Morgan Stanley

Morgan Stanley Europe SE

Annual Report 2024

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(1) Please note that the English version of the Annual Financial Statements and Management Report as at 31 December 2024 is a convenience translation. Deloitte GmbH Wirtschaftprüfungsgesellschaft, Frankfurt am Main, issued the Independent Auditors’ Report only for the German version of the Financial Statements and the Management Report as at 31 December 2024. Therefore, the German version prevails.

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MANAGEMENT REPORT

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Company Overview

Principal Activity

Morgan Stanley Europe SE, Frankfurt am Main (the "Company" or "MSESE") is part of the Morgan Stanley Europe Holding SE Group (the "Group" or the "MSEHSE Group").

The Company is Morgan Stanley's primary hub to facilitate European Union clients' ("EU27 clients") business. The Company's business strategy is closely integrated into the global strategy of Morgan Stanley's Institutional Securities Group ("ISG"). The Company'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 Company 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; and
- capital raising.

The Company's business strategy remains in line with the Global and Europe, Middle East and Africa ("EMEA") strategies, supporting the Morgan Stanley Group's overarching objective to act as a trusted advisor to clients, helping them raise, manage and allocate capital they need to achieve their goals.

Corporate Structure

Morgan Stanley Europe Holding SE, Frankfurt am Main ("MSEHSE") is the parent company of the Company and 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 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*).

In 2024, all French entities of the Group were merged into MSESE, their business operations were assumed by the MSESE Paris branch.

The Company'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

The Company is a Capital Requirements Regulation ("CRR") credit institution (Class 1 Investment Firm) and is subject to joint supervision by the ECB, the Federal Financial Supervisory Authority ("BaFin") and the Deutsche Bundesbank.

The Company is conditionally registered with the Securities and Exchange Commission ("SEC") as a Securities Based Swap Dealer ("SBSD"). MSESE is also registered with the Commodity Futures Trading Commission ("CFTC") as a Swap Dealer.

The Company complies with the CRR and German specific capital requirements in lieu of SEC capital requirements pursuant to substituted compliance rules. The Company also complies with the CFTC Non-U.S. Non-Bank substituted compliance requirements.

Economic Report

Business Environment

The 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. 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 economic environment, client and investor confidence and overall market sentiment improved in 2024. While interest rates declined in the latter half of 2024, elevated inflation, geopolitical risks, uncertainties surrounding government and policy developments in the markets the Company operates in, and the timing and pace of further interest rate actions in the US present ongoing risks to the economic environment. In Europe, monetary policy embarked firmly on its easing cycle.

The performance of the Company remained strong in 2024, see section “Financial Performance and Condition”.

Global Markets and Economic Conditions

Growth in global Gross Domestic Product (“GDP”) has remained broadly stable in 2024. The euro area economy saw subdued growth, with considerable heterogeneity across countries. Weak global trade, consequences of energy supply shocks and a more challenging geopolitical situation, as well as restrictive monetary policy, affecting both consumption and investments, contributed to a drag on growth in the euro area.

Fiscal deficits remained elevated in 2024, however, they started to come down relative to previous years, providing a negative growth impulse. The monetary policy easing cycle began, with the ECB delivering the first rate cut in June 2024. The monetary policy easing continued throughout the year, as central banks began to balance subdued inflation concerns with concerns over the growth outlook. Still, central bank rates remained in restrictive territory throughout 2024.

In the euro area, the ECB ended reinvestments under its Pandemic Emergency Purchase Programme in December 2024. The ECB started the easing cycle gradually, until October when it began delivering back-to-back cuts and reached a deposit facility rate of 3.0% by year end. The Group estimates that fiscal deficits reach 3.2% of euro area GDP in 2024. Euro area inflation declined to 2.4% in 2024, driven by a fall in energy inflation with core inflation remaining at 2.8% due to a catch-up in wages.

Financial Performance and Condition

The Group`s regulatory reporting and internal management reporting are both based upon International Financial Reporting Standards (“IFRS”). The Company is also principally managed using IFRS.

A reconciliation of profit after tax and balance sheet of the Group under IFRS to profit after tax and balance sheet of the Company under the German Commercial Code (Handelsgesetzbuch or “HGB”) is shown below. Subsequently, the income statement and balance sheet of the Company according to HGB is shown along with supporting commentary.

Reconciliation from IFRS to HGB

The following table summarises profit after tax and balance sheet size under IFRS for the Group and also for the Company.

€ in millions		Profit after tax	Balance Sheet
MSEHSE Group	2024	272	97,445
	2023	187	99,722
Thereof:			
MSESE	2024	281	96,986
	2023	186	98,789

The following table provides a reconciliation from IFRS to HGB of the profit after tax of the Company for the years 2024 and 2023:

€ in millions	2024	2023
PROFIT AFTER TAX (IFRS)	**281**	**186**
Risk valuation adjustments according to section 340e (3) and (4) HGB	(62)	(51)
Coupon payment for AT1 capital instruments	(48)	(48)
Measurement differences of deferred taxes	27	11
Goodwill depreciation	(5)	(5)
Others	(4)	(9)
PROFIT AFTER TAX (HGB)	**189**	**84**

The following table provides a reconciliation of the Company's balance sheet from IFRS to HGB for the years 2024 and 2023:

€ in millions	2024	2023
BALANCE SHEET (IFRS)	**96,986**	**98,789**
Derivatives and related cash collateral netting	(34,560)	(35,694)
Secured financing netting	1,804	(2,438)
Others	(797)	(147)
BALANCE SHEET (HGB)	**63,433**	**60,510**

Income Statement

Set out below is an overview of the financial results according to HGB for the years 2024 and 2023.

€ in millions	2024	2023	Increase/ (decrease)	Variance %
Sales and trading	802	643	159	25%
Investment banking	125	96	29	30%
Other	84	68	16	24 %
Net revenues	**1,011**	**807**	**204**	**25%**
Staff related expenses	318	293	25	9%
Non-staff related expenses	441	370	71	19%
Operating expenses	**759**	**663**	**96**	**14%**
Profit before tax	**252**	**144**	**108**	**75%**
Income taxes	63	60	3	5%
Profit after tax	**189**	**84**	**105**	**125%**

Net revenues

Sales and trading

Sales and trading revenues 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.

Sales and trading revenues in 2024 increased compared to 2023 from improved business performance across the Fixed Income and Equity businesses and increased market risk management.

Investment banking

Investment banking revenues are derived from client engagements in which the Company 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 increased in 2024 compared to 2023, reflecting an increase in advisory and debt underwriting revenues.

Other

Other revenues include €122 million of revenues recognised from the Profit and Loss Transfer agreement with MSBAG. The result of the ordinary operating activities of MSBAG for the financial year ending 31 December 2024 was transferred to the Company in full. Refer to the section "Corporate Structure" for further details.

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 2024 compared to 2023 due to headcount growth, particularly in the Paris branch, and higher discretionary bonuses, partially offset by lower severance expenses paid in 2024.

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.

Non-staff related expenses increased in 2024 compared to 2023, driven by increased transaction-related expenses.

Income taxes

The lower effective tax rate in 2024 compared to the prior year is driven by the first-time recognition of deferred tax assets.

Balance Sheet

€ in millions	2024	2023	Increase/ (decrease)	Variance %
ASSETS				
Cash	373	327	46	14%
Receivables from credit institutions and customers	27,048	17,630	9,418	53%
Trading assets	34,874	41,462	(6,588)	(16%)
Investments in affiliated companies	603	603	–	–%
Other assets	535	488	47	10%
TOTAL ASSETS	**63,433**	**60,510**	**2,923**	**5%**
LIABILITIES				
Liabilities to credit institutions and customers	20,390	14,990	5,400	36%
Trading liabilities	31,040	34,582	(3,542)	(10%)
Subordinated debt	3,809	3,511	298	8%
Instruments for Additional Tier 1 Regulatory Capital	1,000	1,000	–	–%
Debt securities	278	92	186	>100%
Provisions	241	155	86	55%
Other liabilities	176	121	55	45%
Fund for general banking risks	144	77	67	87%
TOTAL LIABILITIES	**57,078**	**54,528**	**2,550**	**5%**
EQUITY				
TOTAL EQUITY	**6,355**	**5,982**	**373**	**6%**
TOTAL LIABILITIES AND EQUITY	**63,433**	**60,510**	**2,923**	**5%**

Receivables from and liabilities to credit institutions and customers

Receivables from credit institutions and customers and liabilities to credit institutions and customers increased by 53% and 36% respectively. This was primarily driven by secured financing transactions designated into the banking book.

Trading assets and liabilities

The 16% decrease in trading assets and 10% decrease in trading liabilities are primarily driven by a decrease in the volume of secured financing transactions designated for trading partially offset by an increase in derivatives.

Investments in affiliated companies

Investments in affiliated companies relate to shares held in MSBAG.

Other assets

Other assets mainly consist of variation margin posted to central counterparties, tax receivables and receivable in relation to revenues recognised from the Profit and Loss Transfer agreement with MSBAG.

Subordinated debt

The increase compared to the prior year is driven by the issuance of senior subordinated debt to MSEHSE.

Debt securities

The increase in the year is driven by the issuance of the structured notes to non-affiliated companies.

Provisions

Provisions primarily consist of variable, deferred and share-based compensation, pension obligations and tax provisions.

Other liabilities

The increase compared to the prior year is mainly driven by an increase in the balance of variation margin received from central counterparties.

Fund for general banking risks

The Company allocated an amount of €67 million (2023: €51 million), representing 10% of the net trading result in accordance with Section 340e (4) HGB, to the fund for general banking risks in the financial year 2024.

Total equity

The equity presented in the balance sheet consists of share capital, capital and earnings reserves, retained earnings and profit for the year. The increase in equity in 2024 from €5,982 million to €6,355 million is driven by the profit for the year and the effect of the merger of the Group’s entities in France into the Company.

In 2024, the return on investment pursuant to Section 26a (1) Sentence 4 KWG is positive 0.31% (2023: positive 0.14%).

Capital Management

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

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. Consequently, 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 management information tool for the Group`s 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 at 31 December 2024, the TSCR of the Group was 10.75% of Risk Weighted Assets (“RWAs”) (2023: 10.75%) excluding capital buffers, with the individual P2R set at 2.75%.

With effect from 1 January 2025, the P2R of the Group reduced from 2.75% to 2.5%. As a result, the TSCR of the Group reduced to 10.5% of RWAs.

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 Common Equity Tier 1 (“CET1”) capital. As of 31 December 2024, the CCyB for the Group was 0.83%.

The Capital Conservation Buffer (“CCB”) requires credit institutions to build up a capital buffer to absorb losses during periods of stress, whilst remaining compliant with minimum requirements, and must be met with CET1 capital. As at 31 December 2024, the CCB reflects 2.5% (2023: 2.5%).

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”).

Expected changes in the regulatory capital requirements are incorporated as part of the Group’s capital planning and target setting processes.

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

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. The Group 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. In addition to the MSESE Consol level, 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 tests 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 the Company, 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 Company'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 resolution planning information for the aforementioned authorities in accordance with the relevant EU statutory and regulatory requirements. This includes, amongst others, deliverables for particular SRB Working Priorities as well as the annual provision of resolution reporting data.

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 to absorb losses and safeguard existing capital requirements in a resolution scenario. The BaFin, as the Group's national regulator, shares the responsibility to determine MREL requirements with the SRB. The Group and MSESE Consol are both subject to MREL requirements.
As of 31 December 2024, the MREL requirement for the Group was 21.5% of RWAs. The SRB implemented a new MREL policy published in May 2024 and the Group became subject to the Market Confidence Charge adjustment effective 1 January 2025. Following the introduction of the Market Confidence Charge, the minimum requirement is expected to increase. This expected change is already incorporated in the Group's Capital, Funding Planning, target setting processes and forecasts.

In 2024, the Group has undertaken further actions to ensure compliance with MREL regulatory requirements. In February 2024, the Group drew down an additional €300 million from the existing multi currency Subordinated Loan Facility.

With a similar objective, TLAC requirements serve to ensure that the Group has sufficient resources to absorb losses. The Group is subject to TLAC requirements.

Financial and Non-financial Key Performance Indicators

The financial and non-financial key performance indicators ("KPIs") are managed on the MSEHSE Group level and based on IFRS. They are also applicable for the Company.

The financial and non-financial KPIs of the Group are aligned to its objective to be structurally profitable and capital accretive through the cycle as well as ensure sound and sustainable execution of the business strategy in compliance with regulatory requirements. To assess the effective execution of the Group's strategy, a broad range of KPIs were set by the Group's Management Boards which 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. From 2025 onwards the Efficiency Ratio is no longer tracked as a major KPI.

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 2024 and 31 December 2023 are as follows:

	2024	2023
PBT (€ millions)	403	265
ROE	3.6%	2.6%
Efficiency Ratio	69%	75%
Tier 1 Capital Ratio	24.7%	26.2%
LCR	161%	151%
NSFR	220%	213%

Forecast expectations for financial KPIs in 2024 were disclosed in the 2023 Management Report. Actual performance of the Group was broadly in line with those expectations. Refer to the section "Opportunities and Outlook" for the forecast expectations in 2025.

Non-financial Key Performance Indicators

Credit Rating

The credit ratings of the Company were stable and have not changed throughout the financial year.

		2024	2023
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
Fitch Ratings[(1)]	Short Term	F1+	n/a
	Long Term	AA-	n/a
	Outlook	Stable	n/a

(1) New credit ratings included for 2024

Risk Report

During 2024, the Group's Risk Division continued to enhance the Group's Risk Management Framework and focus on regulatory engagements. Key areas included:

- evolution of the Risk Management Framework to support business expansion;
- supporting regulatory reviews / inspections (e.g. European Banking Authority ("EBA") Fit-for-55 climate risk analysis) and continuing to deliver against regulatory expectations; and
- enhancements to internal 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, 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 MSEHSE Group and MSESE Consol level, encompassing the risk management culture, risk governance, approach and practices that support risk identification, measurement, monitoring, reporting, challenge and escalation. Given the group structure, the risk, capital and liquidity profile of MSESE Consol largely reflects the risk profile of the MSEHSE Group.

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

The 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, measurement, monitoring, reporting, challenge and escalation of risks arising from the Group's activities, including the risks 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, reporting, challenge and escalation of risks of credit, market, liquidity, operational and model risks arising from the Group's business activities. It reports to the Head of Risk and operates independently from the business units and support functions.
  - The Compliance Department maintains an enterprise-wide Compliance Risk Management Programme and is responsible for the design and development of an overall Group Conduct Risk Framework. The department operates independently from the business units and reports directly to the 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 operates independently from the business units and reports directly to the Group Management Boards.

  - The Compliance Department, the Global Financial Crimes Department and the Operational Risk Department 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.

The Morgan Stanley Group has several well-established policies and procedures which set out the standards that govern the identification, measurement, monitoring, reporting, challenge and escalation 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 Group Management Boards, as required, and reviewed at least annually.

Committee Governance

The 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 Head of Risk and assist the Group Management Boards in the oversight of the Group's management of financial and non-financial risks. The Committees are responsible for overseeing:

(i) the development and implementation of the 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 their 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 data quality issues impacting MSEHSE Group, reviews consolidated data quality reporting and data quality KPIs for the MSEHSE Group risk reports and assists in the oversight and management of MSEHSE 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 Head of Risk with oversight of the control framework within the Risk Division and the MSEHSE Group Risk Capital Committee ("RCC") provides the Head of Risk 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 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, regulations and to identify potential business model vulnerabilities, thereby supporting the continuous process of risk identification. Material risks identified through these processes inform the design of key risk, capital and liquidity management processes, including the Group's Risk Strategy and Risk Appetite Statement, individual risk management frameworks, macroeconomic and reverse 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.

Financial Risks

- Credit Risk;
- Market Risk;
- Liquidity Risk;
- Model Risk;
- Valuation Risk;
- Leverage Risk;

Non-Financial Risks

- Operational Risk;
- Compliance Risk (incl. Conduct Risk);
- Financial Crimes Risk

Other Risks

- Strategic Risk (incl. Earnings at Risk);
- Reputational Risk.

For information on the incorporation of climate and environmental risks into the Risk Management Framework, refer to the section "Climate and Environmental Risk Management".

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

Risk Appetite

The 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, reported, challenged and escalated.

The centrepiece of the Risk Strategy are the Risk Appetite Statements ("RAS") for MSEHSE Group and MSESE Consol, 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 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 stress 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 2024, the stress loss in the Group's binding macroeconomic stress scenario was €316 million.

Stress Testing

Stress testing is a key risk management tool for the Group, informing risk and capital management processes and decisions, and is performed in line with internal and external regulatory requirements. It provides an understanding of the aggregate risk for the Group and an assessment of the Group's resilience to different scenarios over a range of severities. At a more granular level, stress tests provide detailed coverage of potential areas of weakness at the business area and individual risk level, respectively. 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);
- Regulatory Requirements: Meeting relevant regulatory requirements for stress testing; and
- Recovery and Resolution Planning: As a key component of the Recovery and Resolution Planning exercises.

Stress testing results are communicated to the ERCs, the Group Management Boards and the Group's Supervisory Boards and the Supervisory Board 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 risk areas. Cross-risk stress tests can be classified into macroeconomic stress tests, Reverse Stress Tests ("RST") and topical stress tests.

Macroeconomic stress scenarios are the Group's primary stress testing tool to monitor, assess and manage the Group's portfolio-wide 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 calibrated market shocks, downgrade assumptions and selected credit risk defaults 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 expected losses and unexpected losses (concentration add-on supplemented with idiosyncratic default losses).
- Stress losses for market risk (including xVA) are calculated 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 is managed via the Climate Stress Loss Limit ("CSLL"). For more information refer to the section "Climate and Environmental Risk Management".

Key vulnerabilities to the Group's business model are assessed through the Group's RST. The scenarios used in RST are extreme 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 to evaluate the possible impact of “downside” scenarios on the Group’s risk profile.

Risk-specific Stress Tests

Risk-specific stress tests identify, measure and monitor more granular vulnerabilities and concentrations in a particular risk area, country or industry, as appropriate. The Group conducts risk-specific stress tests for operational risk, market risk, credit risk and liquidity risk.

Risk Reporting

The Group has established 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 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 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 at different frequencies (e.g., daily, weekly).

In addition, the Group has established a set of overarching 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 DQ for risk-related data is reviewed through defined KPIs which are summarised in respective DQ Dashboards for certain risk areas. At the Group level, any material data limitations/issues on risk data goes through governance and is escalated to the ERCs and the 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 critical framework in the context of risk management and capital adequacy and serves as a fundamental tool for the 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 baseline 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 and related risk appetite thresholds.

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 stress 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.

The table below sets out details of the Group’s Capital Resources.

in € millions	2024	2023
Normative Perspective		
CET1 Capital	6,105	6,355
AT1 Capital	1,000	1,000
Tier 1 Capital	7,105	7,355
Tier 2 Capital	1,008	1,000
Total Own Funds	**8,114**	**8,355**
Risk Weighted Assets (“RWAs”)	28,720	27,283
CET1 Capital Ratio	21.3 %	23.3 %
Tier 1 Capital Ratio	24.7 %	27.0 %
Total Capital Ratio	**28.3 %**	**30.6 %**

The Group’s Tier 1 Capital Ratio decreased from 27.0% as at 31 December 2023 to 24.7% as at 31 December 2024 due to an increase in RWAs over the year primarily due to business activity and market movements.

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 Probability of Default (“PD”), Loss Given Default (“LGD”) and Exposure at Default (“EAD”). 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 regulatory 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. Additional capital add-ons are used to capture risks not fully catered for within the credit concentration model.

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 Priority Non-Financial Risks (“PNFRs”). 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 historical returns beginning in 2006. 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. The IRC is calculated at 99.9% confidence level over a one-year time horizon. Additional capital add-ons are used to capture risks not fully catered for within the market risk models. 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”), pension risk, valuation risk, strategic risk and taxation 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 is based on 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 2023 and 2024.

€ in millions	2024	2023
Economic Perspective		
Risk Bearing Capacity	**6,260**	**6,184**
Capital Requirements	**3,541**	**3,211**
Credit risk	2,082	2,038
Market risk	454	352
Operational risk	657	609
Other	347	212
Economic Capital Adequacy Ratio	**177 %**	**193 %**

As at 31 December 2024, the Group was adequately capitalised.

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.

Financial Risks

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 an obligor's ability and/or willingness to fulfil its obligations. Credit concentration risk refers to the risk of loss due to an outsized exposure to a Counterparty, group of connected counterparties and/or 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 section "Climate and Environmental Risk Management".

The CRM Department reports to the Head of Risk 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, monitor and report credit risks. Key components of the Credit Risk Framework include:

(1) Risk Identification: To identify and assess credit risks, CRM monitors significant changes in the credit risk profile on an ongoing basis, including key portfolio sensitivities, limit usage, risk concentrations, stress testing results, exposure to climate risks as well as any new product initiatives.

(2) Risk Measurement: Single name and portfolio risks are measured by means of the Total Net Exposure, which is the sum of Counterparty Risk, Lending, Inventory, Treasury Placements, and Collateral-at-Risk exposure, and includes the benefit of hedges.

(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 MSEHSE Group Management Boards, the MSESE ERC, the MSESE Credit Risk Committee and CRM.

(4) Risk Reporting: CRM uses a set of comprehensive reports of key credit risk exposures that are produced on a regular basis. The reports encompass all significant credit risk exposures and concentrations across the Group and provide visibility to senior management. Significant changes in

the credit risk exposures and utilisations are reported to the ERCs, the Group Management Boards and other management stakeholders.

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 counterparty risk from market hedges, indirect activity with clearing houses via Affiliates, and loan sub-participations or guarantees.
- **Inventory:** Inventory risk arises from secondary trading activity and is primarily driven by European government bonds and bonds issued by investment grade corporates and financial institutions.

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. Collateral 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 the Expected Credit Loss ("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.

The below table shows RWAs and EADs for credit risk as at 31 December 2024 and 31 December 2023, 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 calculated with the IMM approach.

	2024		2023	
in € millions	**RWA**	**EAD**	**RWA**	**EAD[3]**
Credit risk[1]	3,239	15,122	2,812	13,862
Of which, internal models (F-IRB)	*2,562*	*3,488*	*2,249*	*3,107*
Counterparty credit risk (excluding CVA risk)[2]	10,917	25,474	11,001	24,021
Of which, internal models (IMM)	*6,705*	*10,263*	*6,997*	*10,426*
Total (excluding CVA and Settlement risk)	**14,156**	**40,596**	**13,813**	**37,883**
Credit Valuation Adjustment (CVA risk)	4,700	8,399	4,246	9,915
Settlement risk	4	14	7	9
Total	**18,860**	**49,009**	**18,066**	**47,807**

(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.
(3) EAD figures for 2023 have been restated.

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 EU27-countries. From a counterparty perspective, the credit portfolio is primarily concentrated with Financials and from a country perspective in the US, Germany, France, and Italy whereas treasury exposures are mostly driven by cash balances placed at the ECB via the Deutsche Bundesbank. 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 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	**2024**	**2023[1]**
Financials	9,025	8,029
Sovereigns	10,812	9,213
All others	7,079	5,339
Total	**26,916**	**22,581**

[1] Figures for 2023 have been restated.

Breakdown per country

Exposure in € millions	**2024**	**2023[1]**
Supranational	10,423	9,627
US	5,580	4,767
France	4,850	3,157
Italy	1,575	951
Germany	1,101	842
All others	3,387	3,237
Total	**26,916**	**22,581**

[1] Figures for 2023 have been restated.

The Group's credit risk remained within risk appetite for 2024. Geopolitical events were a key focus through 2024 and are expected to remain relevant into 2025.The CRM Department reports to the Head of Risk 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, monitor and report credit risks. Key components of the Credit Risk Framework include:

(1) Risk Identification: To identify and assess credit risks, CRM monitors significant changes in the credit risk profile on an ongoing basis, including key portfolio sensitivities, limit usage, risk concentrations, stress testing results, exposure to climate risks as well as any new product initiatives.

(2) Risk Measurement: Single name and portfolio risks are measured by means of the Total Net Exposure, which is the sum of Counterparty Risk, Lending, Inventory, Treasury Placements, and Collateral-at-Risk exposure, and includes the benefit of hedges.

(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 MSEHSE Group Management Boards, the MSESE ERC, the MSESE Credit Risk Committee and CRM.

(4) Risk Reporting: CRM uses a set of comprehensive reports of key credit risk exposures that are produced on a regular basis. The reports encompass all significant credit risk exposures and concentrations across the Group and provide visibility to senior management. Significant changes in the credit risk exposures and utilisations are reported to the ERCs, the Group Management Boards and other management stakeholders.

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 counterparty risk from market hedges, indirect activity with clearing houses via Affiliates, and loan sub-participations or guarantees.
- **Inventory:** Inventory risk arises from secondary trading activity and is primarily driven by European government bonds and bonds issued by investment grade corporates and financial institutions.

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. Collateral 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 the Expected Credit Loss ("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.

The below table shows RWAs and EADs for credit risk as at 31 December 2024 and 31 December 2023, 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 calculated with the IMM approach.

	2024		2023	
in € millions	**RWA**	**EAD**	**RWA**	**EAD[3]**
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EAD figures for 2023 have been restated.

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 EU27-countries. From a counterparty perspective, the credit portfolio is primarily concentrated with Financials and from a country perspective in the US, Germany, France, and Italy whereas treasury exposures are mostly driven by cash balances placed at the ECB via the Deutsche Bundesbank. 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 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.

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Figures for 2023 have been restated.

The Group's credit risk remained within risk appetite for 2024. Geopolitical events were a key focus through 2024 and are expected to remain relevant into 2025.

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, 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. In addition, market risk includes the consideration of financial risk arising from climate change (transition and physical risk) as well as non-traded market risk such as Interest Rate and Credit Spread risk in the Banking Book (IRRBB and CSRBB).

Price risk may arise in derivatives and securities trading portfolios as well as lending portfolios measured at fair value together with their associated mark-to-market derivatives hedges.

MRD reports to the Head of Risk and is independent from the business units. It is responsible for managing and overseeing the market risk profile of the Group and has put in place a Risk Management Framework to identify, measure, monitor and report market risks. Key components of the Market Risk Framework include:

(1) Risk Identification: To identify and assess emerging and existing 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 as well as any new products initiatives.

(2) Risk Measurement: Market risks are measured by applying shocks to a selection of input market parameters from securities and derivatives valuation models, the result of which is used as standard risk sensitivities and stress testing measures. A proprietary Value-at-Risk ("VaR") Model is used to assess market risk against risk appetite limits as well as measure market risk regulatory capital requirements. VaR represents a maximum potential loss over a given time horizon (1 day usually) at a given confidence interval (95% or 99%). In addition, an IRC model is used to measure 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.

(3) Risk Appetite and Limits: To ensure that market risk losses remain within risk appetite, MRD has established a comprehensive market risk limit framework, which includes VaR limits, exposure limits and stress exposure limits at legal entity and business unit level. These limits are subject to different levels of approval comprising the Group Management Boards, the ERCs, the Head of Risk 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 Group Management Boards and other management stakeholders.

Interest Rate and Credit Spread risk in the Banking Book are defined as the risk of losses arising from adverse changes in these risk factors within the banking book scope either from a present value (Economic Value of Equity, "EVE") or Net Interest Income ("NII") perspective. Interest Rate and Credit spread risks arise from exposures derived from traditional treasury and banking activities such as customer lending as well as inter-affiliate borrowing and lending. The Group's Treasury Department and MRD are responsible for the monitoring and control of these exposures through the calculation of relevant risk sensitivity measures (Delta EVE and Delta NII). As at 31 December 2024, IRRBB and CSRBB exposures are 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 they remain within the Group's Risk Appetite.

The following table presents the results for the regulatory prescribed scenarios as at 31 December 2024:

in € millions	2024 Delta EVE
Parallel shock down	(1.6)
Parallel shock up	0.8
Flattener shock	1.1
Steepener shock	(2.0)
Short rates shock down	(2.7)
Short rates shock up	1.3

As at 31 December 2024, IRRBB was approximately 0.04% of CET1 capital under the Delta EVE perspective with "Short rates shock down" as the scenario resulting in the highest loss.

The following table presents the Delta NII results for the regulatory prescribed scenarios with a base NII of €153 million as at 31 December 2024:

in € millions	2024 Delta NII
200 bps up	164
200 bps down	(162)

Market risk from trading in EUR Interest Rate Swaps, EUR Inflation, European Government Bonds, Covered Bonds, Traded Loans and Credit Corporate Bonds, Cash Equities and Equity Derivative Index Trading including Equity Automated Market Making ("AMM") is retained and managed by the Group.

Risk from xVA exposures is also hedged by a dedicated trading desk managing market risk coming from counterparties such as credit and funding spread risks.

The Group uses both Management and Regulatory VaR to assess and contain portfolio market risk. The Regulatory VaR is calibrated and scoped using approved model requirements to capitalise for market risk and is subject to daily backtesting controls helping to assess the model accuracy. 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 2024 was €3.4 million (2023: €4.3 million), driven by credit, interest rate, basis and equity risk sensitivities from equity derivatives, fixed income trading activities and xVA.

The following table shows the market risk RWAs as at 31 December 2024 and 31 December 2023, calculated using the advanced capital model (Internal Model Approach, "IMA") and 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	2024	2023
Standardised approach	99	88
Internal model approach[(1)]	8,051	7,728
Total	8,150	7,816

(1) Including RWAs for Risks not in VaR

Market risk RWAs increased over the course of 2024 by €0.3 billion due to changes in the risk profile, offset by a reduction resulting from changes to internal models and associated changes to regulatory permissions.

In 2024, equity markets registered a positive trend throughout most of the year pushed by lower interest rates and strong corporate results. Interest rate and credit markets, on the other hand, displayed increased volatility driven by geopolitical uncertainty, central bank policies, and weaker economic data.

The Group's market risk remained within risk appetite 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. Liquidity risk is mitigated through a comprehensive liquidity management and oversight framework.

The Treasury department 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, monitor and report liquidity risks. 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 New Product Approval ("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 LCR, the NSFR 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 Group Management Boards and 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: LRD uses a set of comprehensive reports of key liquidity risk exposures that are produced on a regular basis. Significant changes in liquidity risk exposures and liquidity risk limit utilisations are reported on a regular and ad-hoc basis to the ERCs and the 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 2024. The details of the Group's LCR are presented in the following table:

in € millions	2024	2023
HQLA	16,047	11,783
Cash Outflows	15,976	14,477
Cash Inflows	6,040	6,696
Net Outflow	9,937	7,781
LCR Ratio	161%	151%

Net outflows increased during 2024, primarily due to an increase in cash outflows (mainly derivatives) and a decrease in cash inflows. As at 31 December 2024, 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 2024.

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 2024, the Group maintained sufficient liquidity to meet current and contingent funding obligations as modelled in its Liquidity Stress Tests.

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, non-compliance with applicable laws and/or regulations or damage to the 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(s), and to ensure that the models meet both internal model standards and regulatory requirements. 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 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.

Other Financial Risks

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

- **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** 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.

Non-Financial Risks

Operational Risk

Operational risk is defined as the risk of loss, or of damage to the Group’s reputation, resulting from inadequate or failed processes or systems, from human factors or from external events

(e.g., fraud, theft, compliance risks, cyber-attacks or damage to physical assets). This includes legal risk and the risks arising from Environmental, Social and Governance risks (e.g., Climate), but excludes strategic risk.

Business units, support and control functions and the business managers therein are primarily 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 leverages a comprehensive Non-Financial Risk Management Framework to identify, measure, monitor 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 Framework include:

(1) Risk Identification: As part of a broader Non-Financial Risk Identification Framework, ORD contributes to identifying, assessing and quantifying material operational risks inherent in the Group's business activities 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 Non-Financial Risk appetite the Group Management Boards have set risk tolerance levels for the Group in aggregate and for all PNFRs. 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 2024, the largest scenario loss was €52 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 Group Management Boards and other management stakeholders.

Regulatory own funds requirements for operational risk are currently calculated under the Basic Indicator Approach ("BIA"). As at 31 December 2024, the Group's operational RWAs were €1,709 million (2023: €1,401 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's 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 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 at a global level by the Morgan Stanley Business Resilience Governance Committee. In addition, the 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.

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.

Compliance risk includes conduct risk, which is defined as the risk arising from misconduct by individual employees or contingent workers (collectively, "Personnel") or groups of Personnel, or the risk arising from conduct by the Morgan Stanley Group where the outcome has an adverse impact on clients, markets or the Group's reputation. Conduct risk includes both intentional and unintentional behaviours.

The Group's independent Compliance Department is responsible for identifying applicable compliance and conduct risks and obligations relevant to the Group, as well as maintaining a Compliance Risk Management Programme. Key components of the Compliance Risk Management Programme and the Conduct Risk Framework include:

(1) Risk Identification: Business units as well as support and control functions are responsible for identifying, assessing, managing and reporting compliance risk, including conduct risks, which arise from

their current or planned strategies and activities. As part of the broader Non-Financial Risk Identification Framework, 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 Group Management Boards. In addition, the Compliance Department subsequently develops an Annual Compliance Plan for the Group that prioritises department activities (including monitoring) based on the Compliance Risk Assessment and other inputs, as appropriate. Internal controls and processes have been established to manage conduct risks identified. Conduct risk incidents are identified and escalated through a range of processes within the Three Lines of Defence.

(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 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 Group Management Boards on a quarterly basis on compliance risk, conduct matters, significant regulatory compliance- and conduct-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 Group Management Boards.

Other Non-Financial Risks

In addition to the above non-financial risks, the Group has put in place a framework to identify, measure, monitor and report on the following material non-financial risk:

- **Financial Crimes Risk** refers to the risk of regulatory sanctions and reputation damage posed to the Group in the event of failure to comply with applicable anti-money laundering, terrorist financing, economic sanctions, anti-tax evasion, anti-bribery and corruption, or other criminal offences laws and regulations.

Climate and Environmental Risk Management

Climate and environmental risks include negative potential 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.

The Group may also 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 FRM 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 Group with primary responsibilities consisting of 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 Group risk management framework. The Group risk management framework continues to be enhanced to meet requirements set out in new and evolving regulations.

Risk Identification and Materiality Assessment

As part of its risk identification and materiality assessment process, the Group conducts granular risk assessments of short-term climate and environmental risks across risk types.

The risk inventory captures climate and environmental risks as drivers of existing risks. Risk events assessed for their impact on credit, market, liquidity and operational risks include:

- Transition risk driven by climate policy (carbon repricing and accelerated green technology) and other environmental policies (reduction of pollution);
- Physical risk driven by climate events (extreme temperature, wildfire, drought, riverine flood, coastal floods and storms) and other environmental events (biodiversity loss, water stress and marine resources).

In addition, the Group assessed ESG scenarios for litigation and reputational risks (see the 'Scenario Analysis and Stress Testing' section).

A quantitative assessment is performed on a quarterly basis across risk types to determine the materiality of the impact of short-term ESG risks. A risk is considered material if the estimated stress loss or liquidity outflow is above the existing risk identification materiality threshold.

The Group also performed a medium- and long-term assessment of climate risks based on 5 year and 30 year losses from long-term scenarios.

Materiality Assessment in the Short-Term

In 2024, climate transition risk was assessed as a material credit risk for the Group. Climate physical risks were assessed as non-material for credit risk. Operational risk (business disruption, litigation risk and reputational risk), market risk and liquidity risk were assessed as non-material given estimated losses fell below respective materiality thresholds. Other environmental risks are assessed as non-material across risk types.

Credit climate transition risk was assessed as the only material risk in the Group portfolio, in line with 2023 results.

Material identified risks inform risk measurement, monitoring, management, and the scenarios that support the Group's ICAAP. In addition, material risks guide the Group's risk appetite.

Materiality Assessment in the Medium- and Long-Term

The medium- and long-term assessments for credit and market risk consider results of the Net Zero by 2050 scenario and the Fragmented World scenario. In 2024, this materiality assessment concluded that transition risk is also material for credit risk in the long-term for the Group.

Risk Appetite and Limit Framework

Credit and Market Risk Limits: Climate Risk

The Group Management Boards set a Climate Stress Loss Limit ("CSLL") across credit and market risks.

The CSLL is integrated into the Group's Risk Appetite Statement in the Group Risk Strategy, which is approved by the Group Management Boards 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.

- **Climate Stress Loss Limit**: The 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 (refer to 'Scenario Analysis and Stress Testing' section). 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. These limits enable the Group to monitor and manage credit risk 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 2024, 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 2024, 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 framework.

Scenario Analysis and Stress Testing

Scenario analysis is central to the Group's climate risk management framework and is used to identify and measure potential financial vulnerabilities from climate-related risks in the Group's business.

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 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 or financial impacts over the short-, medium-, or long-term. Morgan Stanley defines these time horizons as set out below.

Short-term: 0 - < 1 year

Medium-term: 1 - < 5 years

Long-term: > 5 years

The Group has implemented short-, medium- and long-term scenarios to assess the impact of climate risks. Short-term scenarios are considered in the capital planning process and prioritised to manage financial risk due to the short maturity of the business activities. Medium- and long-term scenarios are used to assess materiality and inform the business strategy.

Please refer to the table below that covers the ESG scenarios implemented by the Group.

ESG Scenarios Implemented by MSEHSE Group

Scenario	Risk Types	Narrative & Assumptions
Carbon Repricing: Transition Risk Short-term (1 year) Internal scenario	• Credit Risk - Lending and Counterparty • Market Risk	• Global effort to curb emissions leads to the implementation of climate policies • Sudden and sustained rise in carbon prices across countries
Net Zero by 2050: Transition Risk Medium- and Long-term (5 and 30 year) Based on NGFS[(1)], aligned to 1.5C	• Credit Risk - Lending and Counterparty • Market Risk	• Global ambitious plan to reach net zero by 2050 in an orderly fashion
Fragmented World: **Transition and Physical Risk** **Medium- and Long-term (5 and 30 year)** **Based on NGFS[(1)]**	• Credit Risk - Lending and Counterparty • Market Risk	• Governments suddenly enact global carbon policies in 2030; policies vary among nations • Net zero is not achieved, leading to extreme weather events and increased physical risk
Continental Europe Flooding: **Physical Risk** **Short-term (1 year)** **Internal scenario**	• Credit Risk - Lending and Counterparty • Market Risk	• Heavy flooding across the EU
Climate Physical Events Impacting MS Operations: Physical Risk Short-term (1 year) Range of scenarios specific to Physical events impacting operations in each of our geographic locations	• Operational Risk	• Heavy flooding across London impacting transport links • Severe flooding across Mumbai resulting in infrastructure damage and power outage • Severe heatwave impacting India resulting in a power outage
ESG Litigation Scenarios: Litigation Risk Medium-term (2 years) Range of ESG scenarios such as Greenwashing, Product Mis-selling and Reporting Errors	• Operational Risk	• Misstatements in ESG disclosures • Misstatement of ESG objectives linked to a product

(1) Network for Greening the Financial System ("NGFS") is a group of Central Banks and Supervisors willing, on a voluntary basis, to share best practices and contribute to the development of environment and climate risk management in the financial sector.

Climate Risk Metrics

The section 'Environmental Information - Risk Appetite and Limit Framework' describes the limits established to manage climate risk in MSEHSE Group and the exposures that are monitored against those limits.

Climate Stress Loss Limit

The Group remained within its portfolio CSLL throughout 2024.

Exposure to climate risk

Exposure to industries with high climate transition or physical risk comprises 17% and 15% of the Group's aggregate risk exposure, respectively. Higher exposure to industries with high transition risk in 2024 compared to the previous year relates to lending commitments in the Energy and Airlines sectors as MSEHSE Group continues to increase retention of European loans. Although the exposure to industries with high physical risk is 15% of the aggregate exposure, climate physical risk is assessed as non-material. The risk identification process is supported by a more granular assessment of physical risk, considering geographic locations (see 'Environmental Information - Risk Identification and Materiality Assessment'). Exposures to climate risk in the table below include treasury placements, lending commitments and trading activities, offset by credit risk mitigants such as collateral.

Exposures to High Climate Risk Industries

	2024	
	Exposure in €	% of Exposure
Group total net exposure	25,739	
of which transition risk	4,358	17 %
of which physical risk	3,872	15 %

	2023	
	Exposure in €	% of Exposure
Group total net exposure	22,028	
of which transition risk	3,213	15%
of which physical risk	3,352	15%

Note: The table includes the exposure to 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.

Other Material Risks

In addition to the above Financial and Non-financial risks, the Group has put in place a framework to identify, measure, monitor and report on the following other material risks:

- **Strategic Risk (incl. Earnings at Risk)** is defined as risk to baseline earnings from misaligned design and implementation of the Group's overall strategic objectives and the associated business unit strategic initiatives required to enable them, and any threat to the effective and efficient execution of the Group's strategic business initiatives.
- **Reputational Risk** (also referred to as Franchise Risk) refers to 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 2024 and the Group's risk bearing capacity was sufficient at each quarter-end during 2024. Adequate capital and liquidity were maintained as at 31 December 2024, sufficiently exceeding regulatory minimums under normal and stressed market conditions. 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 2025. The assumptions underpinning particular forward-looking statements are disclosed where appropriate.

Global Markets and Economic Outlook

In 2025, the Group anticipates the global economy to exhibit steady growth at 2.9%. Monetary policy easing is expected to positively affect the broader economy gradually over time. Inflation is expected to decline to levels close to central banks' targets in most advanced economies. Meanwhile, central banks are expected to continue their cutting cycle towards, and in some regions below, their respective neutral rates in 2025. The tightness of labour markets should ease.

Looking further ahead, the international response to geopolitical dynamics, trade challenges and Europe's strategic recalibration of its energy strategy and addressing of demographics challenges will be pivotal in shaping the economic outlook.

In the Euro area, the Group forecasts modest annual growth of 1.0% for 2025, as activity picks up in the course of 2025. As 2025 progresses, monetary policy easing should support investment, and increasing real incomes should continue boosting consumer spending. At the same time, fiscal consolidation combined with subdued momentum and heightened uncertainty in global trade, are likely to be a drag on the economy.

Following the German snap parliamentary elections, the Group expects more expansionary fiscal policy as well as a strong investment cycle to take place. Therefore, the Group thinks that German economy will grow by 0.8% in 2025.

Business Priorities

The Company will align to the four key pillars of the global Morgan Stanley strategy by prioritising long-term revenue growth and wallet share expansion. Growth should be driven by local and regional collaboration and efficient resource deployment, leveraging the integrated investment bank. The Company aims to achieve durable revenues supported by a robust and effective risk and control framework that evolves in-line with the business strategy.

Financial Projections

The following forward-looking statements are disclosed on a MSEHSE Group level, at which the KPIs and the strategy of the Group and its subsidiaries are managed. They remain applicable to the Company.

The Group is currently forecasting a slight increase in PBT and ROE in 2025 in comparison to 2024, driven by higher client activity across all business lines.

Tier 1 Capital Ratio is expected to moderately decrease in 2025 primarily due to an increase in RWAs linked to business growth and the implementation of CRR3. The NSFR is expected to slightly decrease due to business growth, while the final impact is subject to potential regulatory changes in the CRR. The LCR is expected to increase slightly due to business growth which is expected to increase the target liquidity reserve to meet internal and external requirement.

MSEHSE Group is considering a downstream merger ("merger by absorption") of MSEHSE into MSESE. At the time of the approval of this Management Report, no final decisions have been taken. The proposed merger will have no material impact on the business activity, financial or regulatory positions of MSESE and MSBAG.

Regulatory Developments

Finalising Basel III Reforms

There are a number of remaining standards of the Basel III reform package (referred to as "Finalisation of Basel III") that were not implemented as of 31 December 2024. These revisions cover RWA requirements for Credit, Market, Credit Valuation Adjustment ("CVA") and Operational Risk.

The standards also introduce an aggregate floor for RWA generated by internal models, which eventually 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.

CRR III and CRD VI, which implement the final elements of the Basel III reform package with some EU specific adjustments, were finalised and approved via the European legislative process by the European Parliament and the Council of the EU. The rules became effective from 1 January 2025, with the exception of the Fundamental Review of the Trading Book ("FRTB") own funds requirements that have been postponed to 1 January 2026 (CRR III Market Risk Delegated Act). The European Commission is also considering whether to recommend a further 1-year delay for the FRTB requirements. The finalised rules also include an increased focus on Environmental, Social and Governance (“ESG”) risks.

CRD VI Article 21c

New rules amending the EU's CRD VI entered into force on 9 July 2024. CRD VI includes provisions which will restrict certain non-EU entities from providing core banking services, including lending, to EU borrowers. Whilst each EU Member State is required to transpose the Directive's minimum requirements into their national laws by 10 January 2026, these specific provisions will take effect from 11 January 2027. The Company is analysing and monitoring the impact of these changes.

The above developments have been considered in the capital planning, funding plan, ICAAP and ILAAP of the Group.

Disclosures in Accordance With Section 340a (1a) HGB in Conjunction With Section 289b (2) HGB

The Company is exempted from the obligation under section 340a (1a) HGB to draw up a non-financial statement, including the disclosures required by Article 8 of the EU Taxonomy Regulation, as it meets the requirements under section 289b (2) HGB. The MSEHSE Group Consolidated Management Report in German language is available at http://www.unternehmensregister.de.

ANNUAL FINANCIAL STATEMENTS

Balance Sheet as at 31 December 2024

Income Statement for the period from 1 January to 31 December 2024

Cash Flow Statement for the period from 1 January to 31 December 2024

Notes

MORGAN STANLEY EUROPE SE

ANNUAL FINANCIAL STATEMENTS 2024
Balance Sheet as at 31 December 2024

Assets in € millions	**Note**		**2024**	**2023**
Cash reserve				
a) Balances with central banks			**373**	**327**
thereof: with Deutsche Bundesbank €373 million (2023: €327 million)				
Receivables from credit institutions	4			
a) Due on demand		12,579		10,594
b) Other receivables		462		–
			13,041	**10,594**
Receivables from customers	4		**14,007**	**7,036**
thereof: loans granted to local authorities €8 million (2023: €22 million)				
Trading assets	7		**34,874**	**41,462**
Investments in affiliated companies	8		**603**	**603**
thereof: credit institutions €603 million (2023: €603 million)				
Intangible assets	8			
a) Goodwill			**32**	**37**
Property, plant and equipment	8		**54**	**21**
Other assets	9		**417**	**426**
Prepaid expenses and deferred charges			**3**	**4**
Deferred tax assets			**29**	**–**
Total assets			**63,433**	**60,510**

Liabilities and equity in € millions				
Liabilities to credit institutions	4			
a) Due on demand		5,311		4,690
b) With an agreed maturity or term		200		200
			5,511	**4,890**
Liabilities to customers	4			
a) Other liabilities				
aa) Due on demand		9,714		8,993
ab) With an agreed maturity or term		5,165		1,107
			14,879	**10,100**
Debt Issuances	11			
a) Debt Securities			**278**	**92**
Trading liabilities	7		**31,040**	**34,582**
Other liabilities	9		**170**	**116**
Deferred income			**6**	**5**
Provisions	12			
a) Provisions for pensions and similar obligations		14		11
b) Provisions for taxation		29		15
c) Other provisions		198		129
			241	**155**
Subordinated debt	13		**3,809**	**3,511**
Fund for general banking risks	7		**144**	**77**
thereof: special items according to Section 340e (4) HGB €144 million (2023: €77 million)				
Instruments for Additional Tier 1 Regulatory Capital	14		**1,000**	**1,000**
Equity capital	15			
a) Subscribed capital		3,901		3,901
b) Capital reserve		2,115		1,931
c) Earnings reserve		150		66
d) Retained earnings		189		84
			6,355	**5,982**
Total liabilities and equity			**63,433**	**60,510**

ANNUAL FINANCIAL STATEMENTS 2024

Income Statement for the period from 1 January to 31 December 2024

in € millions	Note			2024	2023
Interest income from credit and money market transactions			1,478		1,238
Interest expenses			1,668		1,440
				(190)	**(202)**
Income from profit sharing, profit transfer or partial profit transfer agreements	17			**122**	**121**
Commission income			460		407
Commission expenses			143		95
				317	**312**
Net trading result				**602**	**462**
thereof: special items according to Section 340e (4) HGB €67 million (2023: €51 million)					
Other operating income	18			**17**	**19**
General administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		259			248
ab) Social security and other pension costs and benefits thereof: Pension scheme €11 million (2023: €10 million)		59			45
			318		293
b) Other administrative expenses			210		188
				528	**481**
Depreciation, amortisation and write-downs of intangible assets, and property, plant and equipment	8			**11**	**10**
Other operating expenses	18			**77**	**77**
Income from ordinary activities				**252**	**144**
Income taxes				**63**	**60**
Net profit for the year				**189**	**84**
Net profit				**189**	**84**

Cash Flow Statement for the period from 1 January to 31 December 2024

in € millions	Note	2024	2023
Net income		**189**	**84**
Non-cash items included in net income and reconciliation to cash flow from operating activities			
+ Depreciation on intangible assets and property, plant and equipment	8	11	10
+/- Increase in/(reversal of) provisions	12	35	14
+/- Increase in/(reversal of) fund for general banking risks		67	51
+/- Increase in/(reversal of) risk discount value-at-risk	7	(6)	1
+/- (Increase in)/reversal of deferred tax assets		(24)	–
+/- Interest expense /(income)		190	202
+/- Income tax expense		63	60
+/- Other adjustments		(2)	(3)
= Subtotal		**523**	**419**
Changes in assets and liabilities from operating activities			
-/+ Receivables from credit institutions		(2,390)	7,530
-/+ Receivables from customers		(6,960)	7,112
-/+ Trading assets		6,613	(5,895)
-/+ Other assets from operating activities		56	102
+/- Payables to credit institutions		620	(7,051)
+/- Payables to customers		4,909	(5,972)
+/- Debt issuances		186	92
+/- Trading liabilities		(3,541)	1,027
+/- Other liabilities from operating activities		39	(194)
+ Interest received		1,455	1,207
- Interest paid		(1,420)	(1,273)
- Income taxes paid		(88)	(166)
Cash flow from operating activities		**2**	**(3,062)**
- Payments for the acquisition of intangible assets and property, plant and equipment	8	(8)	(6)
Cash flow from investing activities		**(8)**	**(6)**
+ Proceeds from contributions to equity	15	–	1,000
+ Proceeds from subordinated liabilities	13	300	2,500
- Interest paid for Instruments for Additional Tier 1 Regulatory Capital		(48)	(48)
- Interest paid for subordinated debt		(200)	(57)
Cash flow from financing activities		**52**	**3,395**
= Change in cash and cash equivalents		46	327
+ Cash and cash equivalents at the beginning of the period		327	–
Cash and cash equivalents at the end of the period		**373**	**327**

General Information

1. Corporate Information

Morgan Stanley Europe SE (the “Company” or “MSESE”) is based in Frankfurt am Main. The Company is registered in the Commercial Register of the Local Court in Frankfurt am Main under number HRB 109880.

Morgan Stanley Europe Holding SE, Frankfurt am Main, (“MSEHSE”) is the sole shareholder of the Company. The Company is the sole shareholder of Morgan Stanley Bank AG, Frankfurt am Main ("MSBAG"). The Company, together with its subsidiary MSBAG, form the MSESE Group.

The Company’s ultimate parent undertaking is Morgan Stanley, Delaware, United States of America (“US”). Morgan Stanley together with its subsidiary undertakings form the Morgan Stanley Group.

2. Basis of Accounting

The annual financial statements as at 31 December 2024 are prepared in accordance with the regulations of the German Commercial Code (Handelsgesetzbuch or “HGB”), the German Ordinance on Accounting Policies for Banks and Financial Service Providers (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute or “RechKredV”) and the German Stock Corporation Act (Aktiengesetz or “AktG”). Unless otherwise stated, all amounts are rounded to the nearest million Euros.

The Company is exempt from preparing consolidated financial statements and a group management report for the MSESE Group (Section 291 (1) and (2) HGB). The company which prepares the consolidated financial statements for the smallest consolidation scope is MSEHSE. Consolidated financial statements of MSEHSE Group are prepared in accordance with the International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”) (Section 291 (1) HGB in conjunction with Section 315e (3) HGB). The company which prepares the consolidated financial statements for the largest consolidation scope is Morgan Stanley.

Financial statements of Morgan Stanley and exempting IFRS consolidated financial statements and the management report of MSEHSE Group can be obtained from https://www.morganstanley.com/about-us-ir.

The following are the key differences in the IFRS consolidated financial statements of the MSEHSE Group for the financial year 2024 when compared with the German accounting principles:

- Under HGB, financial instruments in the trading portfolio are initially measured at purchase price and subsequently measured at fair value less a risk discount on the basis of the regulatory value-at-risk. Additionally, 10% of the net trading result is allocated, if required, to the fund for general banking risk. IFRS requires initial as well as subsequent measurement of these financial instruments at fair value. Differences between the transaction price and the fair value at initial recognition are deferred if they are based on significant unobservable market parameters. HGB does not have this accounting concept.
- Under HGB, derivatives in the trading portfolio and related cash collateral may be netted per counterparty if the variation margin is calculated and paid daily on the basis of the fair value of the derivatives. Furthermore, there are requirements for netting receivables and liabilities according to Section 10 RechKredV. Under IFRS, financial assets and financial liabilities are offset against each other, and only the net amount is reported, if there is a legal right to offset the recognised amounts in the normal course of business and in the event of a counterparty default. In addition, there must be an intention either to settle on a net basis or to realise the asset and settle the liability simultaneously.
- Commodity derivatives that are only physically settled are not treated as financial instruments under HGB. Under IFRS, these transactions fulfill the criteria of a derivative;
- The valuation of provisions for pensions and similar obligations is based on different valuation assumptions. Under IFRS, pension liabilities and plan assets are measured separately and all remeasurements relating to assumption changes are taken to other comprehensive income. Under HGB, the same valuation methodology assumptions are applied to pension liabilities and plan

assets when their cash flows are matching. All remeasurements are taken to personnel expenses;

- Under IFRS, issued Additional Tier 1 instruments are reported within equity whilst under HGB these are reported within liabilities as Instruments for Additional Tier 1 Regulatory Capital;
- Under IFRS, structured notes are designated at fair value through profit and loss whilst under HGB, the Company has set up valuation units whereby changes in fair value of structured notes are offset with changes in fair value of hedging derivatives.

3. Accounting Policies

Cash Reserve and Receivables

Cash reserve is accounted for at nominal value. Receivables from credit institutions and customers are accounted for at acquisition cost, including pro-rata interest and are net of loan loss provisions. Cash placed overnight under the deposit facility with the Deutsche Bundesbank is reported within "Receivables from credit institutions".

Loan Loss Provision

The Company recognises loan loss provisions for receivables from credit institutions and customers.

In accordance with the requirements of the Institute of German Auditors (Institut der Wirtschaftsprüfer in Deutschland or "IDW") RS BFA 7, the Expected Credit Loss ("ECL") model is based on the change in credit risk since initial recognition of a financial instrument:

- 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 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 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 specific receivables a lifetime ECL is always calculated, without considering whether a SICR has occurred.

When assessing SICR, the Company 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 an assumption that a SICR has occurred if a financial asset is more than 30 days past due.

ECL is calculated using three main components:

- PD: 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.

Trading Assets and Liabilities

Financial instruments classified as trading assets and liabilities are initially recognised at purchase price and subsequently measured at

fair value less a risk discount in accordance with Section 340e (3) HGB. In accordance with Section 255 (4) HGB, the fair value corresponds to the market price. If an active market does not exist, fair value is determined using valuation techniques. Guarantees received or provided in respect of trading derivative contracts are accounted for as trading derivative contracts.

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

Where necessary, valuation adjustments will be made. Factors taken into account include liquidity risk (price range between bid and ask price), counterparty default risk, model uncertainty and concentration risks.

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.

In order to capture any remaining realisation risks, the result of the valuation at fair value is reduced by a risk discount, which is deducted from trading assets. The risk discount is calculated using the regulatory value-at-risk based on a 99% confidence level over a holding period of 10 days.

In addition to the risk discount, at each year end 10% of the net trading result (after risk discount) is allocated to the fund for general banking risks in accordance with Section 340e (4) HGB. The allocation is made until this fund reaches an amount of 50% of the 5-years average of the positive net trading result after risk discount. The fund for general banking risks may only be reversed to offset a net trading loss for the year or if it exceeds the 50% limit.

The Company pledges and receives cash collateral and securities in respect of its derivative portfolio in the form of initial and variation margin. Cash initial and variation margin pledged to and received from central clearing counterparties (“CCP”s) are recognised in Other assets and Other liabilities. For Over the counter (“OTC”) derivatives, this margin is shown under Receivables from credit institutions or customers and Liabilities to credit institutions or customers, respectively.

OTC derivatives reported within trading assets and liabilities are offset against the associated cash variation margin if, supported by a legally enforceable agreement containing a credit support annex (“CSA”), the exchange of cash collateral takes place on a daily basis taking into account the fair value of the derivative financial instruments. For each counterparty, the amount offset includes the positive and negative market values of derivatives as well as the cash variation margin paid or received.

Securities Lending and Repurchase Agreements

Securities lending and repurchase agreements are accounted for in accordance with the applicable principles of Section 340b HGB. Securities lent and securities sold under repurchase agreements continue to be recognised by the Company in accordance with their economic ownership, whilst securities borrowed and securities bought under repurchase agreements are not recognised on the balance sheet. Receivables and liabilities arising from repurchase agreements and securities lending transactions that meet the requirements to offset under Section 10 RechKredV are reported net.

Investments in Affiliated Companies

Investments in affiliated companies are carried at cost. If an impairment of an investment is expected to be permanent, the carrying amount is written down to the lower fair value.

Intangible Assets and Property, Plant and Equipment

Intangible assets and property, plant and equipment are reported at acquisition cost reduced by scheduled depreciation. The underlying useful lives are based on the economic useful life. Write-downs are made for

any impairment that is likely to be permanent. Goodwill reported within intangible assets is amortised over its estimated useful life of 10 years in accordance with Section 253 (3) sentence 4 HGB. Low-value assets are fully depreciated in the year of acquisition.

Other Assets

Other assets are measured at acquisition cost (nominal value) considering the strict lower-of-cost-or-market principle.

Liabilities

Liabilities to credit institutions and to customers, subordinated debt and Instruments for Additional Tier 1 Regulatory Capital are recognised at their settlement amount, including accrued interest, in accordance with Section 253 (1) HGB.

Prepaid Expenses and Deferred Charges

Prepaid expenses and deferred charges are released to the income statement on a straight-line basis over their term.

Provisions

Provisions for contingent liabilities are recognised at the expected settlement amount using reasonable judgement. If the remaining term is longer than one year, the provision is discounted. The Company applies the discount rate published by the Deutsche Bundesbank in accordance with the Regulation on the Discounting of Provisions.

The Company is applying accounting note IDW RH FAB 1.021 in relation to the valuation of provisions for pension and similar obligations funded by insurance contracts. This accounting note requires for matching cash flows and application of the same valuation methodology assumptions for the asset and the liability.

For pensions and similar obligations where the cash flows do not match the plan assets and are not accounted for under IDW RH FAB 1.021, the Company continues to use the projected-unit-credit method. The valuation includes actuarial assumptions on demographic developments, increases in salaries and pensions as well as inflation rates. Demographic assumptions are based upon the “Heubeck-Richttafeln 2018G” tables. The discount rate is based upon the average market interest rate of the last 10 years with an assumed remaining term of 15 years as published by Deutsche Bundesbank according to Section 253 (2) HGB.

In accordance with Section 246 (2) HGB, the pension obligations are offset against the plan assets as well as the respective expenses and income. The Company has outsourced the reinsurance policies covering the general pension plan to a contractual trust arrangement (“CTA”).

A provision requirement for interest rate risks is annually examined as part of the loss-free valuation of interest bearing financial instruments in the banking book using the present/book value method. As at 31 December 2024, the valuation resulted in no need to recognise a provision.

Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are recognised for temporary differences between the accounting and tax values for assets, liabilities and interest carry forwards. Deferred tax liabilities are netted against deferred tax assets. The Company has changed its accounting policy effective 1 January 2024 whereby the deferred tax assets are now recognised on the balance sheet. Previously, only deferred tax liabilities were recognised in accordance with the accounting option set out in Section 274 (1) sentence 2 HGB.

Company-specific tax rates at the time of recognition of temporary differences are used for the estimation of deferred taxes. Deferred taxes related to the head office are measured using the relevant combined German income tax rate of 32% which includes corporate tax, trade tax and solidarity surcharge. Deferred taxes related to the foreign branches are measured using the applicable statutory tax rates respectively, which range from 19% to 32%.

Valuation Units

The Company has set up micro-valuation units in accordance with Section 254 HGB for physically settling commodity derivatives and issued structured notes to hedge against market risk. The amount and maturity between the underlying and hedging transactions is matched. In order to assess the prospective effectiveness of a valuation unit, the method of matching of critical terms is used.

For the commodity derivatives, the Company applies the freezing method, whereby the effective part of the changes in value of the hedged item and hedging instrument resulting from the hedged risk are not reported on the balance sheet.

For issued structured notes, the Company uses the ongoing booking method, whereby the offsetting changes in the value of the hedged risk are recognised on the balance sheet.

Provisions for impending losses are recognised for an unrealised net loss of the hedged risk (retrospective negative ineffectiveness). Any unrealised gains are not recognised.

Currency Conversion

Currency conversion is carried out in accordance with the principles of Section 256a and Section 340h HGB. Assets and liabilities denominated in a foreign currency are translated into Euros at the rates ruling at the reporting date. Foreign exchange rate fluctuations from trading assets and liabilities are reported in the net trading result. Due to the special coverage in the same currency, gains and losses resulting from currency translation in the banking book are presented net in either other operating income or expenses.

Notes to the Balance Sheet

4. Residual Maturity of Receivables and Liabilities

The following tables presents the maturity structure of receivables from credit institutions and customers as well as liabilities to credit institutions and customers:

in € millions	2024	2023
Receivables from credit institutions		
Due on demand	12,579	10,594
With a remaining maturity of:		
up to three months	462	–
Total	**13,041**	**10,594**

Receivables from credit institutions due on demand include overnight cash deposits placed with the Deutsche Bundesbank of €9,800 million (31 December 2023: €9,028 million).

in € millions	2024	2023
Receivables from customers		
Due on demand	12,531	5,303
With a remaining maturity of:		
up to three months	997	610
three months to one year	469	1,123
one year to five years	10	–
Total	**14,007**	**7,036**

in € millions	2024	2023
Liabilities to credit institutions		
Due on demand	5,311	4,690
With a remaining maturity of:		
up to three months	200	200
Total	**5,511**	**4,890**

in € millions	2024	2023
Liabilities to customers		
Due on demand	9,714	8,993
With a remaining maturity of:		
up to three months	3,927	20
three months to one year	469	972
one year to five years	768	115
Total	**14,878**	**10,100**

5. Receivables and Liabilities with Affiliated Companies

The following table presents the receivables from and liabilities to affiliated companies:

in € millions	2024	2023
Receivables from credit institutions	213	23
Receivables from customers	10,805	4,364
Liabilities to credit institutions	4,629	3,883
Liabilities to customers	10,502	4,237
Subordinated debt	3,809	3,511
Instruments for Additional Tier 1 Regulatory Capital	1,000	1,000

6. Repurchase Agreements

Trading assets include €9,163 million of securities (2023: €9,058 million) which were transferred under repurchase agreements but remain recognised on the balance sheet.

7. Trading Assets and Liabilities

With the exception of certain types of secured financing transactions (“SFTs”), the criteria used to classify financial instruments to trading assets and trading liabilities remained unchanged as at 31 December 2024. Effective 1 January 2024, the Company fully aligned its classification of SFTs as trading or banking instruments in accordance with their classification under the Capital Requirements Regulation (“CRR”). This change had no impact on the net profit for the year.

The Company allocated an amount of €67 million (2023: €51 million), representing 10% of the net trading result in accordance with Section

340e (4) HGB, to the fund for general banking risks in the financial year 2024.

The following table provides a breakdown of the trading assets and liabilities:

in € millions	Trading assets 2024	Trading assets 2023	Trading liabilities 2024	Trading liabilities 2023
Derivative financial instruments	15,244	8,116	11,444	4,985
Receivables/ liabilities	10,325	23,329	19,596	29,597
Bonds and other fixed-income securities	9,212	9,230		
Shares and other non-fixed-income securities	109	809		
Risk discount	(16)	(22)		
Total	**34,874**	**41,462**	**31,040**	**34,582**

Bonds and other fixed-income securities contain €173 million of subordinated instruments (2023: nil).

The following table presents the nominal value of derivative financial instruments by type:

in € millions	Nominal amount 2024	Nominal amount 2023
Interest-related transactions	12,577,305	11,955,687
Exchange-rate-related transactions	712,566	906,252
Equity-related transactions	464,371	144,660
Credit derivatives	81,288	46,464
Other transactions	33,219	23,993
Total	**13,868,749**	**13,077,056**

8. Non-current Assets

Non-current assets of the Company consist of “Intangible assets”, “Property, plant and equipment” as well as “Investments in affiliated companies”.

Intangible assets consist of goodwill of €32 million (2023: €37 million).

Property, plant and equipment of €54 million primarily includes leasehold improvements of €41 million (2023: €14 million) and office equipment of €7 million (2023: €3 million). The additions include €51 million from the merger of Morgan Stanley France S.A. with MSESE.

Investments in affiliated companies of €603 million (2023: €603 million) relates to non-listed shares in MSBAG. The net profit of MSBAG as at 31 December 2024 transferred to the Company due to the Profit and Loss Transfer Agreement (“PLTA”) amounts to €122 million. The equity of MSBAG as at 31 December 2024 amounted to €660 million.

The following table shows the changes in non-current assets:

in € millions	Intangible assets	Property, plant and equipment
Acquisition / production cost 01 January 2024	**59**	**46**
Additions	–	57
Acquisition / production cost 31 December 2024	**59**	**103**
Accumulated depreciation 01 January 2024	**22**	**25**
Depreciation	5	24
Accumulated depreciation 31 December 2024	**27**	**49**
Carrying amount as at 31 December 2023	**37**	**21**
Carrying amount as at 31 December 2024	**32**	**54**

9. Other Assets and Liabilities

Other assets of €417 million (2023: €426 million) and other liabilities of €170 million (2023: €116 million) primarily consist of collateral received and paid in relation to listed and cleared derivatives. Other assets also include tax receivables of €126 million as well as a receivable of €122 million in relation to the PLTA with MSBAG.

10. Foreign Currencies

The following table presents the Company’s assets and liabilities denominated in foreign currencies:

in € millions	2024	2023
Assets	16,952	6,906
Liabilities	19,049	6,513

The foreign currency primarily relates USD.

11. Debt Issuances

The Company has issued structured notes to non-affiliated companies. As at 31 December 2024, the carrying amount of issued structured notes was €278 million (2023: €92 million).

12. Provisions

Provisions for Pensions and Similar Obligations

Provisions of €14 million (2023: €11 million) were made for pensions and similar obligations. Pensions and similar obligations recorded at the reporting date relate primarily to residual risks on unfunded inflation adjustments.

The main actuarial assumptions applied are as follows:

Actuarial assumptions	2024	2023
Discount rate	1.9%	1.8%
Income dynamics	2.5%	3.0%
Pension dynamics	2.2%	2.5%

The valuation difference, in accordance with Section 253 (6) HGB, between the 10-year average interest rate of 1.9% which has been applied at the end of the financial year 2024 and the 7-year average interest rate of 2% amounts to less than €1 million as at 31 December 2024 (2023: less than €1 million).

In accordance with Section 246 (2) HGB, pension obligations of €35 million are offset against the plan assets of €21 million.

Other Provisions

Other provisions of €198 million (2023: €129 million) primarily relate to variable, deferred and share-based compensation measured at the grant date fair value of Morgan Stanley shares.

13. Subordinated Debt

As at 31 December 2024, the Company had issued subordinated debt of €1,009 million (2023: €1,010 million) and senior subordinated debt of €2,800 million (2023: 2,501 million)

The subordinated debt of €1,000 million was issued to the immediate parent MSEHSE. It has a variable interest rate of 3-month EURIBOR plus 160 basis points, matures on 27 October 2031 and has optional quarterly call dates starting from 27 October 2025.

The senior subordinated debt of €2,800 million was issued to the immediate parent MSEHSE. It has Morgan Stanley Proxy rate[1], a maturity of 13 month evergreen which is extendable to a maximum of 10 years after issuance date, and no early call option.

The Federal Financial Supervisory Authority ("BaFin") has the authority to write down or convert into shares the above mentioned instruments prior to any insolvency or liquidation of the Company, under the applicable Resolution Legislation.

In the event of a liquidation or insolvency of the Company, the claims and interest claims of the subordinated creditors will only be repaid after the claims of all non-subordinated creditors have been satisfied.

Interest expense on subordinated and senior subordinated debt as at 31 December 2024 includes interest not yet due of €9 million (2023: €11 million).

14. Instruments for Additional Tier 1 Regulatory Capital

As at 31 December 2024, liabilities include €1,000 million (2023: €1,000 million) of Additional Tier 1 Regulatory Capital ("AT1 Notes") issued in accordance with the CRR. The AT1 Notes, issued in 2020 and 2022, represent the Company's perpetual, unsecured and subordinated debt and bear fixed annual interest rates of 4.7% and 5.0%, respectively. Interest expenses on these instruments as at 31 December 2024 include interest not yet due of €4 million (2023: €4 million) which is disclosed within other liabilities.

15. Equity Capital

Equity as at 31 December 2024 is comprised as follows:

in € millions	2024	2023
Subscribed capital	3,901	3,901
Capital reserve	2,115	1,931
Earnings reserve	150	66
Retained earnings	189	84
Total	**6,355**	**5,982**

Subscribed Capital

The subscribed capital is unchanged and is comprised of 3,901 million no-par-value registered shares of €1 each.

Capital Reserve

The Capital reserve increased by €184 million due to the merger of Morgan Stanley France S.A. with MSESE in December 2024.

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

Earnings Reserve

Net income of €84 million for the financial year ending 31 December 2023 was transferred to the earnings reserve by resolution of the Supervisory Board on 23 April 2024.

Retained Earnings

It is proposed to include the net profit for the financial year ending 31 December 2024 of €189 million in the earnings reserve.

Notes to the Income Statement

16. Income Breakdown by Geographical Markets

The total amount of interest income, commission income, net trading result and other operating income, grouped by geographical markets pursuant to Section 34 (2) RechKredV. is as follows:

in € millions	2024	2023
Germany	2,110	1,823
Other EU Countries	447	303
Total income	**2,557**	**2,126**

The information presented in the table above reflects the booking location of income in line with applicable Morgan Stanley Group transfer pricing policies.

17. Income from Profit Sharing, Profit Transfer or Partial Profit Transfer Agreement-related Profits

As a result of the PLTA, MSBAG's net profit for the financial year ending 31 December 2024 of €122 million was transferred to the Company.

18. Other Operating Income and Expenses

Other operating income of €17 million (2023: €19 million) primarily consists of payments for securities settlement in accordance with Central Securities Depositories Regulation ("CSDR").

Other operating expenses of €77 million (2023: €77 million) consist primarily of French and Spanish financial transaction taxes and expenses related to the settlement of securities.

Additional Information

19. Valuation Units

In the financial year, the Company continued to trade derivatives on CO_2 certificates which were hedged with offsetting derivatives with affiliated companies. These valuation units have an average residual maturity of one year and are not reported on the balance sheet. Nominal and fair value amounts as at year-end are as follows:

in € millions	Nominal amount	Fair value positive	Fair value negative
Underlying transaction	977	13	67
Hedging Instrument	977	67	13

Market risks embedded within issued structured notes were hedged with offsetting derivatives with Morgan Stanley Group companies. Nominal and fair value amounts of these valuation units as at 31 December 2024 are as follows:

in € millions	Nominal amount	Fair value change positive	Fair value change negative
Structured Note	281	4	9
Hedging Instrument	281	9	4

20. Contingent Liabilities

The Company has provided a Letter of Comfort (*Patronatserklärung*) to benefit MSBAG.

21. Auditor's Fee

Refer to the consolidated financial statements of the MSEHSE Group.

22. Employees

The average number of employees by business units was as follows:

Business Units	2024	2023
Infrastructure and Control	379	372
Institutional Securities Group	402	376
Total	**781**	**748**

Infrastructure and Control primarily consists of Finance, Human Capital Management and Corporate Services, Legal and Compliance, Operations, Risk Management and Technology.

Institutional Securities Group includes Fixed Income Division, Global Capital Markets, Institutional Equities Division, and Investment Banking Division.

23. Cash Flow Statement

The cash flow statement is prepared using the indirect method and shows the net increase/ decrease in cash and cash equivalents during the year.

Cash and cash equivalents represents the Company`s cash balance held with central banks due on demand and are not subject to any restrictions on disposal. Due to its narrow definition, cash and cash equivalents does not include overnight deposits placed with the Deutsche Bundesbank, which are reported within “Receivables from credit institutions”.

The merger of Morgan Stanley France S.A. with the Company did not have any impact on the Cash and cash equivalents as Morgan Stanley France S.A. did not hold cash balances with central banks.

24. Management Board and Supervisory Board

The Management Board is comprised as follows:

- André Munkelt,
  appointed as Chair of the Management Board with effect from 1 July 2024
- Oliver Behrens,
  resigned as Member and Chair of the Management Board with effect from 30 June 2024
- David Best,
  Member of the Management Board
- Martin Borghetto,
  Member of the Management Board
- Emmanuel Goldstein,
  resigned as Member of the Management Board with effect from 9 December 2024
- Philipp Lingnau,
  Member of the Management Board
- Dr. Jana Währisch,
  Member of the Management Board

The total remuneration of the Management Board paid by the Company for the financial year amounted to €10 million (2023: €8 million). Pension provisions for members of the Management Board amounted to €6 million (2023: €6 million). Compensation was paid to members of the Supervisory Board of less than €1 million (2023: less than €1 million).

The Company has not granted any loans to the members of the Management Board or the Supervisory Board nor has entered into liability relationships with them.

The Supervisory Board is comprised as follows:

- Frank Mattern,
  Independent advisor
  Chair of the Supervisory Board
- Christopher Beatty,
  Managing Director, Morgan Stanley
  Deputy Chair of the Supervisory Board appointed with effect from 3 May 2024
- Raja Akram,
  Managing Director, Morgan Stanley
- David Cannon,
  Independent advisor
- Lee Guy,
  Independent advisor
  resigned with effect from 13 February 2024
- Kim Lazaroo,
  Managing Director, Morgan Stanley
- Maria Luís de Albuquerque,
  Independent advisor
  resigned with effect from 31 August 2024
- Massimiliano Ruggieri,
  Managing Director, Morgan Stanley
  appointed with effect from 3 May 2024
- Paula Smith,
  Independent advisor
  appointed with effect from 1 January 2024
- Clare Woodman,
  Managing Director, Morgan Stanley
  term expired with effect from 3 May 2024

Frankfurt am Main, 26 March 2025

Morgan Stanley Europe SE

The Management Board

André Munkelt (Chair)

David Best

Martin Borghetto

Philipp Lingnau

Dr. Jana Währisch

AUDIT REPORT OF THE INDEPENDENT AUDITOR[1]

To Morgan Stanley Europe SE, Frankfurt am Main

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

Audit opinions

We have audited the annual financial statements of Morgan Stanley Europe SE, Frankfurt am Main, consisting of the balance sheet as of 31 December 2024, the income statement and the cash flow statement for the financial year from 1 January 2024 to 31 December 2024 as well as the notes, including a summary of accounting policies. In addition, we have audited the management report of Morgan Stanley Europe SE, Frankfurt am Main, for the financial year from 1 January 2024 to 31 December 2024. In accordance with German legal requirements, we have not audited the content of the consolidated non-financial statement of Morgan Stanley Europe Holding SE, Frankfurt am Main, to which reference is made in the section "Disclosures pursuant to Section 340a (1a) of the German Commercial Code in conjunction with Section 289b (2) of the German Commercial Code" of the management report.

According to our assessment based on the knowledge obtained in the audit,

- the attached annual financial statements comply in all material aspects with the requirements of German commercial law and, in compliance with the German Principles of Proper Accounting, give a true and fair view of the Company´s net assets and financial position as of 31 December 2024 and its results of operations for the financial year from 1 January 2024 to 31 December 2024, and
- the attached management report provides an accurate view of the Company's position overall. In all material respects, this management report is in line with the annual financial statements, complies with German legal requirements and accurately presents the opportunities and risks of future development. Our audit opinion on the management report does not extend to the contents of the above mentioned consolidated non-financial statement.

Pursuant to Section 322 (3) sentence 1 of the German Commercial Code (*HGB*), we declare that our audit has not led to any objections relating to the legal compliance of the annual financial statements and the management report.

Basis for the audit opinions

We have conducted our audit of the annual financial statements and the management report in accordance with Section 317 HGB and the EU Auditor´s Regulation (No. 537/2014; hereinafter referred to as "EU-APrVO") and in compliance with German Principles of Proper Auditing of Financial Statement as established by the Institut der Wirtschaftsprüfer [in Deutschland] (*IDW*). Our responsibilities under these rules and principles are further described in the section "Auditor's Responsibilities for the Audit of the Financial Statements and the Management Report" of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional regulations and we have fulfilled our other German professional obligations in accordance with these requirements. In addition, in accordance with Article 10 (2) lit. f) EU-APrVO, we declare that we have not provided any prohibited non-audit services pursuant to Article 5 (1) EU-APrVO. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those that, in our professional judgement, were most significant in our audit of the annual financial statements for the financial year from 1 January 2024 to 31 December 2024. These matters were considered in the context of our audit of the annual financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In the following, we present "Determination of fair value of Level 3 category trading assets and

[1] Translation; the German version prevails

liabilities" which we consider to be the key audit matter.

We have structured our presentation of this key audit matter as follows:

a. description of the facts (including reference to related disclosures in the annual financial statements)

b. audit procedure.

Determination of fair value of Level 3 category trading assets and liabilities

a. The core business activities of Morgan Stanley Europe SE include client-induced proprietary trading in financial instruments. The assets (EUR 34,874 million) and liabilities (EUR 31,040 million) arising from these business activities amount to EUR 65,914 million after offsetting as of 31 December 2024. A not immaterial portion of this relates to trading assets and liabilities for which significant valuation input parameters cannot be measured in an observable manner (Level 3 category). These are reported by the Company as trading assets or trading liabilities on balance sheet and are measured at fair value less a risk discount. Due to the provisions of section 340c HGB and the associated recognition of unrealised gains and losses, measurement at fair value has a direct impact not only on the assets but also on the results of operations of the Company.

   For financial instruments for which there is no active market and therefore no observable price-determining parameters, the fair value must be determined on the basis of prising models using unobservable parameters ("Level 3"). The characteristics of applied non-observable parameters represent assumptions or estimates made by the management with regard to the valuation assumptions used by market participants in pricing these assets and liabilities.

   In our view, the determination of fair values of financial instruments classified as Level 3 is of particular importance, as the assumptions or estimates are based on the discretion of the Company's management and are associated with an inherent and significant estimation uncertainty for accounting purpose.

   The disclosures by the Company's legal representatives on the accounting policies for the trading assets and liabilities are included in Note 3.

b. As part of our audit of the annual financial statements, we have gained an understanding of the valuation models used by the Company to determine the fair value of Level 3 financial instruments. Furthermore, we assessed whether and to what extent the approach was influenced by subjectivity, complexity or other inherent risk factors.

   We have identified controls implemented by the Company for determination of fair value and assessed the adequacy and effectiveness of the audit-related controls. For this purpose, we have assessed, among other things, the appropriateness of the models and evaluation parameters used as well as their stringent and proper processing. We also considered the corresponding business organization and relevant IT systems. Processes and controls that uniformly affect the entire Morgan Stanley Group are carried out by a shared service centre and audited by the auditors of the consolidated financial statements of the Morgan Stanley Group. We have used their work results as part of the audit of the annual financial statements.

   In addition, we have used the following substantive audit procedures of the consolidated financial statements with regard to the determination of fair value of individual financial instruments in the category "Level 3":

   – Perform backtesting for the management´s estimated fair values of selected Level 3 instruments for which events or transactions have occurred after the measurement date.

   – Independent estimates of fair values for selected Level 3 structured transactions. For these transactions, we have verified whether the assumptions made by management and the input parameters used are in line with the Company's valuation guidelines.

   – Audit of the income resulting from fair value measurement for selected Level 3 financial instruments. For individual transactions, we have carried out standalone fair value estimates to verify that the assumptions made by management and the underlying input

parameters are consistent with the Company's valuation guidelines.

– Review of the continuous application of the material and unobservable valuation assumptions made by management for the purpose of determining fair values.

Other information

The Management Board and the Supervisory Board are responsible for the other information. The other information comprises:

- 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 consolidated non-financial statement contained in the "ESG Report" section of the Group Management Report of Morgan Stanley Europe Holding SE, Frankfurt am Main, to which reference is made in the section "Disclosures pursuant to Section 340a (1a) HGB in conjunction with Section 289b (2) HGB" of the management report;
- all other parts of the Annual Report;
- but not the annual financial statements, not the substantively audited disclosures in the management report and not our associated auditor's report.

Supervisory Board is responsible for the report of the Supervisory Board. Management Board is responsible for all other information.

Our audit opinions on the annual financial statements and the management report do not cover the other information and, accordingly, we do not issue an opinion or any other form of assurance thereon.

In connection with our audit, we have a responsibility to read the other information set out above and to assess whether the other information:

- has material inconsistencies with the annual financial statements, the audited information in the management report or the knowledge gained during the audit, or
- otherwise appears to be materially misstated.

Responsibility of the Management Board and the Supervisory Board for the annual financial statements and the management report

The Management Board is responsible for the preparation of the annual financial statements which comply with German commercial law in all material aspects, and for ensuring that the annual financial statements give a true and fair view of the Company's assets, liabilities, financial position and results of operations in compliance with German Principles of Proper Accounting. In addition, the Management Board is responsible for the internal controls which it has determined to be necessary in accordance with German Principles of Proper Accounting to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud (i.e. manipulation of accounting or misappropriation of assets) or error.

In preparing the annual financial statements, the Management Board is responsible for assessing the Company's ability to continue operating as a going concern. It also has the responsibility to disclose matters related to the Company's going concern, where relevant. In addition, it is responsible for accounting based on going concern principle, provided no actual or legal circumstances conflict therewith.

Furthermore, the Management Board is responsible for the preparation of the management report that provides an accurate overall view of the Company's position and is consistent with the annual financial statements in all material aspects, complies with German legal requirements and appropriately presents opportunities and risks of future development. In addition, the Management Board is responsible for the safeguards and measures (systems) that it has considered necessary to enable the preparation of the management report in accordance with the applicable German legal requirements and to be able to provide sufficient appropriate evidence for the statements in the management report.

The Supervisory Board is responsible for monitoring the Company's accounting process for the preparation of the annual financial statements and the management report.

Auditor's responsibility for the audit of the annual financial statements and the management report

Our objective is to obtain reasonable assurance as to whether the annual financial statements as a whole are free from material misstatements, whether due to fraud or errors, and whether the management report provides an overall accurate view of the Company's position and is consistent in all material aspects with the annual financial

statements and the knowledge obtained in the audit, complies with German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report containing our audit opinions on the annual financial statements and the management report.

Reasonable assurance is a high degree of certainty but is not a guarantee that an audit carried out in accordance with Section 317 HGB and EU-APrVO in compliance with the German Principles of Proper Auditing of Financial Statements established by IDW will always detect a material misstatement. Misstatements may arise 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 taken on the basis of these annual financial statements and management report.

During the audit, we exercise professional judgment and maintain critical attitude. In addition

- We identify and assess the risks of material misstatements in the annual financial statements and the management report, due to fraud or errors, plan and conduct 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 that a material misstatement resulting from fraud will not be detected is higher than the risk that a material misstatement resulting from errors will not be detected, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or an override of internal controls.
- We gain an understanding of the internal controls relevant to the audit of the annual financial statements and arrangements and measures relevant to the audit of the management report in order to plan audit procedures that are appropriate in the circumstances, but not with the aim of providing an opinion on the effectiveness of the Company´s internal controls or such arrangements and measures.
- We assess the appropriateness of accounting policies used by the Management Board and the reasonableness of estimates and related disclosures made by the Management Board.
- We draw conclusions on the adequacy of the going concern accounting principle applied by the Management Board and, on the basis of the audit evidence obtained, whether there is a material uncertainty related to events or circumstances that may cast significant doubts on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention to the related disclosures in the annual financial statements and the management report in the auditor’s report or, if such disclosures are inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our auditors' opinion. However, future events or circumstances may result in the Company no longer being able to continue its business activities.
- We assess the overall presentation, structure and content of the annual financial statements, including the disclosures, as well as whether the annual financial statements present the underlying business transactions and events in such a way that the annual financial statements give a true and fair view of the Company’s assets, financial position and results of operations in compliance with the German Principles of Proper Accounting.
- We plan and conduct the audit of the annual financial statements in order to obtain sufficient appropriate audit evidence for the the accounting information of the Company or its business units as a basis for forming the audit opinions on the financial statements and the management report. We are responsible for directing, supervising and performing the audit activities carried out for the purpose of auditing the annual financial statements. We are solely responsible for our audit opinions.
- We assess the consistency of the management report with the annual financial statements, its compliance with the law, and the view of the Company’s position it provides.
- We perform audit procedures on the prospective information presented by the Management Board in the management report. On the basis of sufficient appropriate audit evidence, we in particular evaluate the significant assumptions used by the Management Board as a basis for the prospective information, and assess whether

the prospective information was properly derived from these assumptions. We do not express a separate audit opinion on the prospective information or the underlying assumptions. There is a substantial unavoidable risk that future events could differ materially from the prospective information.

We communicate with those charged with governance regarding, among other things, 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.

We provide those charged with governance with a statement that we have complied with the relevant independence requirements and discuss with them any relationships and other matters that may reasonably be expected to affect our independence, and, where relevant, the actions or safeguards taken to address threats to independence.

Of the matters that we have communicated with those charged with governance, we determine those matters that were most significant in the audit of the annual financial statements for the current reporting period and are therefore the key audit matters. We describe these matters in the auditor's report unless law or other regulation precludes the public disclosure of the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Other information pursuant to Article 10 EU-APrVO

We were elected as auditors by the Annual General Meeting on 5 May 2024. We were engaged by the Supervisory Board on 12 November 2024. We have been the auditors of of the financial statements of Morgan Stanley Europe SE, Frankfurt am Main, without interruption since the financial year 2018 and statutory auditors since the financial year 2019.

We declare that the audit opinion expressed in this auditor's report is in accordance with the additional report to the Audit Committee pursuant to Article 11 EU-APrVO (Long-form Audit Report).

We have provided the following services, which were not disclosed in the annual financial statements or the management report of the audited entity, in addition to the audit for the audited entity or for the entities controlled by it:

- Morgan Stanley Europe SE: Audit pursuant to Section 89 (1) WpHG (Securities Trading Act),
- Morgan Stanley Europe SE: Examination to obtain limited assurance in relation to the statements of the legal representatives pursuant to 17 C.F.R. Section 240.18a-7 of the Securities Exchange Act of 1934 according to AICPA standards,
- Morgan Stanley Europe SE: Audit of consolidated financial information in accordance with IDW PS 480, prepared in accordance with accounting principles to meet banking supervisory requirements,
- Morgan Stanley Bank AG: Audit pursuant to Section 89 (1) WpHG.

RESPONSIBLE AUDITOR

The German Public Auditor responsible for the audit is Kevin Vogt.

Frankfurt am Main, 3 April 2025

Deloitte GmbH

Wirtschaftsprüfungsgesellschaft

Martin Kopatschek	Kevin Vogt
Wirtschaftsprüfer (German Public Auditor)	Wirtschaftsprüfer (German Public Auditor)

Report of the Supervisory Board in accordance with Section 171 (2) of the German Stock Corporation Act (AktG)

In 2024, the Supervisory Board of Morgan Stanley Europe SE (the “Company”) had a strong focus on the development and business activities of the Company through the provision of financial services. There were eight Supervisory Board meetings that took place during 2024. 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 SE provided the Supervisory Board with the annual financial statements and management report for the financial year 2024 without delay after their preparation. The financial statements consist of:

- Balance sheet,
- Income statement,
- Cash flow statement and
- Notes.

The Management Board therefore carried out its obligations in accordance with section 170 (1) AktG. At the same time, the Supervisory Board was presented with the Proposal for the Profit Allocation in accordance with section 170 (2) AktG at the Annual General Meeting. This proposal provides for the net profit of € 189.433.666,59 to be allocated to other revenue reserves.

The Supervisory Board examined the documentation submitted in accordance with section 171 (1) 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 statements for the financial year 2024. As a result, the annual financial statements of Morgan Stanley Europe SE were determined in accordance with section 172 AktG.

The statutory auditors, Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, have issued an unqualified audit opinion for the annual financial statement and the Management Report

4 April 2025

Frank Mattern (Chairman)