | 12,507 |
| Corporate and other debt | – | 340 | – | 340 |
| Corporate equities | 15 | – | – | 15 |
| Derivatives | | | | |
| Interest rate contracts | – | 22,720 | 301 | 23,021 |
| Credit contracts | – | 685 | 7 | 692 |
| Foreign exchange and gold contracts | – | 13,360 | 17 | 13,377 |
| Equity and other contracts | 13 | 1,046 | 176 | 1,235 |
| Commodity contracts | 15 | 1,237 | 18 | 1,270 |
| **Total trading financial liabilities** | **12,550** | **39,388** | **519** | **52,457** |
| **Secured borrowing:** | | | | |
| Cash collateral on securities loaned | – | 1,672 | – | 1,672 |
| Securities sold under agreements to repurchase | – | 16,078 | – | 16,078 |
| Other financial liabilities | – | 89 | – | 89 |
| **Total secured borrowing** | **–** | **17,839** | **–** | **17,839** |
| **Debt and other borrowings:** | | | | |
| Issued structured notes | – | 93 | – | 93 |
| **Total debt and other borrowings** | **–** | **93** | **–** | **93** |
| **Total financial liabilities measured at fair value** | **12,550** | **57,320** | **519** | **70,389** |

| 2022<br>€ in millions | Quoted prices in active market<br>(Level 1) | Valuation techniques using observable inputs<br>(Level 2) | Valuation techniques with significant unobservable inputs<br>(Level 3) | Total |
|---|---|---|---|---|
| **Trading financial assets:** | | | | |
| Government debt securities | 1,311 | 16 | 1 | 1,328 |
| Corporate and other debt | – | 14 | 48 | 62 |
| Corporate equities | 4 | – | – | 4 |
| Derivatives | | | | |
| Interest rate contracts | 1 | 37,931 | 359 | 38,291 |
| Credit contracts | – | 551 | 4 | 555 |
| Foreign exchange and gold contracts | – | 14,948 | 4 | 14,952 |
| Equity contracts | 43 | 1,366 | 174 | 1,583 |
| Commodity contracts | 127 | 1,919 | – | 2,046 |
| **Total trading financial assets** | **1,486** | **56,745** | **590** | **58,821** |
| **Secured financing:** | | | | |
| Cash collateral on securities borrowed | – | 3,642 | – | 3,642 |
| Securities purchased under agreements to resell | – | 13,995 | – | 13,995 |
| Other secured financing | – | 630 | – | 630 |
| **Total secured financing** | **–** | **18,267** | **–** | **18,267** |
| **Trade and other receivables:** | | | | |
| Prepaid OTC contracts | – | 1,338 | – | 1,338 |
| **Total trade and other receivables** | **–** | **1,338** | **–** | **1,338** |
| **Total financial assets measured at fair value** | **1,486** | **76,350** | **590** | **78,426** |
| | | | | |
| **Trading financial liabilities:** | | | | |
| Government debt securities | 1,268 | 44 | – | 1,312 |
| Corporate and other debt | – | 8 | 16 | 24 |
| Corporate equities | 1 | – | – | 1 |
| Derivatives | | | | |
| Interest rate contracts | 1 | 36,592 | 386 | 36,979 |
| Credit contracts | – | 542 | 4 | 546 |
| Foreign exchange and gold contracts | – | 18,532 | 4 | 18,536 |
| Equity contracts | 40 | 1,382 | 174 | 1,596 |
| Commodity contracts | 109 | 1,948 | – | 2,057 |
| **Total trading financial liabilities** | **1,419** | **59,048** | **584** | **61,051** |
| **Secured borrowing:** | | | | |
| Cash collateral on securities loaned | – | 2,251 | – | 2,251 |
| Securities sold under agreements to repurchase | – | 7,768 | – | 7,768 |
| Other financial liabilities | – | 201 | – | 201 |
| **Total secured borrowing** | **–** | **10,220** | **–** | **10,220** |
| **Trade and other payables:** | | | | |
| Prepaid OTC contracts | – | 1,348 | – | 1,348 |
| **Total trade and other payables** | **–** | **1,348** | **–** | **1,348** |
| **Total financial liabilities measured at fair value** | **1,419** | **70,616** | **584** | **72,619** |

The Group’s valuation approach and fair value hierarchy categorisation for certain significant classes of financial instruments recognised at fair value on a recurring basis is as follows:

| Asset and Liability / Valuation Technique | Valuation Hierarchy Classification |
|---|---|
| ***Government debt securities*** | |
| Non-US Government Obligations<br>• Fair value is determined using quoted prices in active markets when available. When not available, quoted prices in less-active markets are used. In the absence of position-specific quoted prices, fair value may be determined through benchmarking from comparable instruments. | • Level 1 – if actively traded and inputs are observable<br>• Level 2 – if the market is less active or prices are dispersed<br>• Level 3 – in instances where the prices are unobservable |

| Asset and Liability / Valuation Technique | Valuation Hierarchy Classification |
|---|---|
| ***Corporate and Other Debt and Corporate Loans*** | |
| Corporate Bonds<br>• Fair value is determined using recently executed transactions, market price quotations, bond spreads and CDS spreads obtained from independent external parties, such as vendors and brokers, adjusted for any basis difference between cash and derivative instruments.<br>• The spread data used are for the same maturity as the bond. If the spread data do not reference the issuer, then data that reference comparable issuers are used. When position-specific external price data are not observable, fair value is determined based on either benchmarking to comparable instruments or cash flow models with yield curves, bond or single-name CDS spreads and recovery rates or loss given default as significant inputs. | • Level 2 – if value based on observable market data for comparable instruments<br>• Level 3 – in instances where prices or significant spread inputs are unobservable or if the comparability assessment involves significant sensitivity |
| Loans and Lending Commitments<br>• Fair value of corporate loans is determined using recently executed transactions, market price quotations (where observable), implied yields from comparable debt, market observable CDS spread levels obtained from independent external parties adjusted for any basis difference between cash and derivative instruments, along with proprietary valuation models and default recovery analysis where such transactions and quotations are unobservable. | • Level 2 – if value based on observable market data supported by market liquidity for comparable instruments<br>• Level 3 – in instances where significant spread inputs are unobservable or not supported by market liquidity or if the comparability assessment involves significant subjectivity |
| ***Corporate Equities and Equity investments*** | |
| • Exchange traded equity securities are generally valued based on quoted prices from the exchange.<br>• Unlisted equity securities are generally valued based on an assessment of each security, considering rounds of financing and third-party transactions, discounted cash flow analyses and market-based information, including comparable transactions, trading multiples and changes in market outlook, among other factors.<br>• Listed fund units are generally marked to the exchange-traded price if actively traded or Net Asset Value ("NAV") if not. Unlisted fund units are generally marked to NAV. | • Level 1 – actively traded exchange-traded securities and fund units<br>• Level 2 – if not actively traded, inputs are observable, or if undergoing a recent mergers and acquisitions event or corporate action<br>• Level 3 – if not actively traded, inputs are unobservable, or if undergoing an aged mergers and acquisitions event or corporate action |
| ***Derivatives*** | |
| Exchange-Traded Derivative Contracts<br>• Exchange-traded derivatives that are actively traded are valued based on quoted prices from the exchange.<br>• Exchange-traded derivatives that are not actively traded are valued using the same techniques as those applied to OTC derivatives. | • Level 1 – when actively traded<br>• Level 2 – when not actively traded |
| OTC Derivative Contracts<br>• OTC derivative contracts include forward, swap and option contracts related to interest rates, foreign currencies, credit standing of reference entities, equity prices or commodity prices.<br>• Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be modelled using a series of techniques, including closed-form analytic formulas, such as the Black-Scholes option-pricing model, simulation models or a combination thereof. Many pricing models do not entail material subjectivity as the methodologies employed do not necessitate significant judgement, since model inputs may be observed from actively quoted markets, as is the case for generic interest rate swaps, many equity, commodity and foreign currency option contracts and certain credit default swaps. In the case of more established derivative products, the pricing models used by the Group are widely accepted by the financial services industry.<br>• More complex OTC derivative products are typically less liquid and require more judgement in the implementation of the valuation technique since direct trading activity or quotes are unobservable. This includes certain types of interest rate derivatives with both volatility and correlation exposure, equity, commodity or foreign currency derivatives that are either longer-dated or include exposure to multiple underlyings and credit derivatives, including credit default swaps on certain mortgage or asset-backed securities, basket CDS. Where required inputs are unobservable, relationships to observable data points, based on historical and/or implied observations, may be employed as a technique to estimate the model input values. | • Level 2 – when valued using observable inputs supported by market liquidity, or where the unobservable input is not deemed significant<br>• Level 3 – when valued using observable inputs with limited market liquidity or if an unobservable input is deemed significant |

| Asset and Liability / Valuation Technique | Valuation Hierarchy Classification |
|---|---|
| ***Securities Purchased under Agreements to Resell, Securities Sold under Agreements to Repurchase, Cash collateral on Securities Borrowed and Securities Loaned and Other Secured Financings and Secured Borrowings*** | |
| • Fair value is computed using a standard cash flow discounting methodology.<br>• The inputs to the valuation include contractual cash flows and collateral funding spreads, which are the incremental spread over the overnight indexed swap ("OIS") rate for a specific collateral rate (which refers to the rate applicable to a specific type of security pledged as collateral). | • Level 2 – when the valuation inputs are observable and supported by market liquidity<br>• Level 3 – in instances where the valuation input is observable but not supported by market liquidity or if an unobservable input is deemed significant |
| ***Prepaid OTC contracts and issued structured notes*** | |
| • The Group carries structured notes and prepaid OTC contracts which are primarily composed of instruments whose payments and redemption values are linked to the performance of a specific index, a basket of stocks, a specific security, a commodity, a credit exposure or basket of credit exposures, and instruments with various interest-rate-related features including step-ups, step-downs, and zero coupons.<br>• Fair value is determined using valuation models for the derivative and debt portions of the instruments. These models incorporate observable inputs referencing identical or comparable securities, including prices to which the instruments are linked, interest rate yield curves, option volatility and currency rates, and commodity or equity prices.<br>• Independent, external and traded prices for the instruments are considered as well as the impact of the Group's own credit spreads which are based on observed secondary bond market spreads. | • Level 2 – when valued using observable inputs, or where the unobservable input is not deemed significant<br>• Level 3 – in instances where the unobservable inputs are deemed significant |

## b. Transfers Between Level 1 and Level 2 of the Fair Value Hierarchy for Financial Assets and Liabilities Recognised at Fair Value on a Recurring Basis

There were no material transfers between Level 1 and Level 2 of the fair value hierarchy during 2023 and 2022.

## c. Changes in Level 3 Financial Assets and Liabilities Recognised at Fair Value on a Recurring Basis

The following tables present the changes in the fair value of the Group's Level 3 financial assets and financial liabilities for the years ended 31 December 2023 and 31 December 2022. Level 3 instruments may be hedged with instruments classified in Level 1 and Level 2. The realised and unrealised gains/(losses) for assets and liabilities within the Level 3 category presented in the following tables do not reflect the related realised and unrealised gains/(losses) on hedging instruments that have been classified by the Group within the Level 1 and/or Level 2 categories.

The unrealised gains/(losses) during the year for assets and liabilities within the Level 3 category presented in the following tables herein may include changes in fair value during the period that were attributable to both observable and unobservable inputs.

The Morgan Stanley Group operates a number of intra-group policies to ensure that, where possible, revenues and related costs are matched. Where the trading positions included in the below table are risk managed using financial instruments held by other Morgan Stanley Group undertakings, these policies potentially result in the recognition of offsetting gains or losses in the Group.

2023

| € in millions | Balance at 1 January 2023 | Total gains or (losses) recognised in consolidated income statement[1] | Purchases | Sales | Issuances/ Settlements | Net transfers in and/or (out) of Level 3[2] | Balance at 31 December 2023 | Unrealised gains or (losses) for Level 3 assets/ liabilities outstanding as at 31 December 2023[3] |
|---|---|---|---|---|---|---|---|---|
| **Trading financial assets** | | | | | | | | |
| Government debt securities | 1 | – | – | – | – | – | 1 | – |
| Corporate and other debt | 48 | 1 | 83 | (10) | – | (38) | 84 | 1 |
| Net derivative contracts[4] | (27) | 106 | 27 | – | (87) | 27 | 46 | 12 |
| **Total trading financial assets** | **22** | **107** | **110** | **(10)** | **(87)** | **(11)** | **131** | **13** |
| **Total financial assets measured at fair value** | **22** | **107** | **110** | **(10)** | **(87)** | **(11)** | **131** | **13** |
| **Trading financial liabilities** | | | | | | | | |
| Corporate and other debt | 16 | – | (1) | – | – | (15) | – | – |
| **Total trading financial liabilities** | **16** | **–** | **(1)** | **–** | **–** | **(15)** | **–** | **–** |
| **Total financial liabilities measured at fair value** | **16** | **–** | **(1)** | **–** | **–** | **(15)** | **–** | **–** |

(1) The total gains or (losses) are recognised in the consolidated income statement and the consolidated statement of comprehensive income as detailed in the financial instruments accounting policy (note 3(c)).
(2) For financial assets and financial liabilities that were transferred into and out of Level 3 during the year, gains or (losses) are presented as if the assets or liabilities had been transferred into or out of Level 3 as at the beginning of the year.
(3) Amounts represent unrealised gains or (losses) for the year ended 31 December 2023 related to assets and liabilities still outstanding at 31 December 2023. The unrealised gains or (losses) are recognised in the consolidated income statement or consolidated statement of comprehensive income as detailed in the financial instruments accounting policy (note 3(c)).
(4) Net derivative contracts represent trading financial assets – derivative contracts net of trading financial liabilities – derivative contracts.

2022

| € in millions | Balance at 1 January 2022 | Total gains or (losses) recognised in consolidated income statement[1] | Purchases | Sales | Issuances/ Settlements | Net transfers in and/or (out) of Level 3[2] | Balance at 31 December 2022 | Unrealised gains or (losses) for Level 3 assets/ liabilities outstanding as at 31 December 2022[3] |
|---|---|---|---|---|---|---|---|---|
| **Trading financial assets** | | | | | | | | |
| Government debt securities | – | 1 | – | – | – | – | 1 | 1 |
| Corporate and other debt | – | (7) | 55 | – | – | – | 48 | (7) |
| Net derivative contracts[4] | 102 | 44 | 19 | – | (155) | (37) | (27) | 31 |
| **Total trading financial assets** | **102** | **38** | **74** | **–** | **(155)** | **(37)** | **22** | **25** |
| **Total financial assets measured at fair value** | **102** | **38** | **74** | **–** | **(155)** | **(37)** | **22** | **25** |
| **Trading financial liabilities** | | | | | | | | |
| Corporate and other debt | – | – | – | 16 | – | – | 16 | – |
| **Total trading financial liabilities** | **–** | **–** | **–** | **16** | **–** | **–** | **16** | **–** |
| **Total financial liabilities measured at fair value** | **–** | **–** | **–** | **16** | **–** | **–** | **16** | **–** |

(1) The total gains or (losses) are recognised in the consolidated income statement and the consolidated statement of comprehensive income as detailed in the financial instruments accounting policy (note 3(c)).
(2) For financial assets and financial liabilities that were transferred into and out of Level 3 during the year, gains or (losses) are presented as if the assets or liabilities had been transferred into or out of Level 3 as at the beginning of the year.
(3) Amounts represent unrealised gains or (losses) for the year ended 31 December 2022 related to assets and liabilities still outstanding at 31 December 2022. The unrealised gains or (losses) are recognised in the consolidated income statement or consolidated statement of comprehensive income as detailed in the financial instruments accounting policy (note 3(c)).
(4) Net derivative contracts represent trading financial assets – derivative contracts net of trading financial liabilities – derivative contracts.

## d. Valuation of Level 3 Financial Assets and Liabilities Recognised at Fair Value on a Recurring Basis

The following disclosures provide information on the sensitivity of fair value measurements to key inputs and assumptions.

### i) Quantitative information about and qualitative sensitivity of significant unobservable inputs

The following table provides information on the valuation techniques, significant unobservable inputs and the ranges and averages for each material category of assets and liabilities measured at fair value on a recurring basis.

The level of aggregation and breadth of products cause the range of inputs to be wide and not evenly distributed across the inventory of financial instruments. Further, the range of unobservable inputs may differ across groups in the financial services industry because of diversity in the types of products included in each group's inventory.

The following disclosures also include qualitative information on the sensitivity of the fair value measurements to changes in the significant unobservable inputs. There are no predictable relationships between multiple significant unobservable inputs attributable to a given valuation technique.

| 2023 | Fair value € in millions | Predominant valuation technique/ Significant unobservable inputs | | Range (Average[1]) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Trading financial assets** | | | | |
| Corporate and other debt | 84 | Comparable pricing | | |
| | | | Comparable Bond price | 99 to 99 pts (99 pts) |
| Net derivative contracts:[2] | | | | |
| Interest rate | 61 | Option model | | |
| | | | Interest Rate Curve Correlation | 76% to 83% (79%/80%) |
| | | | Interest rate volatility skew | 67% to 80% (71%/77%) |
| | | | Inflation Volatility | 27% to 70% (43%/39%) |
| **LIABILITIES** | | | | |
| **Trading financial liabilities** | | | | |
| Net derivative contracts:[3] | | | | |
| Equity[4] | 10 | Option model | | |
| | | | Equity volatility | 6% to 46% (16%) |
| | | | Equity Volatility skew | -1% to 0% |
| | | | Equity – Equity correlation | 62% to 99% (82%) |
| | | | Equity – Foreign exchange correlation | -55% to -10% (-17%) |

(1) A single amount is disclosed for range and average when there is no significant difference between the minimum, maximum and average. Amounts represent weighted averages except where simple averages and the median of the inputs are provided when more relevant.
(2) Net derivative contracts represent trading financial assets – derivative contracts net of trading financial liabilities – derivative contracts.
(3) Net derivative contracts represent trading financial liabilities – derivative contracts net of trading financial assets – derivative contracts.
(4) The market value of both equity derivative assets and liabilities as of 31 December 2023 is €166 million and €176 million respectively .

| 2022 | Fair value € in millions | Predominant valuation technique/ Significant unobservable inputs | | Range (Average[(1)]) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Trading financial assets** | | | | |
| Corporate and other debt | 48 | Comparable pricing | | |
| | | | Comparable Bond price | 54 to 100 pts (95 pts) |
| Net derivative contracts:[(2)] | | | | |
| Equity[(3)] | – | Option model | | |
| | | | Equity volatility | 16% to 47% (22%) |
| | | | Equity Volatility skew | -1% to 0% (-1%) |
| | | | Equity – Equity correlation | 44% to 99% (88%) |
| | | | Equity – Foreign exchange correlation | -65% to -12% (-15%) |
| **LIABILITIES** | | | | |
| **Trading financial liabilities** | | | | |
| Corporate and other debt | 16 | Comparable pricing | | |
| | | | Comparable Bond price | 49 to 86 pts (61 pts) |
| Net derivative contracts:[(4)] | | | | |
| Interest rate | 27 | Option model | | |
| | | | Bond volatility | N/M |
| | | | Interest Rate Curve Correlation | 47% to 95% (78%/83%) |
| | | | Interest rate volatility skew | N/M |

(1) A single amount is disclosed for range and average when there is no significant difference between the minimum, maximum and average. Amounts represent weighted averages except where simple averages and the median of the inputs are provided when more relevant.
(2) Net derivative contracts represent trading financial assets – derivative contracts net of trading financial liabilities – derivative contracts.
(3) The market value of both equity derivative assets and liabilities as of 31 December 2022 is €174 million.
(4) Net derivative contracts represent trading financial liabilities – derivative contracts net of trading financial assets – derivative contracts.

## Significant Unobservable Inputs – Description and Sensitivity

During the year, there were no significant revisions made to the descriptions of the significant unobservable inputs.

An increase/(decrease) to the following significant unobservable inputs would generally result in an impact to the fair value, but the magnitude and direction of the impact would depend on whether the Group is long or short the exposure:

- Correlation: A pricing input where the payoff is driven by more than one underlying risk. Correlation is a measure of the relationship between the movements of two variables (i.e. how the change in one variable influences a change in the other variable).
- Credit spread: The credit spread reflects the additional net yield an investor can earn from a security with more credit risk relative to one with less credit risk. The credit spread of a particular security is often quoted in relation to the yield on a credit risk-free benchmark security or reference rate.
- Interest rate curve: The term structure of interest rates (relationship between interest rates and the time to maturity) and a market's measure of future interest rates at the time of observation. An interest rate curve is used to set interest rate and foreign exchange derivative cash flows and is a pricing input used in the discounting of any OTC derivative cash flow.
- Volatility: The measure of the variability in possible returns for an instrument given how much that instrument changes in value over time. Volatility is a pricing input for options, and, generally, the lower the volatility, the less risky the option. The level of volatility used in the valuation of a particular option depends on a number of factors, including the nature of the risk underlying that option, the tenor and the strike price of the option.
- Volatility skew: The measure of the difference in implied volatility for options with identical underliers and expiry dates but with different strikes.

**ii) Sensitivity of fair values to changing significant assumptions to reasonably possible alternatives**

As detailed in note 3, the valuation of Level 3 financial instruments requires the application of critical accounting judgement, involving estimations and assumptions and it is recognised that there could be a range of reasonably possible alternative values.

The Group has reviewed the unobservable parameters to identify those which would change the fair value measurement significantly if replaced by a reasonably possible alternative assumption.

In estimating the potential variability, the unobservable parameters were varied individually using statistical techniques and historic data. The potential variability estimated is likely to be greater than the actual uncertainty relating to the financial instruments as any diversification effect has been excluded.

The potential impact of favourable changes on net derivative contracts is a gain of €44 million (2022: €25 million) and the potential impact of unfavourable changes on net derivative contracts is a loss of €46 million (2022: €25 million), both of which would be reflected in the consolidated income statement. Net derivative contracts represent trading financial liabilities – derivative contracts net of trading financial assets – derivative contracts.

### e. Financial Instruments Valued Using Unobservable Market Data

The amounts not recognised in the consolidated income statement relating to the difference between the fair value at initial recognition (the transaction price) and the amounts determined at initial recognition using valuation techniques are as follows:

| € in millions | 2023 | 2022 |
|---|---|---|
| At 1 January | 7 | – |
| New transactions | 4 | 24 |
| Amounts recognised in the consolidated income statement during the year | (7) | (17) |
| **At 31 December** | **4** | **7** |

The balance above predominantly relates to derivatives.

In addition to the amounts in the table above, at 31 December 2023 a further €60 million (2022: €54 million) was not recognised in the consolidated income statement relating to the difference between the fair value at initial recognition (the transaction price) and the amounts determined at initial recognition using valuation techniques, in relation to derivative contracts which are fully hedged with derivative contracts with other Morgan Stanley Group undertakings. This resulted in no net impact in the consolidated income statement (2022: €0 million) as a result of the offsetting amounts not recognised in the consolidated income statement in relation to the hedges.

## 26. Assets and Liabilities not Measured at Fair Value

For all financial instruments not measured at fair value, the carrying amount is considered to be a reasonable approximation of fair value as at 31 December 2023, owing to their short-term nature. As at 31 December 2022, financial instruments not measured at fair value includes subordinated loan liabilities of €1,000 million for which the fair value is €958 million, which is included in Level 2 of the fair value hierarchy. The fair value of the subordinated loan liability has been determined based on the assumption that it is held to maturity.

## 27. Employee Compensation Plans

Morgan Stanley maintains various equity-settled share-based compensation plans for the benefit of employees. Awards under these plans are generally granted in January following the performance year.

### Equity-settled Share-based Compensation Plans

Morgan Stanley has granted RSU awards pursuant to several equity-based compensation plans. The plans provide for the deferral of a portion of certain current and former employees' incentive compensation, with awards made in the form of restricted common stock. Awards under these plans are subject to vesting over time, generally six months to seven years, and are generally contingent upon continued employment and subject to restrictions on sale, transfer or assignment until conversion to common stock. All, or a portion of an award may be forfeited if employment is terminated before the end of the relevant vesting period or

cancelled after the vesting period in certain situations. Recipients of equity-based awards may have voting rights, at Morgan Stanley's discretion, and generally receive dividend equivalents if the awards vest, unless this is prohibited by regulation.

During the year, Morgan Stanley granted 510,123 RSUs (2022: 721,181 RSUs) to employees of the Group with a weighted average fair value per unit of $90.68 (2022: $93.49) based on the market value of Morgan Stanley common stock at grant date.

Equity-based compensation expense of €43 million (2022: €51 million) was recognised within 'Direct staff costs'. A further €1 million (2022: €0 million) was also recognised in 'Management charges from other Morgan Stanley Group undertakings relating to staff costs' under the chargeback agreements described in note 3.

The related liability due to Morgan Stanley at the end of the year, reported within 'Trade and other payables' in the consolidated statement of financial position, is €61 million (2022: €63 million) of which €32 million (2022: €31 million) is expected to be settled wholly within one year and €29 million (2022: €32 million) thereafter.

The unrecognised compensation cost related to equity-based awards is shown in the table below:

| € in millions | Unvested awards granted: To 31 December 2023 | In January 2024 | Total |
|---|---|---|---|
| Expense expected to be recognised in: | | | |
| 2024 | 12 | 34 | 46 |
| 2025 | 4 | 7 | 11 |
| 2026 | 1 | 3 | 4 |
| Thereafter | – | 1 | 1 |
| | 17 | 45 | 62 |

Amounts above do not reflect forfeitures, cancellations or accelerations.

## Management Charges

As described in note 7, the Group utilises the services of staff who are employed by other Morgan Stanley Group undertakings. Management charges are incurred in respect of these employee services which may include the cost of equity-settled share-based and deferred cash-based compensation plans.

# 28. Post-Employment Benefits

## Defined Contribution Plans

The Group operates several Morgan Stanley defined contribution plans, which require contributions to be made to funds held separately from the assets of the Group:

- Morgan Stanley Flexible Company Pension Plan (Amsterdam);
- Skandia Pension Plan (Stockholm);
- Fonditel Pension Plan (Madrid);
- Amundi Pension Plan (Milan);
- DC Pension Plan (Copenhagen);
- Poland DC PPK Pension Plan (Warsaw).

The Group pays fixed contributions to the plans, with no legal or constructive obligation to pay further contributions.

The defined contribution pension charge in relation to the above schemes recognised within 'Direct staff costs' in 'Operating expense' in the consolidated income statement was €3 million for the year (2022: €2 million).

## Multi-employer Plans

Two entities within the Group are members of BVV Versicherungsverein des Bankgewerbes a.G. ("BVV"), the occupational pension fund organised for the German banking sector which provides retirement benefits to eligible employees in Germany. Contributions to BVV are paid by both the employer and the employee based on a fixed percentage of base salary. The BVV pays a fixed pension with a guaranteed return and the employer entity retains the obligation for the pension benefit to its own employees, however the plan is accounted for as defined contribution under IAS 19.34. The expense in relation to the BVV recognised within 'Direct staff costs' in 'Operating expense' in the consolidated income statement, for the year ended 31 December 2023, was €3 million (2022: €2 million).

## Defined Benefit Plans

The Group operates defined benefit plans for which net liabilities were recognised in the consolidated statement of financial position:

| € in millions | 2023 | 2022 |
|---|---|---|
| Morgan Stanley General Retirement plan | 15 | 12 |
| Morgan Stanley Deferred Compensation Plan | 6 | 7 |
| MSF Indemnités de Fin de Carrière (“IFC”) | 1 | 1 |
| MSESE – Paris Branch IFC and MSESE – Milan Branch leaving indemnity | 1 | – |
| **At 31 December** | **23** | **20** |

## Defined Benefit Plans – Morgan Stanley General Retirement Plan

The Group operates the Morgan Stanley General Retirement plan (“the GP”) which provides post-employment benefits to members on retirement dependent on years of service and salary. The GP was open to all permanent employees of MSBAG and other Morgan Stanley Germany Group undertakings until 2013 when it was closed to new members but remains open to future accrual of benefit for existing members. The Group’s Management Board is briefed on the status of the GP which is subject to German Pension legislation. A third party agent administers the GP and a qualified actuary performs actuarial valuations.

The most recent actuarial valuation of the GP was carried out at 31 December 2023. The obligations under the GP are measured by discounting the best estimate of future cash flows to be paid out using the projected unit credit method. The net defined benefit obligation is presented within ‘Post employment benefit obligations’ in the consolidated statement of financial position.

The GP is funded by insurance contracts held with third party insurance providers within a Contractual Trust Arrangement (“CTA”) which is legally separate from the Group and managed by a third party trustee. Proceeds from the insurance policies, received in the CTA, can only be used to pay or fund employee benefits under the GP and are not available to Group entities or creditors. The fair value of the insurance policies is a technical valuation provided by the insurer which approximates the cash surrender value.

The GP exposes the Group to risks such as inflation risk, longevity risk and counterparty credit risk.

## Movement in Net Defined Benefit Pension Obligation of the GP

### 2023

| € in millions | Present value of obligation | Fair value of plan assets | Total |
|---|---|---|---|
| At 1 January 2023 | (65) | 54 | (11) |
| Current Service Cost | (1) | – | (1) |
| Net interest (expense)/ income | (2) | – | (2) |
| **Amounts recognised in the consolidated income statement** | **(3)** | **–** | **(3)** |
| Remeasurements: | | | |
| Actuarial gain arising from changes in financial assumptions[1] | (4) | – | (4) |
| Actuarial gain arising from experience adjustments | – | – | – |
| **Amounts recognised in the consolidated statement of comprehensive income** | **(4)** | **–** | **(4)** |
| Employer Contributions | – | 3 | 3 |
| Benefit payments | 1 | (1) | – |
| **At 31 December 2023** | **(71)** | **56** | **(15)** |

[1] Primarily reflects the impact of year-over-year discount rate fluctuations

### 2022

| € in millions | Present value of obligation | Fair value of plan assets | Total |
|---|---|---|---|
| At 1 January 2022 | (106) | 50 | (56) |
| Current Service Cost | (2) | – | (2) |
| Net interest (expense)/ income | (1) | 1 | – |
| **Amounts recognised in the consolidated income statement** | **(3)** | **1** | **(2)** |
| Remeasurements: | | | |
| Actuarial gain arising from changes in financial assumptions | 42 | – | 42 |
| Actuarial gain arising from experience adjustments | 2 | – | 2 |
| **Amounts recognised in the consolidated statement of comprehensive income** | **44** | **–** | **44** |
| Employer Contributions | – | 3 | 3 |
| **At 31 December 2022** | **(65)** | **54** | **(11)** |

The net obligation of €15 million (2022: €11 million) represents projected inflationary increases to pensions not contractually insured and the effect of differing valuation assumptions, principally discount rates, applied in the valuation of the assets and liabilities. Of the gross defined benefit obligation €17 million (2022: €17 million) relates to active members, €46 million (2022: €40 million) relates to deferred members and €8 million (2022: €7 million) relates to retired members.

Details of the GP's impact on the Group's pension reserve are given in note 3(n) to these consolidated financial statements.

## GP Assets

The insurance policies cover the starting pension benefit entitlement. Subsequent statutory inflationary increases to pensions in payment are not contractually insured, however, any surpluses generated by the insurance are paid to the Group as a non-guaranteed profit share. In the event that the profit share does not fully cover the pension entitlement, the Group is required to meet the residual obligation.

Employer contributions to the GP plan are in the form of annual insurance premiums and the Group expects to contribute €3 million (2022: €3 million) in the next financial year. Should a member leave the Group before normal retirement age additional premiums may be payable in order to secure the final pension entitlement. The weighted average duration of the GP plan defined benefit obligations at 31 December 2023 is 20.72 years (2022: 21.87 years).

## GP Liabilities

The following table presents the principal actuarial assumptions at the end of the reporting period:

| | 2023 | 2022 |
|---|---|---|
| Inflation (CPI) | 2.5% | 2.6% |
| Discount rate | 3.3% | 3.7% |

The mortality assumption follows the Heubeck AG 2018 table which is based on the latest data provided by the German Statutory Pension Insurance Scheme (Deutsche Rentenver-sicherung) and the German Federal Statistical Office.

The sensitivities regarding the principal assumptions used to measure the defined benefit obligation are as follows:

**2023**

| Assumption | Change in assumption | Impact on plan liabilities |
|---|---|---|
| Discount rate | Increase / decrease by 0.5% | Decrease by 9.39% / increase by 10.78% |
| Inflation | Increase / decrease by 0.5% | Increase by 6.61% / decrease by 6.00% |

**2022**

| Assumption | Change in assumption | Impact on plan liabilities |
|---|---|---|
| Discount rate | Increase / decrease by 0.5% | Decrease by 9.83% / increase by 11.34% |
| Inflation | Increase / decrease by 0.5% | Increase by 6.79% / decrease by 6.15% |

The sensitivity analysis presented above has been determined based on reasonably possible changes of the assumptions occurring at 31 December 2023 and 31 December 2022 assuming that all other assumptions are held constant. The fair value of plan assets is not considered to be materially impacted by fluctuations in the principal assumptions used to measure the obligation and is therefore excluded from the above table.

## Other Defined Benefits Schemes – Morgan Stanley Deferred Compensation Plan

The Morgan Stanley Deferred Compensation plan was a voluntary compensation deferral plan available to certain employees of MSBAG and other Morgan Stanley Group undertakings which closed in 2005. Members have the option at retirement of taking a lump sum equal to the amount deferred plus a guaranteed interest rate or taking payments over 5 years.

The Deferred Compensation plan is partially funded by insurance contracts held with third party insurance companies. These policies are pledged by the Group to the employee, are protected from the Group's creditors in the event of insolvency and can only be used to pay or fund employee benefits under this defined benefit plan. The insurance policies are considered plan assets and are measured at fair value. Plan liabilities are measured by a qualified actuary at present value and the net defined benefit obligation is presented within 'Post employment benefit obligations' in the consolidated statement of financial position.

### Movement in Net Defined Benefit Pension Obligation of the Deferred Compensation Plan

2023

| € in millions | Present value of obligation | Fair value of plan assets | Total |
|---|---|---|---|
| At 1 January 2023 | (14) | 7 | (7) |
| Benefits paid | 1 | – | 1 |
| **At 31 December 2023** | **(13)** | **7** | **(6)** |

2022

| € in millions | Present value of obligation | Fair value of plan assets | Total |
|---|---|---|---|
| At 1 January 2022 | (16) | 7 | (9) |
| Remeasurements recognised in the consolidated statement of comprehensive income | 2 | – | 2 |
| **At 31 December 2022** | **(14)** | **7** | **(7)** |

The weighted average duration of the obligations at 31 December 2023 is 4.7 years (2022: 5.5 years).

### MSESE - Paris IFC and MSF IFC

Indemnité de Fin de. Carrière (IFC) is an unfunded defined benefit plan which pays a lump sum on retirement as required by French Labour law. The scheme exposes the Group to risks including inflation and interest rate risk.

### MSESE - Milan Leaving Indemnity

This plan is an unfunded defined benefit plan which pays a lump sum upon termination of employment. It is closed to the accrual of future benefits and no further benefit has been attributed to service during the current or prior reporting period. The defined benefit obligation is therefore a measure of the present value of benefits for service already rendered and includes no assumption for future salary increases. The scheme exposes the Group to risks including inflation and interest rate risk.

# 29. Related Party Disclosures

## Parent and Subsidiary Relationships

### Parent and Ultimate Controlling Entity

For information on the Group's parent and ultimate controlling entity, refer to note 1.

## Key Management Compensation

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel include Management and Supervisory Board members of MSEHSE, MSESE and MSBAG.

Compensation paid to key management personnel, in respect of their services rendered to the Group, comprised the following:

| € in millions | 2023 | 2022 |
|---|---|---|
| Short-term employee benefits | 10 | 10 |
| Share-based payments | 3 | 4 |
| | **13** | **14** |

The share-based payment costs disclosed above reflect the amortisation of equity-based awards granted to key management personnel and are therefore not directly aligned with staff costs within 'Operating expense'.

Key management personnel compensation is borne by the Group and by other Morgan Stanley Group undertakings. Management recharges in respect of key management personnel compensation borne by other Morgan Stanley Group undertakings are included in 'Management charges from other Morgan Stanley Group undertakings relating to staff costs' within 'Operating expense', as disclosed in note 7.

The members of the Management Board of MSEHSE collectively received compensation totaling €6 million for the year ended 31 December 2023 (2022: €6 million).

The members of the Supervisory Board of MSEHSE collectively received a total remuneration of €3 million for the year ended 31 December 2023 (2022: €3 million).

MSEHSE has not provided any loans or other credit advances to its Management and Supervisory Board members during the year.

## Transactions with Related Parties

The Morgan Stanley Group conducts business for clients globally through a combination of both functional and legal entity organisational structures. Accordingly, the Group is closely integrated with the operations of the Morgan Stanley Group and enters into transactions with other Morgan Stanley Group undertakings on an arm's length basis for the purposes of utilising financing, trading and risk management, and

infrastructure services. The nature of these relationships along with information about the transactions and outstanding balances is given below. The provision the Group has made for impairment relating to the amount of outstanding balances from related parties is de minimis.

## Cash

The Group receives cash and termed deposits from other Morgan Stanley Group undertakings. All such transactions are entered into on an arm's length basis. Details of these balances are as follows:

| € in millions | Interest | Balance |
|---|---|---|
| **2023** | | |
| Amounts due to the Company's direct and indirect parent undertakings | (136) | 2,837 |
| Amounts due to other Morgan Stanley Group undertakings | (29) | 1,055 |
| **2022** | | |
| Amounts due to the Company's direct and indirect parent undertakings | (17) | 6,930 |
| Amounts due to other Morgan Stanley Group undertakings | – | 702 |

## Funding

The Group receives funding from, and provides funding to, other Morgan Stanley Group undertakings in the following forms:

### *General Funding*

General funding is undated, unsecured, floating rate lending, other than certain funding which is dated on a rolling 60, 190 or 395 day term. Funding may be received or provided for specific transaction related funding requirements, or for general operational purposes. The interest rates are established by the Morgan Stanley Group Treasury function for all entities within the Morgan Stanley Group and approximate the market rate of interest that the Morgan Stanley Group incurs in funding its business.

Details of the outstanding balances in the consolidated statement of financial position on these funding arrangements and the related interest income or expense recognised in the consolidated income statement during the year are shown in the table below:

| | 2023 | | 2022 | |
|---|---|---|---|---|
| € in millions | Interest | Balance | Interest | Balance |
| ***Undated*** | | | | |
| Amounts due from other Morgan Stanley Group undertakings | 1 | 78 | 1 | 106 |
| | **1** | **78** | **1** | **106** |
| ***Undated*** | | | | |
| Amounts due to the Company's direct and indirect parent undertakings | – | 63 | – | 64 |
| Amounts due to other Morgan Stanley Group undertakings | 1 | 81 | – | 67 |
| | **1** | **144** | **–** | **131** |
| ***Rolling 60 day term*** | | | | |
| Amounts due to the Company's direct and indirect parent undertakings | (85) | 182 | (105) | 625 |
| | **(85)** | **182** | **(105)** | **625** |

### *Subordinated Debt*

The Group issued subordinated debt and senior subordinated debt instruments to its direct and indirect parent undertakings. Details of the terms of these instruments, including the contractual maturities and the interest rates are shown in note 15.

| € in millions | Interest | Balance |
|---|---|---|
| **2023** | | |
| Senior subordinated debt | (115) | 2,501 |
| Subordinated debt | (48) | 1,000 |
| **2022** | | |
| Senior subordinated debt | (25) | 2,500 |
| Subordinated debt | (17) | 1,000 |

### *AT1 Capital*

The Group issued AT 1 capital instruments to its direct and indirect parent undertakings. The coupons on these instruments were paid on 30 November 2023. Details of the terms of the instruments and the coupons paid are shown in note 18.

### *Ordinary Shares*

There have been no changes to equity instruments of the Group in 2023.

### *Trading and Risk Management*

In the course of funding its business, the Group enters into collateralised financing transactions with other Morgan Stanley Group undertakings. All such transactions are entered into on an arm's length basis.

Details of the amount outstanding on such transactions and the related interest income/ expense recognised in the consolidated income statement during the year are shown in the table below:

| € in millions | Interest | Balance |
|---|---|---|
| **2023** | | |
| Amounts due from other Morgan Stanley Group undertakings | 509 | 6,887 |
| Amounts due to other Morgan Stanley Group undertakings | (145) | 19,265 |
| **2022** | | |
| Amounts due from other Morgan Stanley Group undertakings | 45 | 8,975 |
| Amounts due to other Morgan Stanley Group undertakings | 36 | 14,369 |

The Group enters into purchases and sales of securities and derivative transactions with other Morgan Stanley Group undertakings to facilitate the provision of financial services to clients on a global basis and to manage the market risks associated with such business. The Group also enters into derivative transactions with other Morgan Stanley Group undertakings to manage the market risks associated with certain compensation plans. All such transactions are entered into on an arm's length basis.

The total amounts receivable and payable from such transactions not yet settled and the fair value of such derivatives contracts outstanding at the year end were as follows:

| € in millions | 2023 | 2022 |
|---|---|---|
| Amounts due from other Morgan Stanley Group undertakings on unsettled securities and derivative transactions | 10,760 | 14,519 |
| Amounts due to other Morgan Stanley Group undertakings on unsettled securities and derivative transactions | 12,941 | 18,265 |

The Group has received collateral of €0 million (2022: €2,003 million) from the Company's direct and indirect parent undertakings and €968 million (2022: €876 million) from other Morgan Stanley Group undertakings. The Group has pledged collateral of €3,295 million (2022: €6,598 million) to other Morgan Stanley Group undertakings. The Group has received and pledged collateral to mitigate credit risk on exposures arising under derivatives contracts between the Group and other Morgan Stanley Group undertakings.

In addition, the management and execution of business strategies on a global basis results in many Morgan Stanley transactions impacting a number of Morgan Stanley Group entities. The Morgan Stanley Group has Global Transfer Pricing Policies in place among the Ultimate Parent and its consolidated subsidiaries to ensure arm's length pricing. These policies are consistent with the 2022 OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations. The Morgan Stanley Group has also engaged in negotiations of Advanced Pricing Agreements with selected tax authorities in respect of its key transfer pricing methodologies. Negotiations may result in changes to methodologies or inputs that could have an impact on the Group's revenues in the future.

For the year ended 31 December 2023, a net gain of €209 million (2022: €269 million) was transferred to the Group from other Morgan Stanley Group undertakings relating to such transfer pricing policies and recognised in the consolidated income statement.

### Infrastructure Services

The Group receives and incurs management charges to and from other Morgan Stanley Group undertakings for infrastructure services, including the provision of staff and office facilities. Management recharges received during the year are as follows:

| € in millions | Staff costs[(1)] | Other services[(1)] |
|---|---|---|
| **2023** | | |
| Amounts recharged from other Morgan Stanley Group undertakings | 49 | 136 |
| **2022** | | |
| Amounts recharged from other Morgan Stanley Group undertakings | 42 | 127 |

[(1)] As at 31 December 2023 and 31 December 2022, the amounts recharged from the Group's direct and indirect parent undertakings were de minimis.

### Other Related Party Transactions

The Group has a guarantee and collateral framework agreement in place with MSI. This guarantees the obligations of third parties and fellow Morgan Stanley Group undertakings to the MSEHSE Group from transactions that are

part of the MSEHSE Group's day to day operations. As at 31 December 2023, the Group has received collateral of €0 million (2022: €2,003 million) under this arrangement as described in the "Trading and risk management" section of this note.

The Group provided a fully-secured overdraft line of €5,000 million (2022: €5,000 million) to a fellow Morgan Stanley Group undertaking.

The Group received guarantees of €233 million (2022: €816 million) from another Morgan Stanley Group undertaking related to loans and loan commitments to corporate clients during the year. Furthermore, sub-participation agreements were set up with other Morgan Stanley Group undertakings in relation to loans and loan commitments to corporate clients of €1,889 million (2022: €2,725 million).

## 30. Country by Country Reporting

Pursuant to Section 26a of the German Banking Act (Kreditwesengesetz, or "KWG") the following table provides a list of all legal entities and branches of the Group, including details of the nature of business of each entity and geographical location.

| Name of subsidiary/ branch | Geographical location | Nature of business |
|---|---|---|
| Morgan Stanley Europe Holding SE | Germany | Financial holding company |
| Morgan Stanley Bank AG | Germany | Credit institution |
| Morgan Stanley France Holdings I S.A.S. | France | Investment holding company |
| Morgan Stanley France Holdings II S.A.S. | France | Holding company |
| Morgan Stanley France S.A. | France | Investment firm |
| Morgan Stanley Europe SE | Germany | Credit institution |
| Morgan Stanley Europe SE - Amsterdam Branch | Netherlands | Credit institution |
| Morgan Stanley Europe SE - Copenhagen Branch | Denmark | Credit institution |
| Morgan Stanley Europe SE - Madrid Branch | Spain | Credit institution |
| Morgan Stanley Europe SE - Milan Branch | Italy | Credit institution |
| Morgan Stanley Europe SE - Paris Branch | France | Credit institution |
| Morgan Stanley Europe SE - Stockholm Branch | Sweden | Credit institution |
| Morgan Stanley Europe SE - Warsaw Branch | Poland | Credit institution |

The following table sets out information on turnover, profits before tax, corporate income tax and average number of employees of the Group for the year ended 31 December 2023 split by geographical location. Turnover, profits before tax and corporate income tax amounts are reported in accordance with the Group's 2023 consolidated income statement. Turnover is defined as net revenues before impairment and operating expenses net of intra-country eliminations.

| Country | Turnover (€ in millions) | Profit before tax (€ in millions) | Corporate income tax (€ in millions) | Average number of employees |
|---|---|---|---|---|
| Germany | 615 | 200 | 57 | 427 |
| Denmark | 5 | – | – | 8 |
| France | 316 | 70 | 21 | 297 |
| Italy | 32 | (1) | – | 67 |
| Netherlands | 3 | – | – | 2 |
| Poland | 3 | (1) | – | 6 |
| Spain | 56 | 1 | – | 86 |
| Sweden | 18 | (4) | – | 17 |
| **Total** | **1,048** | **265** | **78** | **910** |

The Group has not received any public subsidies according to Section 26a (1) Sentence 2 No. 6 of the KWG.

Frankfurt am Main, 16 April 2024

Morgan Stanley Europe Holding SE

The Management Board

Oliver Behrens (Chair)

David Best

Emmanuel Goldstein

André Munkelt

Dr. Jana Währisch

# Appendix to the ESG Report (unaudited)

The following pages present the mandatory EU Taxonomy Regulation templates in accordance with the Disclosures Delegated Act, Annex VI, and Annex XII related to nuclear and fossil gas activities. Comparative information for 2022 is not reported.

***Basis of Preparation***

As required by the Taxonomy Regulation, the Group's mandatory Article 8 Taxonomy Regulation disclosures are based on actual information provided by the financial or non-financial counterparty ("mandatory disclosures"). In the case where an underlying undertaking has not yet disclosed information as required by the Taxonomy Regulation, the Group may choose to report estimates on a voluntary basis, separate to the mandatory disclosures. The Group has elected to not provide additional voluntary disclosures.

***Scope of Consolidation***

The Group's Article 8 mandatory disclosures are calculated based on the MSEHSE Group's prudential scope of consolidation as at 31 December 2023.

***Definitions***

Assets in scope of GAR denominator: The denominator for the GAR is total on-balance sheet exposures less exposures to sovereigns, central banks and held for trading instruments. The denominator is referred to as "covered assets".

Assets in scope of GAR stock numerator: The numerator for the GAR is total Taxonomy-aligned (i.e., environmentally sustainable) on-balance sheet exposures covering loans and advances, debt securities and equity instruments, excluding held for trading. Other assets are excluded from the Taxonomy Regulation and therefore cannot be assessed for eligibility and are excluded from the numerator. In addition, the numerator is restricted to exposures to companies within the scope of the NFRD, certain household exposures and specific local government financing. As at 31 December 2023, the majority of the Group's covered assets were excluded from the GAR numerator as they did not relate to entities within the scope of NFRD. In addition, the Group had no household exposures or local government financing exposures as at 31 December 2023.

Financial guarantees: The guarantee KPI shows the proportion of the Group's total off balance sheet financial guarantees which are Taxonomy-aligned.

# 0. Summary of KPIs to be disclosed by Credit Institutions under Article 8 Taxonomy Regulation

The “Summary of KPIs” template presents the main KPI GAR stock alongside additional KPIs, based on both counterparty Turnover and counterparty capital expenditure (“CapEx”).[6]

| | € millions | Total environmentally sustainable assets Turnover | Total environmentally sustainable assets CapEx | KPI [Turnover] **** | KPI [CapEx] ***** | % coverage (over total assets) *** | % of assets excluded from numerator of the GAR(1) | % of assets excluded from denominator of the GAR(2) |
|---|---|---|---|---|---|---|---|---|
| Main KPI | Green asset ratio (GAR) stock | 37 | 100 | 0.1% | 0.2% | 42.8% | 31.8% | 57.2% |

| | € millions | Total environmentally sustainable activities Turnover | Total environmentally sustainable activities CapEx | KPI [Turnover] | KPI [CapEx] | % coverage (over total assets) | % of assets excluded from numerator of the GAR | % of assets excluded from denominator of the GAR |
|---|---|---|---|---|---|---|---|---|
| Additional KPIs | Trading book* | n/a | n/a | n/a | n/a | | | |
| | Financial guarantees | – | – | –% | –% | | | |
| | Assets under management | – | – | –% | –% | | | |
| | Fees and commissions income** | n/a | n/a | n/a | n/a | | | |

(*) For credit institutions that do not meet the conditions of Article 94(1) of the CRR or the conditions set out in Article 325a(1) of the CRR

(**) Fees and commissions income from services other than lending and AuM

(***) % of assets covered by the KPI over banks´ total assets

(****) Based on the Turnover KPI of the counterparty

(*****) Based on the CapEx KPI of the counterparty, except for lending activities where for general lending Turnover KPI is used

(1) per Article 7(2) and (3) and Section 1.1.2. of Annex V of the "Disclosures Delegated Act"

(2) per Article 7(1) and Section 1.2.4 of Annex V of the "Disclosures Delegated Act"

As noted in the ESG Report, draft additional guidance was published by the European Commission which addresses frequently asked questions on the implementation of the Taxonomy Regulation disclosures, including the requirement for first disclosure of the GAR Flow KPI to be in 2024 relating to fiscal year 2023. As at 31 December 2023, the Group’s GAR Flow KPI is 0%.

In the above table, “n/a” represents a field which is required on the template for the year ended 31 December 2023 but, according to the Taxonomy Regulation, is not reportable until a future year. A nil disclosure represents a field which is reportable for the year ended 31 December 2023 and for which the Group has nil to report.

# 1. Assets for the Calculation of GAR

Taxonomy eligible and aligned exposures of the Group are shown below based on counterparty turnover followed by counterparty CapEx.

[6] When a counterparty has reported eligibility or alignment information but has not stated whether it is based on turnover or CapEx, the Group has made an assumption that it is based on turnover.

# Assets for the Calculation of GAR - Turnover

| 2023 | | | Climate Change Mitigation (CCM) | | | | | Climate Change Adaptation (CCA) | | | | Total | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Of which towards taxonomy relevant sectors (Taxonomy-eligible) | | | | | Of which towards taxonomy relevant sectors (Taxonomy-eligible) | | | | Of which towards taxonomy relevant sectors (Taxonomy-eligible) | | | | |
| | | | | Of which environmentally sustainable (Taxonomy-aligned) | | | | | Of which environmentally sustainable (Taxonomy-aligned) | | | | Of which environmentally sustainable (Taxonomy-aligned) | | | |
| | € in millions | Total gross carrying amount | | | Of which Use of Proceeds | Of which transitional | Of which enabling | | | Of which Use of Proceeds | Of which enabling | | | Of which Use of Proceeds | Of which transitional | Of which enabling |
| | **GAR - Covered assets in both numerator and denominator** | | | | | | | | | | | | | | | |
| 1 | Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation | 11,766 | 2,797 | 37 | — | 4 | 20 | — | — | — | — | 2,797 | 37 | — | 4 | 20 |
| 2 | **Financial undertakings** | 11,606 | 2,743 | — | — | — | — | — | — | — | — | 2,743 | — | — | — | — |
| 3 | Credit institutions | 4,540 | 1,367 | — | — | — | — | — | — | — | — | 1,367 | — | — | — | — |
| 4 | Loans and advances | 4,540 | 1,367 | — | — | — | — | — | — | — | — | 1,367 | — | — | — | — |
| 5 | Debt securities, including UoP | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 6 | Equity instruments | — | — | — | | — | — | — | — | | — | — | — | | — | — |
| 7 | Other financial corporations | 7,066 | 1,376 | — | — | — | — | | | | | 1,376 | — | — | — | — |
| 8 | of which investment firms | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 9 | Loans and advances | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 10 | Debt securities, including UoP | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 11 | Equity instruments | — | — | — | | — | — | — | — | | — | — | — | | — | — |
| 12 | of which management companies | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 13 | Loans and advances | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 14 | Debt securities, including UoP | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 15 | Equity instruments | — | — | — | | — | — | — | — | | — | — | — | | — | — |
| 16 | of which insurance undertakings | 7,066 | 1,376 | — | — | — | — | — | — | — | — | 1,376 | — | — | — | — |
| 17 | Loans and advances | 7,066 | 1,376 | — | — | — | — | — | — | — | — | 1,376 | — | — | — | — |
| 18 | Debt securities, including UoP | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 19 | Equity instruments | — | — | — | | — | — | — | — | | — | — | — | | — | — |
| 20 | **Non-financial undertakings** | 160 | 54 | 37 | — | 4 | 20 | — | — | — | — | 54 | 37 | — | 4 | 20 |
| 21 | Loans and advances | 160 | 54 | 37 | — | 4 | 20 | — | — | — | — | 54 | 37 | — | 4 | 20 |
| 22 | Debt securities, including UoP | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 23 | Equity instruments | — | — | — | | — | — | — | — | | — | — | — | | — | — |
| 24 | **Households** | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 25 | of which loans collateralised by residential immovable property | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 26 | of which building renovation loans | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 27 | of which motor vehicle loans | — | — | — | — | — | — | | | | | — | — | — | — | — |
| 28 | **Local governments financing** | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 29 | Housing financing | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 30 | Other local government financing | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 31 | **Collateral obtained by taking possession: residential and commercial immovable properties** | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 32 | **Assets excluded from the numerator for GAR calculation (covered in the denominator)** | 33,970 | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 33 | **Financial and Non-financial undertakings** | 33,499 | | | | | | | | | | | | | | |
| 34 | SMEs and NFCs (other than SMEs) not subject to NFRD disclosure obligations | 19,992 | | | | | | | | | | | | | | |
| 35 | Loans and advances | 19,992 | | | | | | | | | | | | | | |
| 36 | of which loans collateralised by commercial immovable property | — | | | | | | | | | | | | | | |
| 37 | of which building renovation loans | — | | | | | | | | | | | | | | |
| 38 | Debt securities | — | | | | | | | | | | | | | | |
| 39 | Equity instruments | — | | | | | | | | | | | | | | |
| 40 | Non-EU country counterparties not subject to NFRD disclosure obligations | 13,507 | | | | | | | | | | | | | | |
| 41 | Loans and advances | 13,507 | | | | | | | | | | | | | | |
| 42 | Debt securities | — | | | | | | | | | | | | | | |
| 43 | Equity instruments | — | | | | | | | | | | | | | | |
| 44 | **Derivatives** | — | | | | | | | | | | | | | | |
| 45 | **On demand interbank loans** | 161 | | | | | | | | | | | | | | |
| 46 | **Cash and cash-related assets** | 2 | | | | | | | | | | | | | | |
| 47 | **Other categories of assets (e.g., Goodwill, commodities etc.)** | 308 | | | | | | | | | | | | | | |
| 48 | **Total GAR assets** | 45,736 | 2,797 | 37 | — | 4 | 20 | — | — | — | — | 2,797 | 37 | — | 4 | 20 |
| 49 | **Assets not covered for GAR calculation** | 61,179 | | | | | | | | | | | | | | |
| 50 | **Central governments and Supranational issuers** | 12,007 | | | | | | | | | | | | | | |
| 51 | **Central banks exposure** | 10,718 | | | | | | | | | | | | | | |
| 52 | **Trading book** | 38,454 | | | | | | | | | | | | | | |
| 53 | **Total assets** | 106,915 | 2,797 | 37 | — | 4 | 20 | — | — | — | — | 2,797 | 37 | — | 4 | 20 |
| **Off-balance sheet exposures - Undertakings subject to NFRD disclosure obligations** | | | | | | | | | | | | | | | | |
| 54 | Financial guarantees | 5 | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 55 | Assets under management | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 56 | Of which debt securities | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 57 | Of which equity instruments | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |

# Assets for the Calculation of GAR - CapEx

| 2023 | | | Climate Change Mitigation (CCM) | | | | | Climate Change Adaptation (CCA) | | | | Total | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Of which towards taxonomy relevant sectors (Taxonomy-eligible) | | | | | Of which towards taxonomy relevant sectors (Taxonomy-eligible) | | | | Of which towards taxonomy relevant sectors (Taxonomy-eligible) | | | | |
| | | | | Of which environmentally sustainable (Taxonomy-aligned) | | | | | Of which environmentally sustainable (Taxonomy-aligned) | | | | Of which environmentally sustainable (Taxonomy-aligned) | | | |
| | € in millions | Total gross carrying amount | | | Of which Use of Proceeds | Of which transitional | Of which enabling | | | Of which Use of Proceeds | Of which enabling | | | Of which Use of Proceeds | Of which transitional | Of which enabling |
| | **GAR - Covered assets in both numerator and denominator** | | | | | | | | | | | | | | | |
| 1 | Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation | 11,766 | 1,557 | 100 | — | 8 | 38 | — | — | — | — | 1,557 | 100 | — | 8 | 38 |
| 2 | **Financial undertakings** | 11,606 | 1,449 | — | — | — | — | — | — | — | — | 1,449 | — | — | — | — |
| 3 | Credit institutions | 4,540 | 791 | — | — | — | — | — | — | — | — | 791 | — | — | — | — |
| 4 | Loans and advances | 4,540 | 791 | — | — | — | — | — | — | — | — | 791 | — | — | — | — |
| 5 | Debt securities, including UoP | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 6 | Equity instruments | — | — | — | | — | — | — | — | | — | — | — | | — | — |
| 7 | Other financial corporations | 7,066 | 658 | — | — | — | — | — | — | — | — | 658 | — | — | — | — |
| 8 | of which investment firms | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 9 | Loans and advances | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 10 | Debt securities, including UoP | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 11 | Equity instruments | — | — | — | | — | — | — | — | | — | — | — | | — | — |
| 12 | of which management companies | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 13 | Loans and advances | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 14 | Debt securities, including UoP | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 15 | Equity instruments | — | — | — | | — | — | — | — | | — | — | — | | — | — |
| 16 | of which insurance undertakings | 7,066 | 658 | — | — | — | — | — | — | — | — | 658 | — | — | — | — |
| 17 | Loans and advances | 7,066 | 658 | — | — | — | — | — | — | — | — | 658 | — | — | — | — |
| 18 | Debt securities, including UoP | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 19 | Equity instruments | — | — | — | | — | — | — | — | | — | — | — | | — | — |
| 20 | **Non-financial undertakings** | 160 | 108 | 100 | — | 8 | 38 | — | — | — | — | 108 | 100 | — | 8 | 38 |
| 21 | Loans and advances | 160 | 108 | 100 | — | 8 | 38 | — | — | — | — | 108 | 100 | — | 8 | 38 |
| 22 | Debt securities, including UoP | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 23 | Equity instruments | — | — | — | | — | — | — | — | | — | — | — | | — | — |
| 24 | **Households** | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 25 | of which loans collateralised by residential immovable property | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 26 | of which building renovation loans | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 27 | of which motor vehicle loans | — | — | — | — | — | — | | | | | — | — | — | — | — |
| 28 | **Local governments financing** | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 29 | Housing financing | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 30 | Other local government financing | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 31 | **Collateral obtained by taking possession: residential and commercial immovable properties** | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 32 | **Assets excluded from the numerator for GAR calculation (covered in the denominator)** | 33,970 | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 33 | **Financial and Non-financial undertakings** | 33,499 | | | | | | | | | | | | | | |
| 34 | SMEs and NFCs (other than SMEs) not subject to NFRD disclosure obligations | 19,992 | | | | | | | | | | | | | | |
| 35 | Loans and advances | 19,992 | | | | | | | | | | | | | | |
| 36 | of which loans collateralised by commercial immovable property | — | | | | | | | | | | | | | | |
| 37 | of which building renovation loans | — | | | | | | | | | | | | | | |
| 38 | Debt securities | — | | | | | | | | | | | | | | |
| 39 | Equity instruments | — | | | | | | | | | | | | | | |
| 40 | Non-EU country counterparties not subject to NFRD disclosure obligations | 13,507 | | | | | | | | | | | | | | |
| 41 | Loans and advances | 13,507 | | | | | | | | | | | | | | |
| 42 | Debt securities | — | | | | | | | | | | | | | | |
| 43 | Equity instruments | — | | | | | | | | | | | | | | |
| 44 | **Derivatives** | — | | | | | | | | | | | | | | |
| 45 | **On demand interbank loans** | 161 | | | | | | | | | | | | | | |
| 46 | **Cash and cash-related assets** | 2 | | | | | | | | | | | | | | |
| 47 | **Other categories of assets (e.g., Goodwill, commodities etc.)** | 308 | | | | | | | | | | | | | | |
| 48 | **Total GAR assets** | 45,736 | 1,557 | 100 | — | 8 | 38 | — | — | — | — | 1,557 | 100 | — | 8 | 38 |
| 49 | **Assets not covered for GAR calculation** | 61,179 | | | | | | | | | | | | | | |
| 50 | **Central governments and Supranational issuers** | 12,007 | | | | | | | | | | | | | | |
| 51 | **Central banks exposure** | 10,718 | | | | | | | | | | | | | | |
| 52 | **Trading book** | 38,454 | | | | | | | | | | | | | | |
| 53 | **Total assets** | 106,915 | 1,557 | 100 | — | 8 | 38 | — | — | — | — | 1,557 | 100 | — | 8 | 38 |
| | | | | | | | | | | | | | | | | |
| | **Off-balance sheet exposures - Undertakings subject to NFRD disclosure obligations** | | | | | | | | | | | | | | | |
| 54 | Financial guarantees | 5 | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 55 | Assets under management | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 56 | Of which debt securities | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 57 | Of which equity instruments | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |

## 2. GAR Sector Information

The “GAR sector information” template reflects information on exposures towards certain sectors as required by the Taxonomy regulation. Gross carrying amounts and Taxonomy-aligned exposures of the Group are shown below based on counterparty turnover followed by counterparty CapEx.

### GAR Sector Information - Turnover

2023

| | Breakdown by sector - NACE 4 digits level (code and label) | Climate Change Mitigation (CCM) | | | | Climate Change Adaptation (CCA) | | | | TOTAL | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Non-Financial corporates (Subject to NFRD) | | SMEs and other NFC not subject to NFRD | | Non-Financial corporates (Subject to NFRD) | | SMEs and other NFC not subject to NFRD | | Non-Financial corporates (Subject to NFRD) | | SMEs and other NFC not subject to NFRD | |
| | | Gross carrying amount | | Gross carrying amount | | Gross carrying amount | | Gross carrying amount | | Gross carrying amount | | Gross carrying amount | |
| | | € millions | Of which environ-mentally sustainable (CCM) | € millions | Of which environ-mentally sustainable (CCM) | € millions | Of which environ-mentally sustainable (CCA) | € millions | Of which environ-mentally sustainable (CCA) | € millions | Of which environ-mentally sustainable (Total) | € millions | Of which environ-mentally sustainable (Total) |
| 1 | 35.11 - Production of electricity | 152 | 37 | | | – | – | | | 152 | 37 | | |
| 2 | 61.10 - Wired Telecommunications Activities | 8 | – | | | – | – | | | 8 | – | | |

### GAR Sector Information - CapEx

2023

| | Breakdown by sector - NACE 4 digits level (code and label) | Climate Change Mitigation (CCM) | | | | Climate Change Adaptation (CCA) | | | | TOTAL | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Non-Financial corporates (Subject to NFRD) | | SMEs and other NFC not subject to NFRD | | Non-Financial corporates (Subject to NFRD) | | SMEs and other NFC not subject to NFRD | | Non-Financial corporates (Subject to NFRD) | | SMEs and other NFC not subject to NFRD | |
| | | Gross carrying amount | | Gross carrying amount | | Gross carrying amount | | Gross carrying amount | | Gross carrying amount | | Gross carrying amount | |
| | | € millions | Of which environ-mentally sustainable (CCM) | € millions | Of which environ-mentally sustainable (CCM) | € millions | Of which environ-mentally sustainable (CCA) | € millions | Of which environ-mentally sustainable (CCA) | € millions | Of which environ-mentally sustainable (Total) | € millions | Of which environ-mentally sustainable (Total) |
| 1 | 35.11 - Production of electricity | 152 | 100 | | | – | – | | | 152 | 100 | | |
| 2 | 61.10 - Wired Telecommunications Activities | 8 | – | | | – | – | | | 8 | – | | |

# 3. GAR KPI Stock

The “GAR KPI Stock” template reflects the Group’s Taxonomy-eligible and Taxonomy-aligned assets as a proportion of covered assets. Taxonomy-eligible and Taxonomy-aligned ratios are shown below based on counterparty turnover followed by counterparty CapEx.

## GAR KPI Stock - Turnover

2023

| | | Climate Change Mitigation (CCM) | | | | | Climate Change Adaptation (CCA) | | | | TOTAL | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible) | | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible) | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible) | | | | | Proportion of total assets covered |
| | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned) | | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned) | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned) | | | | |
| | % (compared to total covered assets in the denominator) | | | Of which Use of Proceeds | Of which transitional | Of which enabling | | | Of which Use of Proceeds | Of which enabling | | | Of which Use of Proceeds | Of which transitional | Of which enabling | |
| | **GAR - Covered assets in both numerator and denominator** | | | | | | | | | | | | | | | |
| 1 | Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation | 6.1% | 0.1% | –% | –% | –% | –% | –% | –% | –% | 6.1% | 0.1% | –% | –% | –% | 11.0% |
| 2 | **Financial undertakings** | 6.0% | –% | –% | –% | –% | –% | –% | –% | –% | 6.0% | –% | –% | –% | –% | 10.9% |
| 3 | Credit institutions | 3.0% | –% | –% | –% | –% | –% | –% | –% | –% | 3.0% | –% | –% | –% | –% | 4.2% |
| 4 | Loans and advances | 3.0% | –% | –% | –% | –% | –% | –% | –% | –% | 3.0% | –% | –% | –% | –% | 4.2% |
| 5 | Debt securities, including UoP | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 6 | Equity instruments | –% | –% | | —% | –% | –% | –% | | –% | –% | –% | | —% | –% | –% |
| 7 | Other financial corporations | 3.0% | –% | –% | –% | –% | –% | –% | –% | –% | 3.0% | –% | –% | –% | –% | 6.6% |
| 8 | of which investment firms | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 9 | Loans and advances | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 10 | Debt securities, including UoP | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 11 | Equity instruments | –% | –% | | —% | –% | –% | –% | | –% | –% | –% | | —% | –% | –% |
| 12 | of which management companies | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 13 | Loans and advances | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 14 | Debt securities, including UoP | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 15 | Equity instruments | –% | –% | | —% | –% | –% | –% | | –% | –% | –% | | —% | –% | –% |
| 16 | of which insurance undertakings | 3.0% | –% | –% | –% | –% | –% | –% | –% | –% | 3.0% | –% | –% | –% | –% | 6.6% |
| 17 | Loans and advances | 3.0% | –% | –% | –% | –% | –% | –% | –% | –% | 3.0% | –% | –% | –% | –% | 6.6% |
| 18 | Debt securities, including UoP | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 19 | Equity instruments | –% | –% | | —% | –% | –% | –% | | –% | –% | –% | | —% | –% | –% |
| 20 | **Non-financial undertakings** | 0.1% | 0.1% | –% | –% | –% | –% | –% | –% | –% | 0.1% | 0.1% | –% | –% | –% | 0.1% |
| 21 | Loans and advances | 0.1% | 0.1% | –% | –% | –% | –% | –% | –% | –% | 0.1% | 0.1% | –% | –% | –% | 0.1% |
| 22 | Debt securities, including UoP | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 23 | Equity instruments | –% | –% | | —% | –% | –% | –% | | –% | –% | –% | | —% | –% | –% |
| 24 | **Households** | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 25 | of which loans collateralised by residential immovable property | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 26 | of which building renovation loans | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 27 | of which motor vehicle loans | –% | –% | –% | –% | –% | | | | | –% | –% | –% | –% | –% | –% |
| 28 | **Local governments financing** | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 29 | Housing financing | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 30 | Other local government financing | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 31 | **Collateral obtained by taking possession: residential and commercial immovable properties** | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 32 | **Total GAR assets** | 6.1% | 0.1% | –% | –% | –% | –% | –% | –% | –% | 6.1% | 0.1% | –% | –% | –% | 42.8% |

## GAR KPI Stock - CapEx

2023

| | % (compared to total covered assets in the denominator) | Climate Change Mitigation (CCM) | | | | | Climate Change Adaptation (CCA) | | | | TOTAL | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible) | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned) | Of which Use of Proceeds | Of which transitional | Of which enabling | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible) | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned) | Of which Use of Proceeds | Of which enabling | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible) | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned) | Of which Use of Proceeds | Of which transitional | Of which enabling | Proportion of total assets covered |
| | **GAR - Covered assets in both numerator and denominator** | | | | | | | | | | | | | | | |
| 1 | Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation | 3.4% | 0.2% | –% | –% | 0.1% | –% | –% | –% | –% | 3.4% | 0.2% | –% | –% | 0.1% | 11.0% |
| 2 | **Financial undertakings** | 3.2% | –% | –% | –% | –% | –% | –% | –% | –% | 3.2% | –% | –% | –% | –% | 10.9% |
| 3 | Credit institutions | 1.7% | –% | –% | –% | –% | –% | –% | –% | –% | 1.7% | –% | –% | –% | –% | 4.2% |
| 4 | Loans and advances | 1.7% | –% | –% | –% | –% | –% | –% | –% | –% | 1.7% | –% | –% | –% | –% | 4.2% |
| 5 | Debt securities, including UoP | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 6 | Equity instruments | –% | –% | | —% | –% | –% | –% | | –% | –% | –% | | —% | –% | –% |
| 7 | Other financial corporations | 1.4% | –% | –% | –% | –% | –% | –% | –% | –% | 1.4% | –% | –% | –% | –% | 6.6% |
| 8 | of which investment firms | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 9 | Loans and advances | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 10 | Debt securities, including UoP | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 11 | Equity instruments | –% | –% | | —% | –% | –% | –% | | –% | –% | –% | | —% | –% | –% |
| 12 | of which management companies | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 13 | Loans and advances | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 14 | Debt securities, including UoP | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 15 | Equity instruments | –% | –% | | —% | –% | –% | –% | | –% | –% | –% | | —% | –% | –% |
| 16 | of which insurance undertakings | 1.4% | –% | –% | –% | –% | –% | –% | –% | –% | 1.4% | –% | –% | –% | –% | 6.6% |
| 17 | Loans and advances | 1.4% | –% | –% | –% | –% | –% | –% | –% | –% | 1.4% | –% | –% | –% | –% | 6.6% |
| 18 | Debt securities, including UoP | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 19 | Equity instruments | –% | –% | | —% | –% | –% | –% | | –% | –% | –% | | —% | –% | –% |
| 20 | **Non-financial undertakings** | 0.2% | 0.2% | –% | –% | 0.1% | –% | –% | –% | –% | 0.2% | 0.2% | –% | –% | 0.1% | 0.1% |
| 21 | Loans and advances | 0.2% | 0.2% | –% | –% | 0.1% | –% | –% | –% | –% | 0.2% | 0.2% | –% | –% | 0.1% | 0.1% |
| 22 | Debt securities, including UoP | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 23 | Equity instruments | –% | –% | | —% | –% | –% | –% | | –% | –% | –% | | —% | –% | –% |
| 24 | **Households** | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 25 | of which loans collateralised by residential immovable property | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 26 | of which building renovation loans | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 27 | of which motor vehicle loans | –% | –% | –% | –% | –% | | | | | –% | –% | –% | –% | –% | –% |
| 28 | **Local governments financing** | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 29 | Housing financing | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 30 | Other local government financing | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 31 | **Collateral obtained by taking possession: residential and commercial immovable properties** | —% | —% | —% | –% | –% | –% | –% | –% | –% | —% | —% | —% | –% | –% | –% |
| 32 | **Total GAR assets** | 3.4% | 0.2% | –% | –% | 0.1% | –% | –% | –% | –% | 3.4% | 0.2% | –% | –% | 0.1% | 42.8% |

# 4. GAR KPIs Flow

The “GAR KPI Flow” template reflects the Group’s Taxonomy-eligible and Taxonomy-aligned new assets as a proportion of total new covered assets. Taxonomy-eligible and Taxonomy-aligned ratios are shown below based on counterparty turnover followed by counterparty CapEx.

## GAR KPIs Flow - Turnover

2023

| | % (compared to flow of total eligible assets) | Climate Change Mitigation (CCM) | | | | | Climate Change Adaptation (CCA) | | | | TOTAL | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible) | | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible) | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible) | | | | | Proportion of total new assets covered |
| | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned) | | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned) | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned) | | | | |
| | | | | Of which Use of Proceeds | Of which transitional | Of which enabling | | | Of which Use of Proceeds | Of which enabling | | | Of which Use of Proceeds | Of which transitional | Of which enabling | |
| | **GAR - Covered assets in both numerator and denominator** | | | | | | | | | | | | | | | |
| 1 | Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation | 4.0 % | — % | — % | — % | — % | — % | — % | — % | — % | 4.0 % | — % | — % | — % | — % | |
| 2 | **Financial undertakings** | 4.0 % | — % | — % | — % | — % | — % | — % | — % | — % | 4.0 % | — % | — % | — % | — % | |
| 3 | Credit institutions | 3.0 % | — % | — % | — % | — % | — % | — % | — % | — % | 3.0 % | — % | — % | — % | — % | |
| 4 | Loans and advances | 3.0 % | — % | — % | — % | — % | — % | — % | — % | — % | 3.0 % | — % | — % | — % | — % | |
| 5 | Debt securities, including UoP | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 6 | Equity instruments | — % | — % | | — % | — % | — % | — % | | — % | — % | — % | | — % | — % | |
| 7 | Other financial corporations | 1.0 % | — % | — % | — % | — % | — % | — % | — % | — % | 1.0 % | — % | — % | — % | — % | |
| 8 | of which investment firms | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 9 | Loans and advances | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 10 | Debt securities, including UoP | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 11 | Equity instruments | — % | — % | | — % | — % | — % | — % | | — % | — % | — % | | — % | — % | |
| 12 | of which management companies | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 13 | Loans and advances | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 14 | Debt securities, including UoP | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 15 | Equity instruments | — % | — % | | — % | — % | — % | — % | | — % | — % | — % | | — % | — % | |
| 16 | of which insurance undertakings | 1.0 % | — % | — % | — % | — % | — % | — % | — % | — % | 1.0 % | — % | — % | — % | — % | |
| 17 | Loans and advances | 1.0 % | — % | — % | — % | — % | — % | — % | — % | — % | 1.0 % | — % | — % | — % | — % | |
| 18 | Debt securities, including UoP | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 19 | Equity instruments | — % | — % | | — % | — % | — % | — % | | — % | — % | — % | | — % | — % | |
| 20 | **Non-financial undertakings** | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 21 | Loans and advances | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 22 | Debt securities, including UoP | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 23 | Equity instruments | — % | — % | | — % | — % | — % | — % | | — % | — % | — % | | — % | — % | |
| 24 | **Households** | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 25 | of which loans collateralised by residential immovable property | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 26 | of which building renovation loans | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 27 | of which motor vehicle loans | — % | — % | — % | — % | — % | | | | | — % | — % | — % | — % | — % | |
| 28 | **Local governments financing** | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 29 | Housing financing | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 30 | Other local government financing | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 31 | **Collateral obtained by taking possession: residential and commercial immovable properties** | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 32 | **Total GAR assets** | 4.0 % | — % | — % | — % | — % | — % | — % | — % | — % | 4.0 % | — % | — % | — % | — % | |

# GAR KPIs Flow - CapEx

2023

| | | Climate Change Mitigation (CCM) | | | | | Climate Change Adaptation (CCA) | | | | TOTAL | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible) | | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible) | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible) | | | | | |
| | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned) | | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned) | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned) | | | | |
| | % (compared to flow of total eligible assets) | | | Of which Use of Proceeds | Of which transitional | Of which enabling | | | Of which Use of Proceeds | Of which enabling | | | Of which Use of Proceeds | Of which transitional | Of which enabling | Proportion of total new assets covered |
| | GAR - Covered assets in both numerator and denominator | | | | | | | | | | | | | | | |
| 1 | Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation | 2.7 % | — % | — % | — % | — % | — % | — % | — % | — % | 2.7 % | — % | — % | — % | — % | |
| 2 | **Financial undertakings** | 2.7 % | — % | — % | — % | — % | — % | — % | — % | — % | 2.7 % | — % | — % | — % | — % | |
| 3 | Credit institutions | 1.5 % | — % | — % | — % | — % | — % | — % | — % | — % | 1.5 % | — % | — % | — % | — % | |
| 4 | Loans and advances | 1.5 % | — % | — % | — % | — % | — % | — % | — % | — % | 1.5 % | — % | — % | — % | — % | |
| 5 | Debt securities, including UoP | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 6 | Equity instruments | — % | — % | | — % | — % | — % | — % | | — % | — % | — % | | — % | — % | |
| 7 | Other financial corporations | 1.1 % | — % | — % | — % | — % | — % | — % | — % | — % | 1.1 % | — % | — % | — % | — % | |
| 8 | of which investment firms | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 9 | Loans and advances | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 10 | Debt securities, including UoP | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 11 | Equity instruments | — % | — % | | — % | — % | — % | — % | | — % | — % | — % | | — % | — % | |
| 12 | of which management companies | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 13 | Loans and advances | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 14 | Debt securities, including UoP | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 15 | Equity instruments | — % | — % | | — % | — % | — % | — % | | — % | — % | — % | | — % | — % | |
| 16 | of which insurance undertakings | 1.1 % | — % | — % | — % | — % | — % | — % | — % | — % | 1.1 % | — % | — % | — % | — % | |
| 17 | Loans and advances | 1.1 % | — % | — % | — % | — % | — % | — % | — % | — % | 1.1 % | — % | — % | — % | — % | |
| 18 | Debt securities, including UoP | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 19 | Equity instruments | — % | — % | | — % | — % | — % | — % | | — % | — % | — % | | — % | — % | |
| 20 | **Non-financial undertakings** | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 21 | Loans and advances | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 22 | Debt securities, including UoP | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 23 | Equity instruments | — % | — % | | — % | — % | — % | — % | | — % | — % | — % | | — % | — % | |
| 24 | **Households** | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 25 | of which loans collateralised by residential immovable property | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 26 | of which building renovation loans | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 27 | of which motor vehicle loans | — % | — % | — % | — % | — % | | | | | — % | — % | — % | — % | — % | |
| 28 | **Local governments financing** | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 29 | Housing financing | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 30 | Other local government financing | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 31 | **Collateral obtained by taking possession: residential and commercial immovable properties** | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | — % | |
| 32 | **Total GAR assets** | 2.7 % | — % | — % | — % | — % | — % | — % | — % | — % | 2.7 % | — % | — % | — % | — % | |

# 5. KPI Off-balance Sheet Exposures - Stock

The “KPI off-balance sheet exposures - Stock” template reflects the Taxonomy-eligible and Taxonomy-aligned off-balance sheet exposures as a proportion of the Group’s total off-balance sheet exposures. Taxonomy-eligible and Taxonomy-aligned ratios are shown below based on counterparty turnover followed by counterparty CapEx in.

## KPI Off-balance Sheet Exposures - Stock - Turnover

| 2023 | | Climate Change Mitigation (CCM) | | | | | Climate Change Adaptation (CCA) | | | | TOTAL | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible) | | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible) | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible) | | | | |
| | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned) | | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned) | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned) | | | |
| % (compared to total eligible off-balance sheet assets) | | | | Of which Use of Proceeds | Of which transitional | Of which enabling | | | Of which Use of Proceeds | Of which enabling | | | Of which Use of Proceeds | Of which transitional | Of which enabling |
| 1 | Financial guarantees (FinGuar KPI) | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 2 | Assets under management (AuM KPI) | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |

## KPI Off-balance Sheet Exposures - Stock - CapEx

| 2023 | | Climate Change Mitigation (CCM) | | | | | Climate Change Adaptation (CCA) | | | | TOTAL | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible) | | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible) | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible) | | | | |
| | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned) | | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned) | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned) | | | |
| % (compared to total eligible off-balance sheet assets) | | | | Of which Use of Proceeds | Of which transitional | Of which enabling | | | Of which Use of Proceeds | Of which enabling | | | Of which Use of Proceeds | Of which transitional | Of which enabling |
| 1 | Financial guarantees (FinGuar KPI) | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 2 | Assets under management (AuM KPI) | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |

## 5. KPI Off-balance Sheet Exposures - Flow

The “KPI off-balance sheet exposures - Flow” template reflects the Group’s Taxonomy-eligible and Taxonomy-aligned new off-balance sheet exposures as a proportion of total new off-balance sheet exposures. Taxonomy-eligible and Taxonomy-aligned ratios are shown below based on counterparty turnover followed by counterparty CapEx.

### KPI Off-balance Sheet Exposures - Flow - Turnover

| 2023 | | Climate Change Mitigation (CCM) | | | | | Climate Change Adaptation (CCA) | | | | TOTAL | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible) | | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible) | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible) | | | | |
| | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned) | | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned) | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned) | | | |
| % (compared to total flow of eligible off-balance sheet assets) | | | | Of which Use of Proceeds | Of which transitional | Of which enabling | | | Of which Use of Proceeds | Of which enabling | | | Of which Use of Proceeds | Of which transitional | Of which enabling |
| 1 | Financial guarantees (FinGuar KPI) | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 2 | Assets under management (AuM KPI) | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |

### KPI Off-balance Sheet Exposures - Flow - CapEx

| 2023 | | Climate Change Mitigation (CCM) | | | | | Climate Change Adaptation (CCA) | | | | TOTAL | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible) | | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible) | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible) | | | | |
| | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned) | | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned) | | | | Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned) | | | |
| % (compared to total flow of eligible off-balance sheet assets) | | | | Of which Use of Proceeds | Of which transitional | Of which enabling | | | Of which Use of Proceeds | Of which enabling | | | Of which Use of Proceeds | Of which transitional | Of which enabling |
| 1 | Financial guarantees (FinGuar KPI) | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |
| 2 | Assets under management (AuM KPI) | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% | –% |

# Template 1 Nuclear and Fossil Gas related Activities

Nuclear and fossil gas template 1 provides answers to questions on whether the Group has nuclear energy and fossil gas related activities in its exposure based on counterparty turnover followed by counterparty CapEx.

## Template 1 Nuclear and Fossil Gas related Activities

| Row | Nuclear energy related activities | |
|---|---|---|
| 1 | The undertaking carries out, funds or has exposures to research, development, demonstration and deployment of innovative electricity generation facilities that produce energy from nuclear processes with minimal waste from the fuel cycle. | NO |
| 2 | The undertaking carries out, funds or has exposures to construction and safe operation of new nuclear installations to produce electricity or process heat, including for the purposes of district heating or industrial processes such as hydrogen production, as well as their safety upgrades, using best available technologies. | YES |
| 3 | The undertaking carries out, funds or has exposures to safe operation of existing nuclear installations that produce electricity or process heat, including for the purposes of district heating or industrial processes such as hydrogen production from nuclear energy, as well as their safety upgrades. | YES |
| | **Fossil gas related activities** | |
| 4 | The undertaking carries out, funds or has exposures to construction or operation of electricity generation facilities that produce electricity using fossil gaseous fuels. | YES |
| 5 | The undertaking carries out, funds or has exposures to construction, refurbishment, and operation of combined heat/cool and power generation facilities using fossil gaseous fuels. | YES |
| 6 | The undertaking carries out, funds or has exposures to construction, refurbishment and operation of heat generation facilities that produce heat/cool using fossil gaseous fuels. | YES |

# Template 2 Taxonomy-aligned Economic Activities (Denominator)

Nuclear and fossil gas template 2 reflects the Group's amount of Taxonomy-aligned economic activities in the GAR denominator which are related to nuclear energy and fossil gas activities, and the proportion of these as a % of covered assets. Amounts and percentages are shown below based on counterparty turnover followed by counterparty CapEx.

## Template 2 Taxonomy-aligned Economic Activities (Denominator) – Turnover

| Row | Economic activities | 2023 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Amount and proportion (the information is to be presented in monetary amounts and as percentages) | | | | | |
| | | CCM + CCA | | Climate change mitigation (CCM) | | Climate change adaptation (CCA) | |
| | | € millions | % | € millions | % | € millions | % |
| 1 | Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% | – | –% | – | – % |
| 2 | Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% | – | –% | – | – % |
| 3 | Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | 5 | 12.5% | 5 | 12.5% | – | – % |
| 4 | Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% | – | –% | – | – % |
| 5 | Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% | – | –% | – | – % |
| 6 | Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% | – | –% | – | – % |
| 7 | **Amount and proportion of other taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the denominator of the applicable KPI** | **32** | **87.5%** | **32** | **87.5%** | **–** | **– %** |
| 8 | **Total applicable KPI** | **37** | **100.0%** | **37** | **100.0%** | **–** | **– %** |

## Template 2 Taxonomy-aligned Economic Activities (Denominator) – CapEx

| Row | Economic activities | 2023 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Amount and proportion (the information is to be presented in monetary amounts and as percentages) | | | | | |
| | | CCM + CCA | | Climate change mitigation (CCM) | | Climate change adaptation (CCA) | |
| | | € millions | % | € millions | % | € millions | % |
| 1 | Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% | – | –% | – | –% |
| 2 | Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | 1 | 0.9% | 1 | 0.9% | – | –% |
| 3 | Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | 8 | 8.1% | 8 | 8.1% | – | –% |
| 4 | Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% | – | –% | – | –% |
| 5 | Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% | – | –% | – | –% |
| 6 | Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% | – | –% | – | –% |
| 7 | **Amount and proportion of other taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the denominator of the applicable KPI** | **91** | **91.0 %** | **91** | **91.0%** | **–** | **–%** |
| 8 | **Total applicable KPI** | **100** | **100.0%** | **100** | **100.0%** | **–** | **–%** |

# Template 3 Taxonomy-aligned Economic Activities (Numerator)

Nuclear and fossil gas template 3 reflects the Group's amount of Taxonomy-aligned economic activities in the GAR numerator which are related to nuclear energy and fossil gas activities, and the proportion of these as a % of the GAR numerator. Amounts and percentages are shown below based on counterparty turnover followed by counterparty CapEx.

## Template 3 Taxonomy-aligned Economic Activities (Numerator) - Turnover

| Row | Economic activities | 2023 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Amount and proportion (the information is to be presented in monetary amounts and as percentages) | | | | | |
| | | (CCM+CCA) | | Climate change mitigation (CCM) | | Climate change adaptation (CCA) | |
| | | € millions | % | € millions | % | € millions | % |
| 1 | Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI | – | –% | – | –% | – | –% |
| 2 | Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI | – | –% | – | –% | – | –% |
| 3 | Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI | 5 | 12.0% | 5 | 12.0% | – | –% |
| 4 | Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI | – | –% | – | –% | – | –% |
| 5 | Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI | – | –% | – | –% | – | –% |
| 6 | Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI | – | –% | – | –% | – | –% |
| 7 | **Amount and proportion of other taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the numerator of the applicable KPI** | **32** | **88.0%** | **32** | **88.0%** | **–** | **–%** |
| 8 | **Total amount and proportion of taxonomy-aligned economic activities in the numerator of the applicable KPI** | **37** | **100.0%** | **37** | **100.0%** | **–** | **–%** |

## Template 3 Taxonomy-aligned Economic Activities (Numerator) - CapEx

| Row | Economic activities | 2023 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Amount and proportion (the information is to be presented in monetary amounts and as percentages) | | | | | |
| | | (CCM+CCA) | | Climate change mitigation (CCM) | | Climate change adaptation (CCA) | |
| | | € millions | % | € millions | % | € millions | % |
| 1 | Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI | – | –% | – | –% | – | –% |
| 2 | Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI | 1 | 1.0% | 1 | 1.0% | – | –% |
| 3 | Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI | 8 | 8.0% | 8 | 8.0% | – | –% |
| 4 | Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI | – | –% | – | –% | – | –% |
| 5 | Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI | – | –% | – | –% | – | –% |
| 6 | Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI | – | –% | – | –% | – | –% |
| 7 | **Amount and proportion of other taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the numerator of the applicable KPI** | **91** | **91.0%** | **91** | **91.0%** | **–** | **–%** |
| 8 | **Total amount and proportion of taxonomy-aligned economic activities in the numerator of the applicable KPI** | **100** | **100.0%** | **100** | **100.0%** | **–** | **–%** |

# Template 4 Taxonomy-eligible but not Taxonomy-aligned Economic Activities

Template 4 reflects the Group's amount of taxonomy-eligible but not taxonomy-aligned economic activities related to nuclear energy and fossil gas activities, and the proportion of these as a percentage of covered assets. Amounts and percentages are shown below based on counterparty turnover followed by counterparty CapEx.

## Template 4 Taxonomy-eligible but not Taxonomy-aligned Economic Activities - Turnover

| Row | Economic activities | 2023 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Proportion (the information is to be presented in monetary amounts and as percentages) | | | | | |
| | | (CCM+CCA) | | Climate change mitigation (CCM) | | Climate change adaptation (CCA) | |
| | | € millions | % | € millions | % | € millions | % |
| 1 | Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% | – | –% | – | –% |
| 2 | Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% | – | –% | – | –% |
| 3 | Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% | – | –% | – | –% |
| 4 | Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | 12 | –% | 12 | –% | – | –% |
| 5 | Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | 1 | –% | 1 | –% | – | –% |
| 6 | Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% | – | –% | – | –% |
| 7 | **Amount and proportion of other taxonomy-eligible but not taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the denominator of the applicable KPI** | **2,747** | **6.0%** | **2,747** | **6.0%** | **–** | **–%** |
| 8 | **Total amount and proportion of taxonomy eligible but not taxonomy-aligned economic activities in the denominator of the applicable KPI** | **2,760** | **6.0%** | **2,760** | **6.0%** | **–** | **–%** |

## Template 4 Taxonomy-eligible but not Taxonomy-aligned Economic Activities - CapEx

| Row | Economic activities | 2023 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Proportion (the information is to be presented in monetary amounts and as percentages) | | | | | |
| | | (CCM+CCA) | | Climate change mitigation (CCM) | | Climate change adaptation (CCA) | |
| | | € millions | % | € millions | % | € millions | % |
| 1 | Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% | – | –% | – | –% |
| 2 | Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% | – | –% | – | –% |
| 3 | Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% | – | –% | – | –% |
| 4 | Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | 5 | –% | 5 | –% | – | –% |
| 5 | Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% | – | –% | – | –% |
| 6 | Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% | – | –% | – | –% |
| 7 | **Amount and proportion of other taxonomy-eligible but not taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the denominator of the applicable KPI** | **1,452** | **3.2%** | **1,452** | **3.2%** | **–** | **–%** |
| 8 | **Total amount and proportion of taxonomy eligible but not taxonomy-aligned economic activities in the denominator of the applicable KPI** | **1,457** | **3.2%** | **1,457** | **3.2%** | **–** | **–%** |

# Template 5 Taxonomy Non-eligible Economic Activities

Nuclear and fossil gas template 5 reflects the Group's amount of Taxonomy non-eligible economic activities related to nuclear energy and fossil gas activities, and the proportion as a percentage of covered assets. Amounts and percentages are shown below based on counterparty turnover followed by counterparty CapEx.

## Template 5 Taxonomy Non-eligible Economic Activities - Turnover

| | | 2023 | |
|---|---|---|---|
| Row | Economic activities | € millions | % |
| 1 | Amount and proportion of economic activity referred to in row 1 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% |
| 2 | Amount and proportion of economic activity referred to in row 2 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% |
| 3 | Amount and proportion of economic activity referred to in row 3 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | 5 | –% |
| 4 | Amount and proportion of economic activity referred to in row 4 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% |
| 5 | Amount and proportion of economic activity referred to in row 5 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% |
| 6 | Amount and proportion of economic activity referred to in row 6 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% |
| 7 | **Amount and proportion of other taxonomy-non-eligible economic activities not referred to in rows 1 to 6 above in the denominator of the applicable KPI** | **8,964** | **19.6%** |
| 8 | **Total amount and proportion of taxonomy-non-eligible economic activities in the denominator of the applicable KPI** | **8,969** | **19.6%** |

## Template 5 Taxonomy Non-eligible Economic Activities - CapEx

| | | 2023 | |
|---|---|---|---|
| Row | Economic activities | € millions | % |
| 1 | Amount and proportion of economic activity referred to in row 1 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% |
| 2 | Amount and proportion of economic activity referred to in row 2 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | 7 | –% |
| 3 | Amount and proportion of economic activity referred to in row 3 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | 2 | –% |
| 4 | Amount and proportion of economic activity referred to in row 4 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% |
| 5 | Amount and proportion of economic activity referred to in row 5 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% |
| 6 | Amount and proportion of economic activity referred to in row 6 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI | – | –% |
| 7 | **Amount and proportion of other taxonomy-non-eligible economic activities not referred to in rows 1 to 6 above in the denominator of the applicable KPI** | **10,201** | **22.3%** |
| 8 | **Total amount and proportion of taxonomy-non-eligible economic activities in the denominator of the applicable KPI** | **10,209** | **22.3%** |

# Independent Auditor's Report[1]

To Morgan Stanley Europe Holding SE, Frankfurt am Main

## Audit Opinion

We have audited the consolidated financial statements of Morgan Stanley Europe Holding SE, Frankfurt am Main, and its subsidiaries (the Group) which comprise the consolidated statement of financial position as of 31 December 2023, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows for the financial year from 1 January 2023 to 31 December 2023, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the Group Management Report of Morgan Stanley Europe Holding SE, Frankfurt am Main, for the financial year from 1 January 2023 to 31 December 2023. In accordance with German legal requirements, we have not audited the content of those parts of the management report that are marked as unaudited in the ESG Report and in the Appendix to the ESG Report, with the exception of the sections "Climate and Environmental Risk Management" and "Climate Stress Loss Limit and Credit Exposures" which are part of the risk reporting, and the references to the website of the Morgan Stanley Group in the ESG Report of the group management report.

In our opinion based on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply in all material respects with the International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) of the German Commercial Code ("HGB") and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2023, and of its financial performance for the financial year from1 January 2023 to 31 December 2023; and
- the accompanying Group Management Report provides an overall appropriate view of the Group's position. In all material respects, this Group Management Report is consistent with the consolidated financial statements, complies with the German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the Group Management Report does not cover references to the website of the Morgan Stanley Group included in ESG Report section of the Group Management Report.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the Group Management Report.

## Basis for the Audit Opinion

We conducted our audit of the consolidated financial statements and the Group Management Report in accordance with Section 317 HGB and in compliance with German Generally Accepted Standards for Financial Statements Audits promulgated by the Institut der Wirtschaftsprüfer [in Deutschland] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the Group's entities in accordance with the requirements of German commercial and professional law , and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the evidence we have obtained is sufficient and appropriate to serve as a basis for our audit opinions on the consolidated financial statements and the Group Management Report.

## Other Information

The Management Board and the Supervisory Board are responsible for the other information. The other information includes:

- the report of the Supervisory Board, which is not expected to be made available to us until after the date of this auditor's report;
- the parts of the management report that are marked as unaudited in the ESG Report and in the Appendix to the ESG Report, with the exception of the sections "Climate and

[1] Translation; the German version prevails

Environmental Risk Management" and "Climate Stress Loss Limit and Credit Exposures", which are part of the risk reporting, and the references to the Morgan Stanley Group website in the ESG Report of the Group management report and

- all other parts of the annual report but not the consolidated financial statements, not the audited content of the Group Management Report, and not our auditor's report thereon.

The Supervisory Board is responsible for the Report of the Supervisory Board. Otherwise, the Management Board is responsible for the other information.

Our audit opinions on the consolidated financial statements and the Group Management Report do not cover the other information and, consequently we do not express an audit opinion or any other form of assurance conclusion on them.

In connection with our audit, we have a responsibility to read the other information identified above and, to consider whether the other information:

- is materially inconsistent with the consolidated financial statements, with the contents of the audited disclosures in the Group Management Report, or with the knowledge we have obtained during the audit or
- otherwise appears to be materially misstated.

## Responsibilities of the Management Board and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The Management Board is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. Furthermore, the Management Board is responsible for the internal controls which they have determined necessary to enable the preparation of consolidated financial statements that are free of material misstatements, whether due to fraud (i.e. fraudulent financial reporting or the misappropriation of assets) or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Groups's ability to continue as a going concern. Furthermore, they have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting on the basis of the going concern accounting principle unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the Management Board is responsible for the preparation of the Group Management Report, which provides an overall appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with the German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the Management Board is responsible for such arrangements and measures (systems) that they have deemed necessary to enable the preparation of a Group Management Report in accordance with the applicable German legal requirements and to be able to provide sufficient and appropriate evidence for the assertions in the Group Management Report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and the Group Management Report.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and the Group Management Report

Our objectives are to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free of material misstatement, whether due to fraud or error, and whether the Group Management Report gives an overall appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and with the knowledge obtained during the audit, complies with the German legal requirements, and appropriately presents the opportunities and risks of future development, as well as and to issue an auditor's report containing our audit opinions on the consolidated financial statements and the Group Management Report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Section 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the IDW will always detect a material misstatement. Misstatements may result from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these consolidated financial statements and the Group Management Report.

Throughout the audit, we exercise professional judgment and maintain professional scepticism. In addition, we also:

- identify and assess the risk of material misstatement of the consolidated financial statements and Group Management Report whether due to fraud or error, design and perform audit procedures in response to these risks and obtain audit evidence that is sufficient and appropriate to serve as the basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.
- obtain an understanding of the internal controls relevant to the audit of the consolidated financial statements and the arrangements and measures relevant to the audit of the Group Management Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- evaluate the appropriateness of the accounting policies used by the Management Board as well as the reasonableness of estimates made by the Management Board and related disclosures.
- conclude on the appropriateness of the Management Board's use of the going concern accounting principle and, based on the audit evidence obtained whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that there is a material uncertainty, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the Group Management Report, or if such disclosures are inadequate, to modify our respective audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or circumstances may cause the Group to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and contents of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in such a manner that the consolidated financial statements give a true and fair view of the Group's assets, liabilities, financial position and financial performance in compliance with IFRS as adopted by the EU and with the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and the Group Management Report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinions.
- evaluate the consistency of the Group Management Report with the consolidated financial statements, its conformity with German law and the view it conveys of the Group's position.
- perform audit procedures on the prospective disclosures presented by the Management Board in the Group Management Report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions on which the Management Board bases the prospective disclosures and assess the proper derivation of the prospective disclosures from these assumptions. We do not express an additional audit opinion on the prospective disclosures or on the underlying assumptions. There is substantial unavoidable risk that future events will differ materially from the prospective disclosures.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, as well as significant audit findings, including any significant deficiencies in the internal controls that we identify during our audit.

Frankfurt am Main, 18 April 2024

**Deloitte GmbH**

Wirtschaftsprüfungsgesellschaft

signed: Martin Kopatschek
Wirtschaftsprüfer (German Public Auditor)

signed: Kevin Vogt
Wirtschaftsprüfer (German Public Auditor)

# Report of the Supervisory Board in Accordance with Sec. 171 (2) and 314 (2) of the German Stock Corporation Act (AktG)

In 2023, the Supervisory Board of Morgan Stanley Europe Holding SE (the "Company") had a strong focus on the development and business activities of the Company and the Morgan Stanley Europe Holding SE Group. There were seven Supervisory Board meetings that took place during 2023. The Supervisory Board discussed fundamental aspects of the corporate planning, business policy, business development, risk situation and risk management with the Management Board. At the Supervisory Board meetings and whenever required, the Management Board regularly reported comprehensively and promptly on all incidents of significant importance and on the development of the financial figures.

The Management Board of Morgan Stanley Europe Holding SE provided the Supervisory Board for the financial year 2023 without delay after their preparation:

- the annual Financial Statements consisting of Balance Sheet, Income Statement and Notes;
- The Consolidated Management Report and Consolidated Financial Statements consisting of Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, Consolidated statement of financial position, Consolidated statement of cash flows and Notes to the consolidated financial statements;
- the Report of the Management Board on Relations with Affiliated Companies

The Management Board therefore carried out its obligations in accordance with section 170 (1) and 314 (1) AktG.

The Supervisory Board examined the documentation submitted in accordance with section 171 (1) and 314 (2) AktG. The Auditor's information was included into the examination. The examination has not led to any reservations.

The Supervisory Board subsequently approved the annual financial statement and the consolidated financial statements for the financial year 2023. As a result, the annual financial statements of Morgan Stanley Europe Holding SE were determined in accordance with section 172 AktG.

The statutory auditors, Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, have issued unqualified audit opinions for the annual financial statements as well as for consolidated financial statements and the Group management report prepared in accordance with International Financial Reporting Standards (IFRS).

23 April 2024

Frank Mattern (Chairman)