The MSSA Board of Directors is pleased to present the annual report on the work and achievements of MSSA for the year ended December 31, 2018.

The MSSA audited financial statements and the external auditor's report for the year ended December 31, 2018 are attached.

1. MAIN ACTIVITIES OF MSSA:

MSSA is registered with the Capital Market Authority (the CMA) and authorized to conduct the following licensed activities in Saudi Arabia:

- **Dealing**: a person deals in a security as principal or as agent, and dealing includes to sell, buy, manage the subscription or underwrite securities;

- **Arranging**: a person introduces parties in relation to securities business, advises on corporate finance business or otherwise acts to bring about a deal in a security;

- **Managing**: a person manages a security belonging to another person in circumstances involving the exercise of discretion;

- **Advising**: a person advises a person on the merits of that person dealing in a security or exercising any right to deal conferred by a security; or

- **Custody**: a person safeguards assets belonging to another person, which include a security, or arranges for another person to do so, and custody includes taking the necessary administrative measures.
2. FINANCIAL PERFORMANCE AND FINANCIAL RESULTS:

MSSA has prepared its financial statements under IFRS 1 “First-time adoption of International Financial Reporting Standards” with three statements of financial position and with January 1, 2017 being applied as the transition date. The statutory financial statements have been prepared on a going concern basis. As at December 31, 2018 MSSA retains sufficient liquidity and regulatory capital. MSSA’s total revenues increased by 10% in 2018 to SAR 75,265,081 from SAR 68,287,145 in 2017. Higher 2018 revenues were driven by: (i) an increase in Investment Banking income due to higher advisory fees; (ii) higher revenues from Murabaha deposits partially offset by a decrease in Brokerage Fee and Commission income due to lower Fixed Income revenues partially offset by higher exchange fees, IT costs and other expenses.

Total expenses increased by 6% in 2018 to SAR 45,115,711 compared with expenses of SAR 42,395,098 in 2017. Compensation expenses increased by 23% mainly due to higher year-end bonus accrual and higher salaries. Non-compensation expenses decreased by 12% primarily due to reversal of reinstatement provision partially offset by higher exchange fees, IT costs and other expenses.

MSSA reported a net income of SAR 23,773,901 in 2018 compared with a net income of SAR 21,603,946 in 2017 (updated under IFRS).

The related parties of MSSA include its shareholders, associates and affiliated companies and directors and key management personnel of MSSA. In the ordinary course of business, MSSA enters into transactions with related parties based on mutually agreed prices and terms approved by MSSA’s management. Related party transactions include revenue sharing arrangements between MSSA and other members of the Morgan Stanley Group and agreements to make compensation payments to MSSA’s independent directors. The duration of such arrangements are varied. The net amount due to related parties for the year ended December 31, 2018 was SAR 2,569,201.
3. **RECENT DEVELOPMENTS:**

- Following the economic and fiscal initiatives that are pillars to Vision 2030, MSSA has been active in the mergers & acquisitions, and equity and debt capital markets arena. A number of mandates have been awarded to MSSA in 2018 and some are still under execution. MSSA has succeeded in maintaining a competitive position in the Saudi market with landmark deals that are under execution, and aims to consistently build trust with both clientele and regulators in the kingdom.

- 2018 was an important year for the Saudi equity capital markets with both the FTSE and MSCI confirming inclusion of Saudi Arabia in their Emerging Market indices starting in 2019. As a result of these announcements the volume of foreign investor trading in Saudi Arabia has increased and MSSA’s equity trading operation has seen its volume grow as well.

- During 2018 MSSA focused on building its international equity investor base, in addition to providing access to Tadawul for local and regional investors.

- MSSA expects international interest in the Saudi equity market to continue to grow given market reforms in the country and the expected impact of the index events.

- Asset management is a key component of the business in Saudi Arabia and continues to deliver a strong performance. Morgan Stanley Investment Management was able to attract new investors for its international product offerings. Our local flagship Saudi equity fund continued to maintain a strong long term track record. The fund won the 2018 Thomson Lipper award as the best Saudi Equity Fund in 3-year and 5-year categories. On the sales and distribution front, efforts are ongoing to open additional distribution channels to grow assets under management for the Saudi equity strategy.

4. **BOARD OF DIRECTORS:**

As at December 31, 2018 MSSA’s board of directors (the Board) consisted of the following members:

- Saud Alblehed - Chairman & Independent Director
- Raad Al-Saady - Independent Director
- Clare Woodman - Director
- Sammy Kayello - Director
- Abdulaziz Alajaji - Director
The Board secretary was Jamila AlShalhoub.

Saud Alblehed was appointed Chairman of the Board on 24 June 2018.

Raad Al-Saady was appointed as an independent director on 24 June 2018.

The Board held three meetings in the year 2018 on the following dates:
- March 20, 2018: Attended by all directors
- July 24, 2018: Attended by all directors
- November 28, 2018: Attended by all directors

Annex 1 shows the membership of Board members on external boards.

5. BOARD COMMITTEES:
The Board established pursuant to its resolution dated March 27, 2012 a Nomination and Remuneration Committee, a Compliance Committee and an Audit Committee, with appropriate terms of reference in accordance with CMA requirements. The composition of these committees was amended pursuant to a board resolution dated May 7, 2013.

As of December 31, 2018 the following committees were composed of the following members:

A. Audit Committee:
   - Raad Al-Saady - Committee Chairman
   - Sammy Kayello
   - Mustafa Duman

Raad Al-Saady was appointed Committee Chairman on 24 July 2018.

Minal Morzeria was appointed Committee Secretary on 24 July 2018.

The duties and responsibilities of the Audit Committee include the following:

i. To supervise MSSA’s internal audit resource to ensure its effectiveness in executing the activities and duties specified by the Board of Directors.
ii. To review and approve the internal audit mandate.
iii. To review audit reports and supervise the implementation of remedial actions highlighted by the reports.
iv. To recommend to the Board the appointment, dismissal and the remuneration of external auditors, having due regard to their independence.
v. To supervise the activities of the external auditors, and to approve any activity beyond the scope of the
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audit work assigned to them during the performance of their duties.

vi. To review the audit plan in coordination with external auditors and make recommendations.

vii. To review the external auditor's comments on the financial statements and to follow up the necessary actions to be taken as a result.

viii. To review the financial statements prior to presentation to the Board, and to provide an opinion and recommendations in relation to them.

ix. To review the accounting policies in force, and recommend changes to the Board where required.

x. To regularly review the effectiveness of the compliance and risk management function of MSSA.

The Audit Committee held four meetings in 2018. In addition to 2 ad hoc meetings.

B. Compliance Committee

- Sammy Kayello, Chairman
- Saud Albeliehed
- Abdulaziz AlAjaji
- Jamila Alishalhoub (Committee Secretary)

The duties and responsibilities of the Compliance Committee include the following:

i. Ensuring that appropriate policies and procedures are in place to facilitate the Company’s compliance with relevant laws, rules and regulations.

ii. Ensuring that the compliance department of the Company is appropriately resourced and has access to all records.

iii. Ensuring that MSSA establishes implements, enforces and maintains a relevant compliance program.

iv. Ensuring the establishment of, and compliance by all employees of MSSA with, a code of conduct.

v. Ensuring that required notifications are made to the relevant authorities.

vi. Ensuring the development of relevant procedures for reporting to the governing body on compliance matters.

vii. Providing the Audit Committee with a quarterly report on the activities of the compliance function.
viii. Providing the Board with a quarterly report of the committee’s deliberations and findings, including the reporting of any instances of non-compliance with any laws, regulations or the code of conduct, and providing a copy of the report to the Audit Committee.

The Compliance Committee held four meetings in 2018.

C. Nomination and Remuneration Committee

- Sammy Kayello, Chairman
- Saud Alblehed
- Clare Woodman

The duties and responsibilities of the Nomination and Remuneration Committee include the following:

i. Recommend to the Board appointments to membership of the Board in accordance with approved MSSA policies and standards.

ii. Perform an annual review of the skill requirements for membership of the Board of Directors, and prepare a description of the required capabilities and qualifications for membership, including the time which a member of the Board should reserve for Board activities.

iii. Review the structure of the Board of Directors and recommend changes, where needed.

iv. Determine the points of strength and weakness of the Board of Directors, and recommend changes that are compatible with the best interests of MSSA.

v. On an annual basis, review any potential or actual conflicts of interests applicable to independent board members and ensure that the independent board members continue to remain independent.

vi. Draw up appropriate indemnity and remuneration policies for members of the Board and top executives.

The Nomination and Remuneration Committee held three meetings in 2018.

6. COMPENSATION:

Annex 2 details the rewards and compensations paid to or to be paid to the directors in 2018 and to the five senior executives of MSSA who have received the highest rewards and compensation (from MSSA), in addition to the CEO and CFO, if the CEO and CFO were not included in the top five. No compensation was paid to the executive officers for their role as executive Board members.

vi. Providing the Board with a quarterly report of the committee’s deliberations and findings, including the reporting of any instances of non-compliance with any laws, regulations or the code of conduct, and providing a copy of the report to the Audit Committee.

The Compliance Committee held four meetings in 2018.

C. Nomination and Remuneration Committee

- Sammy Kayello, Chairman
- Saud Alblehed
- Clare Woodman

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7. VIOLATIONS:

None.

8. INTERNAL AUDIT 2018:

In Q2 2018, Morgan Stanley’s internal audit department (the IAD) conducted a review focused on assessing the adequacy of control design and effectiveness related to MSSA’s business and infrastructure processes. The IAD report reflected that overall control environment in MSSA is operating as intended.

In 2018 MSSA management self-identified a moderate issue regarding Capital Market Authority appointment requirements for independent Board members. Following resignation of the chairman in November 2017, MSSA appointed a second independent director and chairman in June 2018.

In 2017 MSSA management previously self-identified two high risk issues, the first relates to the lack of independent oversight on best execution for orders executed by Investment Management traders, this remains open and completion of remediation has been extended to December 2018.

In 2017 another moderate issue was identified related to the lack of an adequate control framework over certain aspects of the payment process, the remediation plan was completed in October 2018.

Separately, the November 2017 Financial Crimes Compliance Testing Report highlighted a high risk issue on MSSA’s client due diligence periodic review process. Remedial actions have been completed in January 2019.

9. RISK MANAGEMENT

MSSA, as an authorized person operating in Saudi Arabia, is exposed to various operational, credit and market risks. Detailed guidelines for managing such risks are in place and are followed as required. Details of MSSA’s risk management policies and procedures are provided in the Internal Capital Adequacy Assessment Process (ICAAP) report and in the audited financial statements submitted to the CMA.

a. Operational risk

Operational risk is inherent in all of MSSA’s products, activities, processes and systems and cannot be entirely eliminated. MSSA’s Operational Risk Management Policy establishes and maintains the standards for identifying, measuring, monitoring controlling, mitigating and where appropriate accepting operational risk.
b. Market risk

Market risk is the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio.

MSSA’s market risk exposure is restricted to holding foreign exchange exposures. The Company manages currency risk based on the Net Open Position of currencies to cover the Company operations which is not related to trading book. As the Company has limited exposure outside the Gulf Cooperation Council currencies which are already pegged to the US Dollar, volatility levels are not significant.

c. Credit risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to the Company. MSSA’s credit exposures can be categorized as (i) Risk against placement with the banks; and (ii) Risk against corporate and intercompany receivables. Credit risk exposure is managed on a global basis and in consideration of each significant legal entity within the Morgan Stanley Group. The credit risk management policies and procedures establish the framework for identifying, measuring, monitoring and controlling credit risk whilst ensuring transparency of material credit risks, compliance with established limits and escalating risk concentrations to appropriate senior management.

d. Liquidity risk

Liquidity risk refers to the risk that MSSA will be unable to finance its operations due to a loss of access to the capital markets or difficulty in liquidating its assets. Liquidity risk encompasses MSSA’s ability (or perceived ability) to meet its financial obligations without experiencing significant business disruption or reputational damage that may threaten the Company’s viability as a going concern. The Company pursues a policy of maintaining a high level of liquidity through active and prudent management of assets and liabilities.

10. LOANS:

MSSA has no loans outstanding.

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