MORGAN STANLEY BANK AG REGULATORY REMUNERATION REPORT FOR 2018

1. General

This compensation disclosure sets out the principles relating to compensation within Morgan Stanley Bank AG ("MSBAG"). Some of the policies, practices and procedures outlined in this disclosure apply globally to Morgan Stanley, its subsidiaries and affiliates (together, "the Firm").

MSBAG has implemented a compensation policy which is compliant with applicable EU and German statutory and regulatory requirements, including, but not limited to, the Capital Requirements Directive ("CRD IV"), the Capital Requirements Regulation ("CRR"), the European Banking Authority ("EBA") Guidelines on Sound Remuneration Policies, the Ordinance on Statutory Requirements for Remuneration Schemes in Financial Institutions (*Institutsvergütungsverordnung*), and the Stock Corporation Act (*Aktiengesetz*), and any associated regulations and guidance (together the "Remuneration Rules").

As at 31 December 2018, MSBAG was not a significant institution in accordance with § 25n of the German Banking Act[1].

2. Compensation Objectives and Strategy

The MSBAG compensation strategy is set in-line with its business and risk strategy, and is closely aligned to the Firm's compensation objectives.

The Firm is committed to maintaining a responsible and effective compensation program that is aligned to Firm strategy, motivating, competitive, and reflects current best practice in corporate governance, risk management and regulatory principles. The Firm's compensation processes are aligned with the Firm's core values of Putting Clients First, Leading with Exceptional Ideas, Doing the Right Thing and Giving Back. The Compensation, Management Development and Succession (CMDS) Committee continually evaluates the Firm's compensation programs with a view towards balancing the following key objectives, all of which support the Firm's culture and values together with shareholders' interests:

- **Deliver Pay for Sustainable Performance.**
  - Variable annual incentives and performance-vested long-term incentives tied to future performance against strategic goals
  - Consideration of returns for shareholders and appropriate rewards to motivate employees

- **Align Compensation with Shareholders' Interests.**
  - Significant portion of incentive compensation is deferred, subject to cancellation and clawback, and tied to the Firm's stock with retention requirements.
  - Ongoing shareholder engagement to understand shareholder view

- **Attract and Retain Top Talent.**
  - Competitive pay levels to attract and retain the most qualified employees in a highly competitive global talent environment.
  - Incentive awards include vesting and cancellation provisions that help retain employees and protect the Firm's interests.

- **Mitigate Excessive Risk-taking.**
  - Compensation arrangements do not incentivize unnecessary or excessive risk-taking that could have a material adverse effect on the Firm.

[1] And therefore in accordance with former § 17 of the IVV replaced in 2019 by § 25n of the German Banking Act.

- Robust governance around the review and approval of compensation programs, including from a risk perspective.

3. Design characteristics of compensation programs

3.1. Key features and suitability of compensation systems

MSBAG compensation programs are designed to meet the objectives set out in section 2 including the mitigation of excessive risk-taking, and preventing conflict of interests. Compensation is generally comprised of

- fixed compensation; and
- discretionary variable compensation that is determined based on a number of factors (see section 4)

MSBAG compensation programs include the following features:

- an appropriate balance between fixed and variable compensation; and
- for employees who reach a certain compensation eligibility threshold, a mix of deferred and non-deferred compensation. Deferred compensation is awarded as a mix of deferred cash-based awards and deferred equity awards. Deferred equity awards are determined based on a variety of factors, including the number of shares available for grant under the Firm’s equity plans. All deferred compensation awards are subject to cancellation provisions.

Further details of MSBAG compensation programs are set out in the relevant plan terms and conditions as in force from time to time.

3.2. Fixed to variable compensation ratio

MSBAG’s compensation policy ensure’s that there is an appropriate balance between fixed and variable compensation. Variable compensation is limited to 200% of fixed compensation of the respective individual.

Morgan Stanley International Holdings Inc., as the sole shareholder of MSBAG, approved a ratio of 1:2 of fixed compensation to variable compensation with effect from 6 December 2013.

3.3. Guaranteed variable compensation

Guaranteed variable compensation is only awarded in exceptional circumstances in the context of hiring new staff and is limited to the first year of service. Guaranteed variable compensation will only be paid if MSBAG, at the time of the payment, has available appropriate equity, liquid resources and sufficient capital in order to guarantee its risk-bearing capacity.

Employment contracts do not refer to elements that would allow individual employees to claim specific payments or bonus payments in the event of negative performance, misconduct or termination of employment.

4. Variable Compensation Determination Process

The Company has a ‘pay for performance’ philosophy, which is reflected by the four key objectives of it’s compensation programs (see section 2) and applies across all lines of business.

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

Performance measurement for year-end compensation is subject to a multi-dimensional process, which considers individual, Firm, and business segment performance. This takes into account financial as well as non-financial performance metrics. The ‘pay for performance’ philosophy means that where a variable compensation award is not appropriate, none will be paid; every year a proportion of our eligible population does not receive variable compensation. The governance around the performance evaluation and compensation decision-making process ensures decisions are a product of a number of inputs including performance, consideration of risk management and conduct.

The decision about the overall amount of the bonus pool is made by the Management Board of MSBAG. Variable compensation decisions for the Management Board Members are made by the Supervisory Board of MSBAG.

The Firm has a Global Incentive Compensation Discretion Policy that sets out standards regarding managerial discretion in year-end discretionary compensation decisions. The policy specifically provides that all managers must consider whether an employee managed risk appropriately and effectively managed and supervised the risk control practices of his or her employee reports during the performance year. Managers receive training on these requirements annually and are required to certify compliance with the applicable requirements. In addition, as part of the year-end performance evaluation process, consideration is given to whether the employee performed their job responsibilities in ways consistent with the Firm’s culture and core values. The year-end performance and compensation processes provide managers with an Employee Performance Dashboard, which is an aggregation of performance inputs, including the areas of risk management, conduct and control. Inputs from the Performance Evaluation system and the Employee Performance Dashboard feed into the compensation system to ensure these factors are taken into account in compensation decisions.

6. Control function compensation

Compensation decisions for employees in control functions are determined by senior management of those divisions, wholly independently of the business areas they oversee. The senior management of each control function allocates variable compensation among managers who then allocate to individual employees, taking into account the results of the performance evaluation process, competitive rates of pay, market conditions and relative performance.

7. Prohibition on undermining or circumventing risk adjustment

Compensation-related or liability-related contracts of insurance to undermine the risk alignment effects embedded in compensation arrangements are prohibited.

8. Specific compensation principles for Management Board Members of MSBAG (*Vorstand*)

German law establishes additional requirements for the compensation of the Management Board Members. Management Board Member compensation is decided by the Supervisory Board (*Aufsichtsrat*) of MSBAG. Decisions comply with both the compensation principles developed by the Firm and with local requirements as set by the Ordinance on Statutory Requirements for Remuneration Schemes in Financial Institutions and § 87 Stock Corporation Act.