

Article 450 of CRR Disclosure

Morgan Stanley France S.A. Compensation Disclosure

Morgan Stanley (France) S.A. | As at 31 December 2021

This Compensation Disclosure (the “Disclosure”) sets out the principles relating to compensation within Morgan Stanley France S.A. (“MS France”). Some of the policies, practices and procedures outlined in the Disclosure apply globally to Morgan Stanley, its subsidiaries and affiliates (the “Company”). The Company is the ultimate parent company of MS France; however, MS France is a subsidiary of Morgan Stanley Europe Holding SE (“MSEHSE”) Group, which is a subsidiary Morgan Stanley International (“MSI”) Group. The governance arrangements for MS France are consistent with this structure. The Disclosure has been established in line with the Capital Requirements Directive (“CRD IV”), the Capital Requirements Regulation (“CRR”), the European Banking Authority (“EBA”) Guidelines on Sound Remuneration Policies, the French Monetary and Financial Code, the French Prudential Supervision Authority (“ACPR”), and any associated regulations and guidance (together the “French Compensation Rules”).

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1. Morgan Stanley Compensation Objectives and Strategy

The Company is committed to a responsible and effective compensation program that is aligned with the interests of shareholders and Company strategy, is motivating, competitive, and reflects current best practices in corporate governance, risk management and compliance with regulatory principles. The Company's compensation processes are aligned with the Company's core values; Do the Right Thing, Put Clients First, Lead with Exceptional Ideas, Commit to Diversity and Inclusion and Give Back. The alignment with the Company's core values is a key element considered as part of the performance measurement process.

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

- **Deliver Pay for Sustainable Performance**
 - Variable annual incentives and performance-vested long-term incentives tied to future performance against strategic objectives
 - 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 Company's stock with retention requirements
 - Ongoing shareholder engagement to understand shareholder views
- **Attract and Retain Top Talent**
 - Competitive pay levels to attract and retain the most qualified employees in a highly competitive global talent environment
 - Incentive awards include vesting and cancellation provisions that retain employees and protect the Company's interests
- **Mitigate Excessive Risk-taking**
 - Compensation arrangements do not incentivise unnecessary or excessive risk-taking that could have a material adverse effect on the Company
 - Robust governance around review and approval of compensation programs, including from a risk perspective

2. Compensation Governance

Composition and mandate of MS France Remuneration Committee, the EMEA Remuneration Oversight Committee ("EROC"), the MS France Remuneration Committee ("MSF RemCo"), the MSI Group Remuneration Committee ("MSI RemCo"), and the CMDS Committee

EROC provides formal oversight of EMEA remuneration matters to ensure remuneration practices in EMEA are compliant with relevant UK and EU legislation and follow good standards of practice. The EROC is comprised of the EMEA Chief Executive Officer (Chair), the EMEA Head of Human Resources (Deputy Chair), the EMEA Chief Finance Officer (EMEA CFO), the EMEA Chief Legal Officer (EMEA CLO), the EMEA Head of Compliance, and the EMEA Chief Risk Officer (EMEA CRO). The EROC met seven times in 2021 and certified compliance with regulatory requirements to the MSI RemCo. In addition, the MSF RemCo receives regular updates of discussions held at the EROC.

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

The MSI RemCo was appointed by the MSI Board of Directors to oversee the design and implementation of the remuneration policies and practices applicable to the MSI Group, which includes contributing to the global policy development that is

subject to oversight by the CMDS Committee, as well as overseeing compliance by the MSI Group with applicable EU and UK compensation rules. On December 31 2021, the MSI RemCo was comprised of four non-executive directors. The members were Jonathan Bloomer (Chair), Terri Duhon, Melanie Richards and Paul Taylor. Mary Phibbs resigned from her role as Chair of the MSI RemCo on 8 February 2021. The MSI RemCo met five times during 2021.

On December 31 2021, the CMDS Committee was comprised of four directors, including the independent Lead Director of the Morgan Stanley Board of Directors (the “Board”), all of whom are independent under the New York Stock Exchange listing standards and the independence requirements of the Company. The members were Dennis M. Nally (Chair), Thomas H. Glocer, Stephen J. Luczo and Rayford Wilkins Jr. Hutham S. Olayan resigned from her role as committee member on 20 May 2021. In 2021, the CMDS Committee held six meetings. The CMDS Committee operates under a written charter adopted by the Board, which is available on Morgan Stanley’s website at <http://www.morganstanley.com/about-us-governance/comchart.html>.

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

Role external consultant and other stakeholders

The CMDS Committee has the power to appoint independent compensation consultants, legal counsel, or financial or other advisors as it may deem necessary to assist it in the performance of its duties and responsibilities. The CMDS Committee has retained an independent compensation consultant, Pay Governance, to assist it in collecting and evaluating external market data regarding executive compensation and performance and to advise on developing trends and best practices in executive compensation and equity and incentive plan design. In performing these services, Pay Governance attends meetings of the CMDS Committee regularly, including portions of the meetings without management present, and separately with the CMDS Committee Chair. Pay Governance is the CMDS Committee’s independent advisor and does not provide any other services to the Company or its executive officers that could jeopardise its independent status. The Company has affirmatively determined that no conflict of interest has arisen in connection with the work of Pay Governance as compensation consultant for the CMDS Committee.

Further, together with the Global Chief Risk Officer (“Global CRO”), the CMDS Committee oversees the Company’s incentive compensation arrangements to help ensure that such arrangements are consistent with the safety and soundness of the Company and do not encourage excessive risk-taking, and are otherwise consistent with applicable related regulatory rules and guidance. The Global CRO attends CMDS Committee meetings at least annually, and on an as needed basis, to discuss the risk attributes of the Company’s incentive compensation arrangements. The Global CRO confirmed to the CMDS Committee that the Company’s compensation programs for 2021 do not incentivise employees to take excessive risk and are unlikely to have a material adverse effect on the Company.

The day-to-day compliance with the Company’s obligations under the French Compensation Rules is delegated to the Company’s control functions including, in relation to remuneration, the EMEA Human Resources Department (“EMEA HR”). EMEA HR regularly reviews the Company’s regulatory obligations with respect to remuneration in each of the jurisdictions in which it operates, and ensures that appropriate variations in policy relating to compensation structures approved by the CMDS Committee are fully compliant with local laws and regulations.

3. Identification of Material Risk Takers

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

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

4. Link between Pay and Performance

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

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

Performance measurement for year-end compensation is subject to a multi-dimensional process that considers Company, business unit and individual performance, taking into account financial as well as non-financial performance metrics. This includes but is not limited to: profit before tax, client revenues, efficiency ratio, firm culture, and diversity.

The Company's 'pay for performance' philosophy means that where a variable compensation award is not appropriate, none will be paid; every year a portion of our eligible population does not receive variable compensation. The governance around the performance evaluation and compensation decision-making process ensures decisions are a product of a number of inputs including performance, risk and conduct.

Delivering all or a portion of deferred incentive compensation in the form of equity links variable compensation to Company performance through the Company's stock price performance. Risk outcomes that result in a negative impact to the Company reduce the value of the equity, and the employee is subject to this decline in value through the deferral period. In addition to cancellation and clawback, there is a formal governance process to consider and determine ex-ante and ex-post adjustments to individual variable compensation.

5. Compensation Structure

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

- Fixed compensation consisting of base salary and, for certain employees, a Role Based Allowance ("RBA"), which is determined based on an individual's role and responsibilities and are paid monthly in cash via payroll; and
- variable compensation that is based on a number of factors, including but not limited to Company, business unit, and individual performance.

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

The structure of variable compensation for MS France Identified Staff may be comprised of upfront cash, stock bonus and deferred equity in line with applicable rules, and at a minimum, is structured as follows:

- Ratio between the fixed and the variable components of total compensation does not exceed 1:2
- A minimum of 40% to 60% of variable compensation to be deferred over a three year period, vesting no faster than on a pro-rata basis. Individuals with a "particularly high" variable compensation to have 60% deferred. For 2021, €500k was used as the threshold for employees subject to the 60% deferral
- The deferred variable compensation is generally awarded in equity
- Non-deferred variable compensation is awarded 50% as stock bonus awards, with the remaining 50% as upfront cash bonus
- Deferred and non-deferred variable compensation awarded in instruments have a minimum of six to 12 month retention period
- Variable compensation awards are subject to malus and clawback, to the extent applicable under local labour law

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

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

Guaranteed variable compensation is only paid in exceptional circumstances in the context of hiring new employee and is limited to the first year of service. Awards of guaranteed variable compensation is subject to an approval process, which includes receiving approval from the appropriate Senior Manager, the EMEA Head of Compensation, and in certain circumstances the global Chief Human Resources Officer (the “Global CHRO”).

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

Ratio between Fixed and Variable Compensation

The Company’s policy on the ratio between fixed and variable compensation is to allow for flexibility, whilst recognising the need to ensure that compensation is appropriately balanced between the fixed and variable compensation elements. The ratio was approved by Morgan Stanley France shareholder (Morgan Stanley Holdings I and Morgan Stanley Holdings II) on 25 May 2018. The ratio approved is the maximum allowed under CRD IV.

Deferred Compensation

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

Each year, the CMDS Committee reviews the annual incentive compensation pool and the design and structure of the annual compensation program, including eligibility, the form of deferred incentive awards, deferral formulae, vesting and timing of payments and cancellation/clawback provisions.

The form of deferred incentive compensation awards (i.e., equity, cash, or a combination thereof) is determined based on a variety of factors, including the number of shares available for grant under the Company’s equity plans and, for MS France Identified Staff, ensuring compliance with the requirements of the French Compensation Rules.

In 2021, the Company continued to include cancellation provisions that apply to a broad scope of employee behaviour for all deferred incentive compensation awards. In addition, awards of variable compensation made to Identified Staff are subject to clawback requirements in those jurisdictions where it is legally enforceable, per the Company’s EMEA Material Risk Taker Cancellation and Clawback Policy.

The Company believes that its compensation decisions for 2021 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. Risk Adjustment

The Company continually monitors the effectiveness of its compensation structure and utilises a thorough process of considering risk-adjusted performance, compliance with risk limits and the market and competitive environment when sizing and allocating annual incentive compensation pools.

Throughout the year, employee conduct matters that are escalated through the Company’s Global Conduct Risk Program are reviewed to determine whether they present situations that could require clawback or cancellation of previously awarded compensation, as well as downward adjustments to current year compensation.

Cancellation (malus) and clawbacks of previously awarded compensation are reviewed with the Employee Discipline Oversight Committee (a committee of senior management currently composed of the Company’s Chief Operating Officer, Chief Legal Officer, Global CRO, Global CHRO, and Chief Compliance Officer) and reported to the CMDS Committee quarterly. This process is enhanced by a formalised EMEA malus review process overseen by the EROC. In this capacity, the EROC assess situations which may warrant cancellation and/or clawback of previously awarded variable compensation, with reference to specific criteria that are contained in governing incentive compensation award documents and applicable policies. The MSF RemCo and the MSI RemCo receive regular updates on the malus review process.

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

In addition to the above governance processes, conduct driven adjustments to current year variable compensation proposed by managers as part of the compensation decision-making process are reviewed by a group of EMEA senior management representing control functions, including Legal, Compliance, and HR. This ensures that both the business and the relevant independent functions are included in the review, and that compensation adjustments made are consistent across the MSI Group. Compensation adjustments were also reviewed globally, to ensure consistent application.

The EMEA Conduct and Culture Committee was established in 2020 to monitor culture and conduct risk trends and determine appropriate remediation actions, for example, targeted culture training. This committee is co-chaired by the EMEA CEO and the EMEA Head of Compliance, and members include Business Units Heads from the Fixed Income, Institutional Equities, Investment Banking and Global Capital Markets divisions, the EMEA Head of Risk, EMEA Head of Finance, EMEA Head of HR and EMEA Head of Internal Audit.

7. Individual Performance Measurement

The Company has a Global Incentive Compensation Discretion Policy that outlines guidelines for managers on the use of discretion when making annual compensation decisions and considerations for assessing risk management and outcomes. The policy specifically provides that all managers must consider whether their team members managed risk appropriately and effectively managed and supervised the risk control practices of the employees reporting into them during the performance year. Managers are trained on these requirements annually and are required to certify compliance with the applicable requirements. In addition, conduct, culture, and core values must be considered in the year-end performance evaluation process by considering whether the employee performed his/her job responsibilities in ways consistent with the Company's culture and core values (see section 1). The Company's core value of "Committing to Diversity and Inclusion", ensures focus on diversity and inclusion when making compensation decisions. During the year-end performance and compensation processes, managers are provided with an Employee Performance Dashboard, which is an aggregation of performance inputs, including the areas of Risk Management, Conduct and Control.

8. Compensation Determination Process

In determining the amount of discretionary incentive compensation to award an eligible employee, a compensation manager must consider only those factors that are legitimate, business-related and consistent with the Company's legal and regulatory obligations and policies and practices. With this discretion, comes the responsibility to make pay decisions consistent with the Company's equal pay philosophy, which means that compensation managers are accountable for making deliberate, thoughtful, and defensible compensation decisions. These factors include but are not limited to:

- The employee's absolute and relative performance in an individual and, if relevant, supervisory capacity;
- The employee's conduct and adherence to the Company's core values and other policies and procedures;
- Performance feedback elicited through the Company's performance evaluation processes, including information provided by control function personnel;
- Any disciplinary outcomes administered to the employee during the performance year;
- Any circumstances during the performance year that may result in the cancellation and/or clawback of the employee's previously awarded incentive compensation; and
- Market and competitive conditions.

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

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 compensation managers must consider whether or not an employee managed risk appropriately and effectively managed and supervised the risk control practices of his or her employee reports during the performance year. Compensation managers are required to certify that they have followed the requirements of Company policies and escalated situations potentially requiring attention for possible cancellations or clawback.

9. Aggregate quantitative information on compensation

9a. Aggregate quantitative information on compensation of MS France Identified Staff who are employed by, or are seconded to, MS France and its entities in 2021

MS France Identified Staff	
Aggregate Compensation ¹ (EUR millions)	29.2

¹ Excludes collective profit-sharing awards.

9b. Amounts of compensation for financial year 2021, split into fixed and variable compensation, and the number of beneficiaries

MS France Identified Staff	
Number of Beneficiaries (MS France Identified Staff)	24
Fixed Compensation (EUR millions)	12.5
Variable Compensation (EUR millions) ¹	16.7

¹ Variable Compensation awarded for performance year 2021 contained deferred equity incentives, including restricted stock units, plus deferred cash incentives.

9c. Amounts and forms of variable compensation for 2021, split into cash, shares, share-linked instruments and other types

MS France Identified Staff	
Cash (EUR millions)	3.6
Deferred Cash (EUR millions)	-
Deferred Stock (EUR millions)	13.1

9d. Amounts of outstanding deferred compensation, split into vested and unvested portions

MS France Identified Staff	
Vested at Year End 2021 ¹ (EUR millions)	-
Unvested at Year End 2021 ² (EUR millions)	22.5

¹ Vested deferred equity and cash-based incentives awarded during and prior to performance year 2021.

² Unvested deferred equity and cash-based incentives awarded during and prior to performance year 2021 and unvested at 31 December 2021.

9e. Amounts of deferred compensation awarded during the financial year 2021, paid out, and reduced through performance adjustments

MS France Identified Staff	
Awarded (EUR millions)	13.1
Paid Out from Prior Years ¹ (EUR millions)	16.5
Reduced from Prior Years (EUR millions)	-

¹ Deferred equity and cash-based incentives paid in 2021.

9f. New sign-on payments¹ made during the financial year 2021, and the number of beneficiaries of those payments

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

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

9g. Amounts of severance payments awarded during the financial year 2021, number of beneficiaries and highest such award to a single person

MS France Identified Staff	
Severance payments awarded in 2021 (EUR millions)	1.2
Number of beneficiaries	1

9h. The number of individuals being remunerated EUR 1 million or more per financial year, aggregated for compensation of EUR 1 million and above

Compensation (EUR millions)	Number of Individuals
Over €1mm and up to €4mm	10

Note: All amounts exclude collective profit-sharing awards.

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