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REMUNERATION DISCLOSURES FOR YEAR ENDED DECEMBER 31, 2012

In recent years, Morgan Stanley has made significant changes to its compensation programs in response to the lasting impact of the global financial crisis on the industry. Morgan Stanley continued to refine the way it pays its employees, consistent with global regulatory principles, the Company's risk policies, the Company's performance and the broader economic environment. A significant portion of total compensation is "at-risk," subject to cancellation and clawback/malus and for the most senior executives continues to be closely tied to long-term Company performance. The Company continues to monitor both the award structure and decision processes to ensure they provide a long-term, stable and sustainable reward program.

Code Staff

The information outlined in this disclosure relates primarily to Senior Management and staff whose professional activities have a material impact on the risk profile of the Company in the UK and global subsidiaries of the UK regulated entities, as required in the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU), Chapter 11, clauses 5.18 (1) through (7). The following criteria are used in the determination of this category of staff, known as Code Staff:

- Individuals performing a Significant Influence Function (a SIF);
- Senior Management, including Control Functions (not otherwise included as a SIF);
- Senior material risk takers (not otherwise included in the above categories), where they or their direct reports can exert influence on the risk profile of the Company; or
- Other risk takers whose total compensation may put them into the same compensation bracket as Senior Management and whose professional activities have a material impact on the risk profile of the Company.

Human Resources continued to enhance the way in which Morgan Stanley monitors and manages the composition of employees considered Code Staff throughout the year, through reviews with Control Function Heads, Senior Management and Business Unit Heads. There is also on-going dialogue among Legal and Compliance, Risk Functions and Human Resources to analyze the population, for example, whether changes in organizational or functional responsibilities, employees' individual risk profiles and/or remuneration warrant any change in Code Staff designations. In addition, the Company analyses risk capital thresholds in the overseas subsidiaries and branches to ascertain the material risk posed therein to ensure Code Staff representation where necessary.

1. DECISION-MAKING PROCESS USED FOR DETERMINING THE REMUNERATION POLICY

Composition and mandate of the Remuneration Committee

The Remuneration Committee of Morgan Stanley is the Compensation, Management Development and Succession (CMDS) Committee of the Morgan Stanley Board of Directors, which consists of four directors all of whom are independent under the New York Stock Exchange listing standards and the independence requirements of the Company. In 2012, the CMDS Committee members were Erskine B. Bowles (Chair), C. Robert Kidder (Lead Director), Donald T. Nicolaisen and Hutham S. Olayan. The CMDS Committee held 14 meetings during 2012. The CMDS Committee Charter is available on Morgan Stanley's website at <http://www.morganstanley.com/about/company/governance/comchart.html>.

Each year, the CMDS Committee reviews and approves, as appropriate, the annual incentive compensation pool for variable compensation, including deferred incentive awards and the design and structure of the Company's compensation programs, including the form of awards, deferral formulas, timing of payments and vesting and cancellation/clawback provisions. The CMDS Committee also reviews and approves annually base salary, annual incentive compensation decisions, and equity and cash-based deferred incentive compensation terms for executive officers and other officers as the Committee determines appropriate. Annual incentive awards are typically granted to eligible employees after the end of the calendar year, which allows the CMDS Committee to evaluate individual and Company performance.

Role of relevant stakeholders and external consultant

The CMDS Committee receives updates throughout the year on matters relating to compensation, including regulatory and legislative guidance. It also works with the Chief Risk Officer annually to evaluate whether the Company's compensation programs encourage unnecessary or excessive risk-taking and whether risks arising from the Company's compensation arrangements, if any, are reasonably likely to have a material adverse effect on the Company.

The CMDS Committee retains the services of a qualified and independent compensation consultant that possesses the necessary skill, experience and resources to meet the CMDS Committee's needs and that has no relationship with the Company that would interfere with its ability to provide independent advice. The consultant assists the CMDS Committee in collecting and evaluating external market data regarding executive compensation

and performance, and advises the CMDS Committee on developing trends and best practices in compensation and deferred incentive plan design.

The independent compensation consultant generally attends CMDS Committee meetings, reports directly to the CMDS Committee Chairman and regularly meets with the CMDS Committee without management present. In addition, the Chairman of the CMDS Committee regularly speaks with the independent compensation consultant, without management, outside of Committee meetings. As a good corporate governance practice, the CMDS Committee periodically reviews and may change the independent compensation consultant.

Effective October 2012, the CMDS Committee selected Pay Governance as its compensation consultant. Previously Hay Group served as the CMDS Committee's compensation consultant and as a consultant to the Nominating and Governance Committee with respect to Board compensation. Other than these consulting services, neither Pay Governance nor Hay Group provided other services to the Company or its executive officers in 2012.

2. LINK BETWEEN PAY AND PERFORMANCE

Morgan Stanley has a clear and well-defined "pay-for-performance" philosophy that pervades its culture and motivates its employees. This philosophy is exhibited in the Company's compensation programs and is reflected in the 2012 compensation decisions. Morgan Stanley's compensation programs are designed to achieve four key objectives. These objectives are considered and applied, as applicable, across the employee population.

- 1. Attract and Retain Top Talent.** The Company competes for talent globally with investment banks, commercial banks, brokerage firms, hedge funds and other companies offering financial services, and the Company's ability to sustain or improve its position in this highly competitive environment depends substantially on its ability to continue to attract and retain the most highly qualified employees. In support of the Company's recruitment and retention objectives, Human Resources continually monitors competitive pay levels and the Company structures its incentive awards to include vesting, deferred payment and cancellation and clawback/malus provisions that protect the Company's interests.
- 2. Deliver Pay for Sustainable Performance.** The Company's compensation program emphasizes discretionary variable annual incentive compensation and deferred incentive compensation that is clearly linked to Company and individual performance. Variable

annual performance compensation is adjusted year-over-year to appropriately reward annual achievement of the Company's financial and strategic objectives. Both annual incentives and deferred incentives promote sustained shareholder value creation over the long term. The structure of the Company's compensation program balances the objectives of delivering returns for shareholders and providing appropriate rewards to motivate superior individual performance.

- 3. Align Compensation with Shareholders' Interests.**

The Company delivers a significant portion of deferred incentive compensation in equity awards to align employee interests with those of shareholders. Linking incentive compensation to Company results over the year and delivering it primarily as deferred incentive awards that are subject to market, cancellation and clawback/malus risk over a multi-year period helps motivate employees to achieve financial and strategic goals. In addition, under the Company's Equity Ownership Commitment, members of the Company's Operating Committee are required to retain at least 75% of the after-tax shares they receive as compensation for service on the Operating Committee. Senior management is also prohibited from engaging in hedging strategies, selling short or trading derivatives with Company securities. These policies tie employees' compensation directly to the Company's stock price.

- 4. Mitigate Excessive Risk-taking.** The CMDS Committee is advised by the Chief Risk Officer and the CMDS Committee's independent compensation consultant to help ensure that the structure and design of compensation arrangements do not encourage unnecessary or excessive risk-taking that threatens the Company's interests or gives rise to risk that could have a material adverse effect on the Company. As noted above, the Chief Risk Officer conducts an annual review of Morgan Stanley's compensation programs and reports his findings to the CMDS Committee. In 2012, he again determined that such programs do not incentivize employees to take unnecessary or excessive risk and that such programs do not create risks that are reasonably likely to have a material adverse effect on the Company.

3. DESIGN CHARACTERISTICS OF THE REMUNERATION SYSTEM

Compensation programs for the majority of employees are comprised of two key elements:

- Fixed pay that is reviewed at least annually, although may remain unchanged; and
- Annual variable compensation that is at-risk and discretionary based on risk-adjustment and performance measures outlined below.

The annual variable compensation for Code Staff may be payable in cash, stock bonus awards and a mix of deferred cash-based and equity awards, and at a minimum is structured to satisfy the following requirements of Remuneration Code Principle 12 ('Remuneration Structures'):

- 40% to 60% of annual incentive compensation is deferred over a period of three years;
- 50% of the deferred components are in the form of deferred cash-based awards and 50% in equity awards;
- 50% of the non-deferred components are awarded as stock bonus awards, with the remaining 50% as cash; and
- Both deferred and non-deferred equity awards are subject to a six-month post-vest transfer / sale restriction and

Code Staff are also prohibited from engaging in hedging strategies, selling short or trading derivatives with Company securities.

Per Remuneration Code guidance, Code Staff whose (i) variable compensation is no more than 33% of their total compensation, and (ii) whose total compensation is no more than £500,000 (or the local currency equivalent) are not subject to the full scope of Remuneration Principles. However, such Code Staff employees continue to be subject to the Company's deferral practices.

The following table provides details of the principal annual variable compensation elements for Code Staff in 2012, including the deferral policy and vesting criteria.

Code Staff Compensation Elements	Description	Cancellation and clawback/malus features
a. Deferred Cash-Based Awards	Deferred cash-based awards offer participants the ability to notionally invest their awards in certain reference investments, and awards are payable, and cancellation provisions lift, pro-rata over the three years following grant.	The following clawback provision applies to deferred cash-based awards, RSUs and stock options: All vested and unvested awards will be canceled in full or, in the case of (a)(iii) in full or in part, if any of the following events occur on or prior to the applicable scheduled distribution date in the case of deferred cash-based awards, the scheduled conversion date in the case of RSUs, and the applicable scheduled vest date in the case of stock options: (a) the employee takes any action, or omits to take any action (including with respect to direct supervisory responsibilities), where such action or omission: i. causes a restatement of the Company's consolidated financial results; ii. constitutes a violation of the Company's Global Risk Management Principles, Policies and Standards (where prior authorization and approval of appropriate senior management was not obtained) whether such action results in a favorable or unfavorable impact to the Company's consolidated financial results; or iii. causes a loss in the current year on a trade or transaction originating in the current year or in any prior year for which revenue was recognized and which was a factor in the participant's award determination, and violated internal control policies that resulted from the participant's: 1. Violation of business unit, product or desk specific risk parameters; 2. Use of an incorrect valuation model, method, or inputs for transactions subject to the "STAR" approval process; 3. Failure to perform appropriate due diligence prior to a trade or transaction or failure to provide critical information known at the time of the transaction that might negatively affect the valuation of the transaction;
b. Restricted Stock Units (RSUs)	RSUs align employee interests with those of shareholders. RSUs convert to shares of Morgan Stanley common stock, and cancellation provisions lift, pro-rata over the three years following grant. Employees receive dividend equivalents with respect to the RSUs in the form of additional RSUs, which are subject to the same vesting, cancellation and payment provisions as the RSUs to which dividend equivalents relate. RSUs provide for voting rights.	
c. Stock Options (for Code Staff who are Executive Officers)	Stock Option awards vest pro-rata over the three years following grant. Following each vesting date, the vested portion of the award is exercisable by the participant; shares acquired upon exercise of stock options are subject to an additional six-month transfer restriction that begins on the scheduled vest date.	

Code Staff Compensation Elements	Description	Cancellation and clawback/malus features
		<p>4. Failure to timely monitor or escalate to management a loss position pursuant to applicable policies and procedures; or</p> <p>(b) The Company and/or relevant business unit subsequently suffers a material downturn in its financial performance or the Company and/or relevant business unit suffers a material failure of risk management.</p> <p>Furthermore, these awards generally are subject to cancellation for failure to comply with the Company's compliance, ethics or risk management standards, engaging in competitive activity, termination for cause, soliciting clients or employees, and misuse of proprietary information.</p>

Risk Adjustment

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

The Company's independent control functions also have a robust review process for identifying and evaluating situations occurring throughout the course of the year that could require explicit ex-post adjustment, such as clawback or cancellation of previously awarded compensation, as well as adjustments to current year compensation. There is also an implicit ex-post adjustment in all deferred equity incentive compensation awards that link vesting to risk outcomes and other aspects of Company performance during the deferral period.

Performance Measurement

Employee eligibility for annual incentive compensation is discretionary and subject to a multi-dimensional performance measurement, which considers individual, Company and business segment performance.

In order to maintain a fully flexible annual remuneration policy, including the possibility to pay zero annual incentive compensation, pre-established Company performance priorities are non-formulaic in nature, do not require specific performance targets or preset goals to be met prior to the awarding of compensation and are not assigned any specific weighting.

The Company has a global incentive compensation discretion policy that sets forth standards for exercise of managerial discretion in annual incentive compensation decisions. The policy requires consideration of performance, including feedback elicited through the Talent Development Process; client service; contribution to revenue and profitability (with consideration of risk taken);

teamwork; management abilities (including the ability to attract and retain key talent); technical, substantive skills; adherence to core franchise values, business principles and policies; and market and competitive conditions.

4. PERFORMANCE CRITERIA ON WHICH THE ENTITLEMENT TO SHARES OR VARIABLE REMUNERATION IS BASED

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

Other performance criteria that may be taken into account in deciding whether to award, and the amount of any variable remuneration or deferred incentives to award, includes (but is not limited to): business and market conditions, individual conduct, including but not limited to, adherence to the Company's Code of Conduct and policies, contribution to the performance and profitability of both the business unit and the Company and the strategic objectives of the Company, business unit and the team and the associated value attributed to the role.

Pursuant to the Company's Above Base Compensation / Bonus Policy, in order to be eligible for any annual incentive compensation, the individual must also remain an active employee performing duties on behalf of the Company, who has not given or been given notice of termination, at the time awards are communicated across the Company to the eligible population of employees.

5. MAIN PARAMETERS AND RATIONALE FOR ANY VARIABLE COMPONENT SCHEME AND ANY OTHER NON-CASH BENEFIT

In general, as a result of following Remuneration Code Principles, as an employee's compensation and responsibilities increase, a greater percentage of his or her annual incentive compensation, relative to other employees, is delivered as deferred incentive awards, rather than as an immediate cash bonus. In 2012, the majority of employees who reached a certain eligibility threshold had 100% of annual variable compensation deferred and received no upfront cash bonus.

The mix of deferred cash-based awards and equity awards is determined based on a variety of factors including the number of shares available for grant under the Company's equity plans. Delivering a portion of deferred incentive awards in the form of restricted stock units inextricably links variable compensation to Company performance through the high correlation of Company stock price with profitability. In addition, risk outcomes that result in a negative impact on Company profitability reduce the value of the restricted stock units and the employee is subject to this decline in value through the deferral period.

The Company continues to enhance its clawback provisions and for 2012 compensation made them more broadly applicable by including them in all deferred incentive compensation, including RSUs, in addition to deferred cash-based awards.

Morgan Stanley believes that its compensation decisions for 2012 demonstrate its focus on long-term profitability and commitment to sustainable shareholder value with appropriate rewards to retain and motivate top talent throughout economic cycles.

6. AGGREGATE QUANTITATIVE INFORMATION ON REMUNERATION, BROKEN DOWN BY BUSINESS AREA

The following tables set out aggregate quantitative information on remuneration of Code Staff who are employed by, or are seconded to the following Morgan Stanley entities that were subject to the Remuneration Code in 2012:

- Morgan Stanley & Co. International plc
- Morgan Stanley International Incorporated
- Morgan Stanley Bank International Limited
- Morgan Stanley Investment Management Limited
- Morgan Stanley Private Wealth Management Limited
- Morgan Stanley S.V., S.A.U.
- Morgan Stanley Spanish Holdings S.L.
- Morgan Stanley UK Limited

	Institutional Securities Group	Non-Institutional Securities Group ¹
Aggregate Remuneration (£ millions)	88.5	32.7

¹ Group includes Company Functions, Global Wealth Management, Investment Management, Operations and Technology.

7. AGGREGATE QUANTITATIVE INFORMATION ON REMUNERATION, BROKEN DOWN BY SENIOR MANAGEMENT AND MEMBERS OF STAFF WHOSE ACTIONS HAVE A MATERIAL IMPACT ON THE RISK PROFILE OF THE FIRM

A. Amounts of remuneration for financial year 2012, split into fixed and variable remuneration, and the number of beneficiaries

	Senior Management	Others
Number of beneficiaries (Code Staff)	33	80
Fixed Remuneration (£ millions)	14.2	23.1
Variable Remuneration (£ millions)¹	36.2	47.6

¹ Variable Remuneration awarded for performance year 2012 contained deferred equity incentives including restricted stock units plus deferred cash incentives.

B. Amounts and forms of variable remuneration for 2012, split into cash, shares, share-linked instruments and other types

Variable Remuneration (£ millions)	Senior Management	Others
Cash	0.3	6.8
Deferred Cash	17.4	21.5
Deferred Stock	18.6	19.3

C. Amounts of outstanding deferred remuneration, split into vested and unvested portions

Deferred Remuneration (£ millions)	Senior Management	Others
Vested at Year End 2012 ¹	7.2	4.1
Unvested at Year End 2012 ²	67.0	72.1

¹ Vested deferred equity and cash-based incentives awarded prior to performance year 2012.

² Deferred equity and cash-based incentives awarded during and prior to performance year 2012 and unvested at 31 December 2012.

D. Amounts of deferred remuneration awarded during the financial year 2012, paid out and reduced through performance adjustments

Deferred Remuneration (£ millions)	Senior Management	Others
Awarded	36.0	40.8
Paid Out from Prior Years ¹	38.8	51.6
Reduced from Prior Years	0	1.4

¹ Deferred equity and cash-based incentives paid in 2012.

E. New sign-on and severance payments made during the financial year 2012, and the number of beneficiaries of those payments

None

F. Amounts of severance payments awarded during the financial year 2012, number of beneficiaries and highest such award to a single person.

	Senior Management	Others
Severance payments awarded in 2012 (£ millions)	0.5	0.7
Number of beneficiaries	4.0	2.0
Highest such award to a single person (£ millions)	0.3	0.6