Board of Directors' Report 2019
Morgan Stanley Saudi Arabia (MSSA)

The MSSA Board of Directors is pleased to present the annual report on the work and achievements of MSSA for the year ended 31 December 2019.

The MSSA audited financial statements and the external auditor's report for the year ended 31 December 2019 (the **Financial Statements**) are attached at Appendix 1.

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 annual financial statements in accordance with International Financial Reporting Standards (**IFRS**) issued by the International Accounting Standards Board, interpretations issued by the IFRS Interpretations Committee (**IFRIC**) and that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants (**SOCPA**) except for assets held in trust or fiduciary capacity which are not treated as assets of MSSA. From 1 January 2019, MSSA applied Morgan Stanley's global transfer pricing policies. These policies are consistent with 2017 OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations and comply with the newly introduced transfer pricing bylaws, issued by the General Authority of Zakat and Tax (**GAZT**) in February 2019. The statutory financial statements have been prepared on a going concern basis. As at 31 December 2019, MSSA retained sufficient liquidity and regulatory capital.

MSSA's total revenues increased by 30% in 2019 to SAR 91.9 million from SAR 70.7 million in 2018. Higher 2019 revenues were driven by higher fee and commission income received from other Morgan Stanley Group undertakings.

Total expenses increased by 81% in 2019 to SAR 73.5 million compared with expenses of SAR 40.6 million in 2018. Compensation expenses increased by 5% mainly due to higher deferred compensation amortisations, year-end bonus accrual and higher salaries. Non-compensation expenses increased by 236% primarily due to management recharges from other Morgan Stanley Group undertakings, reversal of reinstatement provision in 2018 and higher withholding tax charges.

MSSA reported a net income of SAR 13.5 million in 2019 compared with a net income of SAR 23.8 million in 2018

3. RECENT DEVELOPMENTS

2019 has been a strong year for the Investment Banking franchise in Saudi Arabia. MSSA has been involved in several landmark transactions across both mergers & acquisitions and capital markets. MSSA has advised its local clients on accessing both the local and internal capital markets for public fund raising. MSSA continues to enhance its client relationships by providing best in class advisory services. MSSA remains committed to partnering with the Kingdom of Saudi Arabia as it continues to develop its local capital market works to meet its Vision 2030 targets and it continues to enhance its client relationships by providing best in class advisory services.
2019 saw the successful inclusion of Saudi Arabia in both the FTSE and MSCI Emerging Market index following the capital markets reforms implemented by the Tadawul and the CMA.

During 2019, MSSA has sought to enhance its Equity Sales and Trading service offering to provide both local and international investors access to the Saudi Stock Exchange. MSSA also continued to support Saudi Arabian corporates to access international investors through its annual Saudi Arabia Capital Markets conference.

Asset management is a key component of the business in Saudi Arabia and continues to deliver a strong performance.

Morgan Stanley Investment Management has maintained strong relationships with existing clients and was also able to attract new investors for its international product offerings.

The local flagship MSSA Saudi equity fund continued to maintain a strong long-term track record. The fund won the Thomson Lipper award as the best Saudi Equity Fund in 3-year and 5-year categories for the third year running. 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 31 December 2019 MSSA's board of directors (the **Board**) consisted of the following members:

- Saud Alblehed - Chairman & Independent Director
- Raad Al-Saady - Independent Director
- Abdulaziz Alajaji – Executive Director
- Sammy Kayello – Non-executive Director
- Gokhan Unal – Non-executive Director
- Henrik Gobel – Non-executive Director

The Board secretary was Jamila AlShalhoub.

Gokhan Unal and Henrik Gobel were appointed as non-executive directors on 20 March 2019 and 27 November 2019 respectively.

Clare Woodman resigned as a non-executive director of the Board with effect from 15 March 2019.

Dates of and attendance at Board meetings held during 2019 are set out at Annex 1.

Annex 2 shows the membership of Board members on external boards.

5. BOARD COMMITTEES

The Board established pursuant to its resolution dated 27 March 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 7 May 2013.

A. Audit Committee

As at 31 December 2019 the Audit Committee was composed of the following members:

- Raad Al-Saady – Committee Chairman
- Sammy Kayello
- Mustafa Duman

Dates of and attendance at the Audit Committees held during 2019 at set out at Annex 3.

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 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.

B. Compliance Committee

As at 31 December 2019 the Compliance Committee was composed of the following members:

- Sammy Kayello, Chairman
- Saud Al Blehed
- Abdulaziz AlAjaji

Dates of and attendance at the Compliance Committees held during 2019 are set out at Annex 4.

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.

C. Nomination and Remuneration Committee

As at 31 December 2019, the Nomination and Remuneration Committee was composed of the following members:

- Sammy Kayello, Chairman
- Saud Al Blehed
- Gokhan Unal

Clare Woodman resigned as a member of the Nomination and Remuneration Committee with effect from 15 March 2019. Gokhan Unal joined the Nomination and Remuneration Committee with effect from 20 March 2019.

Dates of and attendance at Nomination and Remuneration Committee meetings during 2019 are set out in Annex 5.

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.

6. **COMPENSATION**

Annex 6 details the rewards and compensations paid to or to be paid to the directors in 2019 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.

7. **VIOLATIONS**

None.

8. **INTERNAL AUDIT 2019**

In Q1 2019, 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 2019 MSSA management self-identified a moderate issue in respect of review procedures related to production releases by Mubasher into the local trade capture/execution used by MSSA in its sales and trading operations. In addition, the IAD identified one high issue and one moderate issue during the 2019 internal audit. The high issue was in relation to MSSA's documented process for responding to enquires from the local stock exchange. The moderate issue related to obtaining appropriate Know Your Customer clearance and Money Laundering Reporting Officer approvals. All three issues have been remediated.

Pursuant to the Article 62 of the Authorised Persons Regulations, both the internal and the external auditors have presented their annual audit results to the Audit Committee. Based on the internal auditors and external auditors review and by reference to the matrix of the key internal controls and procedures in place at MSSA, the Audit Committee is comfortable with the internal processes and controls in place relating to MSSA's books and records.

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 Financial Statements attached at Appendix 1 hereto and submitted to the CMA (see Note 23), Pillar 3 disclosures report and the Internal Capital Adequacy Assessment Process (**ICAAP**) report.

A. Operational Risk

Operational risk refers to the risk of loss, or of damage to MSSA's reputation, resulting from inadequate or failed processes or systems, from human factors or from external events (for example, fraud, theft, compliance risks, cyber-attacks or damage to physical assets). MSSA acknowledges that operational risk remains inherent in its products, activities, processes and systems and cannot, therefore, be entirely eliminated. MSSA's Operational Risk Framework is based on the Morgan Stanley Group's Operational Risk Policy and Procedures which are renewed at least annually to articulate clearly the current design and implementation of the Morgan Stanley Group's Operational Risk Management Framework.

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. MSSA manages currency risk based on the Net Open Position of currencies to cover MSSA operations which is not related to trading book. As MSSA 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 MSSA. 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 MSSA's viability as a going concern. MSSA pursues a policy of maintaining a high level of liquidity through active and prudent management of assets and liabilities. MSSA has insignificant liabilities compared to total assets and the majority of the assets are highly-liquid assets.

10. LOANS

As at 31 December 2019, MSSA had no loans outstanding.

11. SUBSIDIARIES

MSSA had no subsidiaries as at 31 December 2019.

12. MATERIAL CONTRACTS

MSSA has not entered into any material contracts outside of its ordinary course of business.

13. RELATED PARTY TRANSACTIONS

The Morgan Stanley Group conducts business for clients globally through a combination of both functional and legal entity organisational structures. Accordingly, MSSA is closely integrated with the operations of the Morgan Stanley Group and enters into transactions with other Morgan Stanley Group undertakings on an arm's-length basis for the purposes of utilising financing, trading and risk management, and infrastructure services.

Types of related party transaction include general funding transactions, management charges and fee and commission income to and from other Morgan Stanley Group entities. Details of the amounts of such related party transaction can be found at Note 28 to the Financial Statements attached to this Report at Appendix 1.

As at 31 December 2019, receivables due from related parties amounted to SAR 7.2 million and amounts due to related parties amounted to SAR 29.4 million.

MSSA has an arm's-length arrangement with the Seder Group. The Chairman of the MSSA Board is a director of the Seder Group, but is not a shareholder of such company. MSSA contracted with Seder Group prior to the Chariman's appointment to the MSSA board. A summary of the agreement's key terms are as follows:

- The purpose of the agreement is to supply janitorial and logistical services to MSSA.
- The value of the agreement is a monthly payment of SAR 22,400.
- Either party may terminate the agreement.
- The agreement is governed by the laws of Saudi Arabia.
- The contract was entered into on 1 July 2010, with an initial term of one year. The contract renews automatically in the absence of termination.

Annex 1

Dates and Attendances at 2019 Board Meetings

Name	Position	20/03/19	22/07/19	21/11/19
Saud Al Blehed	Chairman	Yes	Yes	Yes
Raad Al-Saady	Independent Director	Yes	Yes	Yes
Abdulaziz Alajaji	Executive Director	Yes	Yes	Yes
Sammy Kayello	Non-executive Director	Yes	Yes	Yes
Gokhan Unal	Non-executive Director	Not yet appointed	Yes	Yes
Henrik Gobel	Non-executive Director	Not yet appointed	Yes	Yes

Annex 2

MSSA Directors Memberships' of External Boards

Director	**Name of external board**
Saud Al Blehed	1. Managing Director & board member, Watad Holding 2. Chairman, Ekal Human Resources Company 3. Vice Chairman, Ijarah Finance 4. Board Member, Seder Group
Raad Al-Saady	1. Saudi Airlines Cargo Company 2. NSV Automotive 3. Abdul Latif Jameel Summit 4. Muheel Facilities Management 5. Member of SACC's Executive Committee and Nomination and Remuneration 6. Four Principles 7. Chairman of the Audit Committee of Coldstores Group of Saudi Arabia

Annex 3

Dates and Attendances at 2019 Audit Committee Meetings

Name	Position	07/02/19	20/03/19	13/05/19	27/05/19	16/09/19	21/11/19
Raad Al-Saady	Chairman	Yes	Yes	Yes	Yes	Yes	Yes
Sammy Kayello	Member	Yes	Yes	Yes	Yes	Yes	Yes
Mustafa Duman	Member	Yes	Yes	Yes	Yes	Yes	Yes

Annex 4

Dates and Attendances at 2019 Compliance Committee Meetings

Name	Position	20/03/19	22/07/19	16/09/19	21/11/19
Sammy Kayello	Chairman	Yes	Yes	Yes	Yes
Saud Al Blehed	Member	Yes	Yes	Yes	Yes
Abdulaziz Alajaji	Member	Yes	Yes	Yes	Yes

Annex 5

Dates and Attendances at 2019 Nomination and Remuneration Committee Meetings

Name	Position	20/03/19	22/07/19	21/11/19
Sammy Kayello	Chairman	Yes	Yes	Yes
Saud Al Blehed	Member	Yes	Yes	Yes
Gokhan Unal	Member	Yes	Yes	Yes

Annex 6

Details of the Rewards and Compensation Paid to the Board of Directors for 2019

	Executive Directors	**Independent Directors**		**Top Five Senior Executives (Including CEO & CFO)**
		Saud Al Blehed	Raad Al-Saady	
Salaries and Compensation	0	509,000	159,000	5,871,041
Allowances	0	0	0	0
Annual & Periodic Bonuses	0	0	0	4,627,448
Incentive Plans	0	0	0	1,663,334
Compensation or Other Benefits In-Kind Payable Monthly & Annually	0	0	0	0
Waiver of any rewards or remuneration	No	No	No	No

All amounts are in SAR.

Annex 7

List of MSSA Assets, Liabilities and Outcomes of Activities for 2015-2019

	Assets	Liabilities	Outcomes of Activities
2015	196,726	20,406	19,574
2016	206,223	19,954	9,286
2017	236,670	25,540	21,604
2018	261,143	25,452	23,774
2019	306,859	58,196	13,544

All amounts are in SAR thousand.

Appendix 1

MSSA Audited Financials as at and for the year ended 31 December 2019

MORGAN STANLEY SAUDI ARABIA
(CLOSED JOINT STOCK COMPANY)

Financial Statements and Independent Auditor's Report
For the year ended 31 December 2019

CONTENTS **PAGE**

Deloitte.

Deloitte and Touche & Co.
Chartered Accountants
Head office - Riyadh
License #323/11/96
Date 10/3/1419
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT

To the shareholders
Morgan Stanley Saudi Arabia
(Closed Joint Stock Company)
Riyadh, Kingdom of Saudi Arabia

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Morgan Stanley Saudi Arabia (Closed Joint Stock Company) ("the Company"), which comprise the statement of financial position as at December 31, 2019, and the income statement and the statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes to the financial statements, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Company's financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and Regulations for Companies and the Company's bylaws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, i.e. the Board of Directors, are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error 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 financial statements.

Deloitte.

Deloitte and Touche & Co.
Chartered Accountants

Independent Auditor's report to the shareholders of Morgan Stanly Saudi Arabia (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

As part of an audit in accordance with International Standards on Auditing endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt 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 in our auditor's report to the related disclosures in the financial statements or, if such disclosure are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte and Touche & Co.
Chartered Accountants
P.O. Box 213
Riyadh 11411
Kingdom of Saudi Arabia

Waleed bin Moh'd Sobahi
(License No. 378)

Rajab 29, 1441H
March 24, 2020

ديلويت آند توش وشركاهم
محاسبون ومراجعون قانونيون
المركز الرئيسي - الرياض
ترخيص رقم ٩٦/١١/٣٢٣
License. 323/11/96
HO-Riyadh
Chartered Accountants
Deloitte and Touche & Co.

MORGAN STANLEY SAUDI ARABIA
(CLOSED JOINT STOCK COMPANY)

INCOME STATEMENT
Year ended 31 December 2019

	Note	2019	2018
		SAR'000	SAR'000
Net fees and commission income	4	88,975	67,956
Total non-interest revenues		88,975	67,956
Interest income		4,697	3,000
Interest expense		(1,807)	(222)
Net interest income	5	2,890	2,778
Net revenues		91,865	70,734
Non-interest expense:			
Other expense	6	(73,487)	(40,578)
Net impairment loss on financial instruments	7	(32)	(7)
PROFIT BEFORE INCOME TAX		**18,346**	**30,149**
Income tax expense	8	(4,802)	(6,375)
PROFIT FOR THE YEAR		**13,544**	**23,774**

All results were derived from continuing operations.

The notes on pages 10 to 47 form an integral part of the financial statements.

MORGAN STANLEY SAUDI ARABIA
(CLOSED JOINT STOCK COMPANY)

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2019

	Note	2019 SAR'000	2018 SAR'000
PROFIT FOR THE YEAR		13,544	23,774
Items that will not be reclassified subsequently to profit or (loss):			
Remeasurement of net defined benefit liability	8	(572)	787
TOTAL COMPREHENSIVE INCOME AFTER INCOME TAX FOR THE YEAR		**12,972**	**24,561**

The notes on pages 10 to 47 form an integral part of the financial statement

MORGAN STANLEY SAUDI ARABIA
(CLOSED JOINT STOCK COMPANY)

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2019

	Note	Share capital	Statutory reserve	Retained earnings	Total equity
		SAR'000	SAR'000	SAR'000	SAR'000
Balance at 1 January 2019		65,000	19,500	151,191	**235,691**
Profit for the year		-	-	13,544	**13,544**
Other comprehensive income for the year:					
Remeasurement of net defined benefit liability	8	-	-	(572)	**(572)**
Total comprehensive income for the year		-	-	**12,972**	**12,972**
Balance at 31 December 2019		**65,000**	**19,500**	**164,163**	**248,663**
Balance at 1 January 2018		65,000	32,500	113,630	**211,130**
Profit for the year		-	-	23,774	**23,774**
Other comprehensive income for the year:					
Remeasurement of net defined benefit liability	8	-	-	787	**787**
Total comprehensive income for the year		-	-	**24,561**	**24,561**
Transfer of excess statutory reserve to retained earnings		-	(13,000)	13,000	-
Balance at 31 December 2018		**65,000**	**19,500**	**151,191**	**235,691**

The notes on pages 10 to 47 form an integral part of the financial statements.

MORGAN STANLEY SAUDI ARABIA
(CLOSED JOINT STOCK COMPANY)

STATEMENT OF FINANCIAL POSITION
Year ended 31 December 2019

	Note	2019	2018
		SAR'000	SAR'000
ASSETS			
Cash and demand deposits	9	265,883	227,216
Trade and other receivables	10	28,039	25,760
Current tax assets	11	336	336
Deferred tax assets	12	3,491	3,308
Other assets	13	2,200	2,432
Property, plant and equipment	14	6,830	2,091
Intangible assets	15	80	-
TOTAL ASSETS		**306,859**	**261,143**
LIABILITIES AND EQUITY			
Trade and other payables	16	36,971	7,992
Provisions	17	138	122
Current tax liabilities	11	1,305	1,432
Other liabilities	18	11,992	9,981
Employee defined benefit liability	27	7,790	5,925
TOTAL LIABILITIES		**58,196**	**25,452**
EQUITY			
Share capital	20	65,000	65,000
Statutory reserve	21	19,500	19,500
Retained earnings		164,163	151,191
TOTAL EQUITY		**248,663**	**235,691**
TOTAL LIABILITIES AND EQUITY		**306,859**	**261,143**

These financial statements were approved by the Board and authorised for issue on 24 March 2020.

Signed on behalf of the Board

Director
Abdulaziz Alajaji

The notes on pages 10 to 47 form an integral part of the financial statements.

MORGAN STANLEY SAUDI ARABIA
(CLOSED JOINT STOCK COMPANY)

STATEMENT OF CASH FLOWS
Year ended 31 December 2019

	Note	2019	2018
		SAR'000	**SAR'000**
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		13,544	23,774
Adjustments for:			
Amortisation of intangible assets	15	14	279
Depreciation on property, plant and equipment	14	2,901	1,886
Loss/ (gain) on disposal of property, plant and equipment		6	3
Increase/ (reversal) in provisions	17	16	(7,369)
Difference between employee benefit obligation contributions paid and amounts recognised in the income statement	27	1,150	758
Net impairment loss on financial instruments	7	32	7
Interest income	5	(4,697)	(3,000)
Interest expense	5	1,807	222
Income tax expense	8	4,802	6,375
Operating cash flows before changes in operating assets and liabilities		**19,575**	**22,935**
Changes in operating assets and liabilities :			
Increase in trade and other receivables		(2,364)	(7,010)
Decrease in other operating assets		232	3,410
Increase in trade and other payables		24,834	4,966
Increase in other operating liabilities		1,995	2,218
Interest received		4,751	2,800
Interest paid		(1,807)	(222)
Income taxes paid		(4,953)	(3,515)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**42,263**	**25,582**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of intangible assets	15	(94)	-
Investment in demand deposits, net	9	(30,000)	(120,000)
Purchase of property, plant and equipment	14	(1,251)	(1,376)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(31,345)**	**(121,376)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of principle portion of lease liabilities	19	(2,251)	-
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**(2,251)**	**-**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**8,667**	**(95,794)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**107,216**	**203,010**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	9	**115,883**	**107,216**

The notes on pages 10 to 47 form an integral part of the financial statements.

1. CORPORATE INFORMATION

Morgan Stanley Saudi Arabia ("the Company") is a Closed Joint Stock Company incorporated, domiciled and registered in Riyadh, Kingdom of Saudi Arabia ("KSA") under commercial registration number 1010224144 dated Ramadan 18, 1427H (corresponding to 7 October 2006). The Company is registered at the following address: 10th Floor, Al Rashid Tower, 7931, King Saud Road, Riyadh 12621, KSA.

The Company is engaged in dealing, managing, arranging custody and advisory services as authorised by the Capital Market Authority ("CMA") under license number 06044-37 dated Jumada Al-Thani 2, 1428H (corresponding to 17 June 2007).

The Company's immediate parent undertaking and majority shareholder is Morgan Stanley Middle East Inc, which is incorporated in the State of Delaware, United States of America.

The Company's ultimate parent undertaking and controlling is Morgan Stanley which, together with the Company and Morgan Stanley's other subsidiary undertakings, form the Morgan Stanley Group ("MS Group"). Morgan Stanley is incorporated in the State of Delaware in the United States of America. Copies of its financial statements can be obtained from www.morganstanley.com/investorrelations.

2. BASIS OF PREPARATION

Statement of compliance

The Company has prepared its annual financial statements in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), Interpretations issued by the IFRS Interpretations Committee ("IFRIC") and that are endorsed in the KSA and other standards and pronouncements issued by the Saudi Organisation for Certified Public Accountants ("SOCPA") except for assets held in trust or fiduciary capacity which are not treated as assets of the Company. This treatment is in compliance with the CMA's circular dated 4 January 2017 which refers to the resolution dated 20/3/1438H corresponding to 19 December 2016. Accordingly, these assets are not included in the accompanying financial statements.

Change in internal financial reporting

From 1 January 2019, MSSA applies Morgan Stanley's global transfer pricing policies. These policies are consistent with 2017 OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations and comply with the newly introduced transfer pricing bylaws, issued by the General Authority of Zakat and Tax ("GAZT") in February 2019. Comparatives have not been represented as a result of this change.

New standards and interpretations adopted during the year

The following standards, amendments to standards, and interpretations relevant to the Company's operations were adopted during the year. Except where otherwise stated, these amendments to standards, and interpretations did not have a material impact on the Company's financial statements.

IFRS 16 *'Leases'* was issued by the IASB in January 2016. This accounting update requires lessees to recognise in the statement of financial position all leases with terms exceeding one year, and results in the recognition of right of use ("ROU") asset and corresponding lease liability for all such leases, including those previously classified as operating leases.

The Company adopted this standard using the modified retrospective method of adoption, which resulted in the recognition of additional ROU assets and lease liabilities for lease existing at, or entered into after, 1 January 2019. Comparative amounts have not been restated and comparative amounts in relation to leasing activity reflect those determined and disclosed in accordance with International Accounting Standard 17 *'Leases'* ("IAS 17"). There was no resultant cumulative effect adjustment arising on adoption of the standard.

2. BASIS OF PREPARATION (CONTINUED)

New standards and interpretations adopted during the year (continued)

Adoption of the standard required the Company to make certain judgements and elect certain other practical expedients. The Company applied the following practical expedients when applying IFRS 16 on the transition date:

- Application of IFRS 16 only to contracts previously identified as leases. Contracts that were not previously identified as leases were not reassessed for the existence of a lease;
- The opening ROU asset was reduced by the carrying amount of the IAS 37 '*Provisions, Contingent Liabilities and Contingent Assets*' onerous lease provision that had existed before the date of initial application and was not subject to an impairment review at the time of adoption.

When measuring the lease liabilities, the Company discounted lease payments using its incremental borrowing rate determined as at 1 January 2019. The weighted average rate applied as of this date is 3.41%.

The lease payments include:

- Fixed payments (including in-substance fixed payments) less lease incentive receivable;
- Variable lease payments that depend on an index or a rate;
- Amounts expected to be paid under residual value guarantees;
- The exercise price of a purchase option reasonably certain to be exercised by the Company; and
- Payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate.

The operating leases' minimum lease payments disclosed as at 31 December 2018 in the Company's financial statements differ from the lease liabilities recognized as at 1 January 2019 primarily because IFRS 16 requires the lease payments to be discounted when measuring the lease liabilities.

An amendment to IAS 19 *'Plan Amendment, Curtailment or Settlement'* was issued by the IASB in February 2018, for retrospective application to plan amendments, curtailments or settlements occurring on or after 1 January 2019.

As part of the 2015-2017 Annual Improvements Cycle published in December 2017, the IASB made amendments to IAS 12 '*Income Taxes*' for application in accounting periods beginning on or after 1 January 2019.

IFRIC 23 '*Uncertainty over Income Tax Treatments*' was issued by the IASB in June 2017 for application in accounting periods beginning on or after 1 January 2019.

There were no other standards, amendment to standards or interpretations relevant to the Company's operations which were adopted during the year.

At the date of authorisation of these financial statements, the following amendment to standards relevant to the Company's operations were issued by the IASB but not mandatory for accounting periods beginning 1 January 2019. Except where otherwise stated, the Company does not expect that the adoption of the following amendment to standards will have a material impact on the Company's financial statements.

2. BASIS OF PREPARATION (CONTINUED)

New standard and interpretations not yet adopted (continued)

Amendments to IAS 1 *'Presentation of Financial Statements' and IAS 8 'Accounting Policies'*, Changes in Accounting Estimates and Errors': Definition of Material; was issued by the IASB in October 2018, for application in accounting periods beginning on or after 1 January 2020.

Basis of measurement

The financial statements of the Company are prepared under the historical cost basis except for the employee defined benefit liability, which have been actuarially valued as explained in the accounting policies below.

Representation of comparative amounts

The Company has presented fee and commission income net of related expenses and the comparative amounts have been represented. Certain other limited format changes have been made to prior year amounts to conform to the current year presentation.

Critical accounting judgements and key sources of estimation uncertainty

In applying the Company's accounting policies, the judgements made by management that have the most significant effect on the amounts recognised in the financial statements are the recognition of assets held in trust or fiduciary capacity. The Company believes that the judgements utilised in preparing the financial statements are reasonable, relevant and reliable.

The going concern assumption

The Company's business activities, together with the developments during the year, performance and position, are reflected in the Company's Board report which can be found at:
https://www.morganstanley.com/about-us/global-offices/europe-middle-east-africa/saudi-arabia#RegulatoryDocumentation

In addition, the notes to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposure to credit and liquidity risk.

Retaining sufficient liquidity and capital to withstand market pressures remain central to the MS Group's and the Company's strategy.

Taking the above factors into consideration, the Directors believe it is reasonable to assume that the Company will have access to adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

The impact of the economic and financial disruption due to the emergence of COVID 19 has been considered as part of the going concern analysis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Functional currency

Items included in the financial statements are measured and presented in Saudi Riyals ("SAR"), the currency of the primary economic environment in which the Company operates.

All currency amounts in the financial statements are rounded to the nearest thousand SAR.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Foreign currencies

All monetary assets and liabilities denominated in currencies other than SAR are translated into SAR at the rates ruling at the reporting date. Transactions and non-monetary assets and liabilities denominated in currencies other than SAR are recorded at the rates prevailing at the dates of the transactions. All translation differences are taken through the income statement. Exchange differences recognised in the income statement are presented in ‘Other expense’.

c. Financial instruments

Financial assets and liabilities comprise cash and demand deposits, trade and other receivables, and trade and other payables. These instruments are initially measured at fair value and subsequently measured at amortised costs less expected credit loss (“ECL”). Interest is recognised in the income statement in ‘Interest income’ or ‘Interest expense’ using the effective interest rate (‘EIR’) method as described below.

The EIR method is a method of calculating the amortised cost of a financial instrument and of allocating the interest income or interest expense over the expected life of the financial instrument. The EIR is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument to the carrying amount of the financial instrument. The EIR is established on initial recognition of the financial instrument.

d. Impairment of financial instruments

The Company recognises loss allowances for ECL for financial assets measured at amortised cost.

Measurement of ECL

For financial assets, ECLs are the present value of cash shortfalls (i.e. the difference between contractual and expected cash flows) over the expected life of the financial instrument, discounted at the asset’s EIR.

Where a financial asset is credit-impaired at the reporting date, the ECL is measured as the difference between the asset’s gross carrying amount and the present value of future cash flows, discounted at the original EIR.

The Company applies a three stage approach to measuring ECLs based on the change in credit risk since initial recognition:

- 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 as the lifetime cash shortfalls that will result if a default occurs in the next 12 months, weighted by the probability of that default occurring.
- Stage 2: if there has been a significant increase in credit risk (“SICR”) since initial recognition, the loss allowance is calculated as the 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 (see below for definition of credit-impaired), the loss allowance is calculated as the 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Impairment of financial instruments (continued)

Assessment of significant increase in credit risk

When assessing SICR, the Company considers both quantitative and qualitative information and analysis based on the Company's historical experience and expert credit risk assessment, including forward-looking information.

The probability of default ("PD") is derived from internal credit rating grades (based on available information about the borrower) and multiple forward-looking macroeconomic scenarios which are probability weighted. Credit risk is considered to have increased significantly if the PD has significantly increased at the reporting date relative to the PD of the facility, at the date of initial recognition. The assessment of whether a change in PD is "significant" is based both on a consideration of the relative change in PD and on qualitative indicators of the credit risk of the facility, which indicate whether a loan is performing or in difficulty. In addition, as a backstop, the Company considers that SICR has occurred in all cases when an asset is more than 30 days past due.

The Company's accounting policy is to not use the 'low' credit risk practical expedient. As a result, the Company monitors all financial instruments which are subject to impairment for SICR, with the exception of trade receivables and contract assets arising from transactions within the scope of IFRS 15 which do not have a significant financing component for which a lifetime ECL is always calculated.

In general, ECLs are measured so that they reflect:

a) A probability-weighted range of possible outcomes;

b) The time value of money; and

c) Relevant information relating to past, current and future economic conditions.

Calculation of ECL

ECL are calculated using three main components:

- Probability of default ("PD"): for accounting purposes, 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.

- Expected 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.

- Estimated 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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Impairment of financial instruments (continued)

Calculation of ECL (continued)

The 12 month ECL is equal to the sum over the next 12 months of quarterly PD multiplied by LGD and EAD, with such expected losses being discounted at the EIR. Lifetime ECL is calculated using the discounted present value of total quarterly PDs multiplied by LGD and EAD, over the full remaining life of the facility.

When measuring ECL, the Company considers multiple scenarios, except where practical expedients are used to determine ECL. Practical expedients are used where they are consistent with the principles described above.

ECL on certain trade receivables are calculated using a 'matrix' approach which reflects the previous history of credit losses on these financial assets, applying different provision levels based on the age of the receivable. Alternatively where there is a history of no credit losses, and where this is expected to persist into the future for structural or other reasons, such as collateral or other credit enhancements, it is determined that the ECL for a financial instrument is de minimis (highly immaterial) and it may not be necessary to recognise the ECL.

The Company measures ECL on an individual asset basis and has no purchased or originated credit-impaired ("POCI") financial assets.

If a financial asset has been the subject of modification which does not lead to its derecognition, SICR is assessed by comparing the risk of default of the financial instrument, based on the modified terms at the reporting date, with the risk of default of the financial instrument at inception, based on the financial instrument's original, unmodified terms.

Where the modification of contractual cash flows of a financial asset leads to its derecognition and the recognition of a new, the date of modification is treated as the date of initial recognition for the new financial asset when determining whether a SICR has occurred for that modified financial asset. In rare circumstances, after modification, the new asset is considered to be credit impaired, in which case it is treated as an asset which was credit-impaired at origination.

More information on measurement of ECL is provided in note 23.1.1 Credit risk management.

Presentation of ECL

ECL is recognised in the income statement within 'Net impairment loss on financial instruments'. ECL on financial assets measured at amortised cost are presented as an ECL allowance. The allowance reduces the net carrying amount on the face of the statement of financial position.

Credit-impaired financial instruments

In assessing the impairment of financial instruments under the ECL model, the Company defines credit-impaired financial instruments in accordance with MS Group Credit Risk Management Department's policies and procedures. A financial instrument is credit-impaired when, based on current information and events, it is probable that the Company will be unable to collect all scheduled payments of principal or interest when due according to the contractual terms of the agreement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Impairment of financial instruments (continued)

Write-offs

Trade and other receivables are written off (either partially or in full) when they are deemed uncollectible which generally occurs when all commercially reasonable means of recovering the receivables have been exhausted. Such determination is based on an indication that the counterparty can no longer pay the obligation, or that the proceeds from collateral will not be sufficient to pay the receivable. Partial write-offs are made when a portion of the receivables is uncollectable. However, financial assets that are written off could still be subject to enforcement activities for recoveries of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is reflected directly in the income statement within 'Net impairment loss on financial instruments' and is not recognised in the loss allowance account. Any subsequent recoveries are credited to 'Net impairment loss on financial instruments' within the income statement.

e. Revenue recognition and contract assets and liabilities

The Company recognizes revenue from the following major sources:

- Investment banking;
- Asset management fees; and
- Fees and commission income

Revenues are recognised when the promised goods or services are delivered to the Company's customers, in an amount that is based on the consideration the Company expects to receive in exchange for those goods or services when such amounts are not probable of significant reversal.

Investment banking

Revenue from investment banking activities consists of revenues earned from underwriting primarily equity and fixed income securities and advisory fees for mergers, acquisitions, restructuring and advisory assignments.

Underwriting revenues are generally recognised on trade date, if there is no uncertainty or contingency related to the amount to be paid. Underwriting costs are deferred and recognised when the related underwriting revenues are recorded.

Advisory fees are recognised as advice is provided to the client based on the estimated progress of work and when the revenue is not probable of a significant reversal. Advisory expenses are recognised as incurred, including when reimbursed.

Asset management fees

Asset management and administration fees are generally based on related asset levels being managed, such as the assets under management of a customer's account, or the net asset value of a fund. These fees are generally recognised when services are performed and the fees become known. Management fees are reduced by estimated fee waivers and expense caps, if any, provided to the customer.

Fee and commission income

Fee and commission income results from transaction-based arrangements in which the client is charged a fee for the execution of transactions. Such revenues primarily arise from transactions in equity securities; services related to sales and trading activities; and sales of mutual funds and alternative funds. Fee and commission income is recognised on trade date when the performance obligation is satisfied.

Fee and commission income in the income statement includes investment management fees, sales commissions and advisory fees.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Revenue recognition and contract assets and liabilities (continued)

Other items

Receivables from contracts with customers are recognised within 'Trade and other receivables' in the statement of financial position when the underlying performance obligations have been satisfied and the Company has the right per the contract to bill the customer. Contract assets are recognised when the Company has satisfied its performance obligations, however, customer payment is conditional, and are presented within 'Other assets'.

Incremental costs to obtain the contract are expensed as incurred if the contract duration is one year or less. Revenues are not discounted when payment is expected within one year.

f. Property, plant and equipment

Property, plant and equipment are stated at cost net of depreciation and any provision for impairment in value (see note 3(h) below), which are included within 'Other expense' in the income statement.

For premises held under operating leases, a reinstatement provision is recognised for the estimated cost to reinstate the premises at the end of the lease period. When the reinstatement provision is established and included within 'Provisions' in the statement of financial position, an equivalent asset is recognised and included in the cost of leasehold improvements at the initial present value of the reinstatement obligations. The discount effect included in the reinstatement provision is reversed over time using a constant effective yield method and included within 'Interest expense' in the income statement. The reinstatement asset is depreciated over the useful economic life of the relevant leasehold improvement asset and the depreciation charge is included within 'Other expense' in the income statement.

Depreciation is provided on property, plant and equipment at rates calculated to write off the cost of the assets on a straight line basis over their expected useful lives as follows:

Leasehold improvements, including reinstatement assets	- Lower of 8 to 10 years or remaining lease term
Fixtures, fittings and equipment	- 3 to 9 years

The carrying amount of an item of property, plant and equipment shall be derecognised on disposal or when no further economic benefits are expected from its use or disposal.

Gains and losses on disposals are determined by comparing proceeds with carrying amount.

g. Intangible assets

Software acquired by the Company is stated at cost less accumulated amortisation and accumulated impairment losses (see note 3(i) below). Amortisation is recognised in 'Other expense' in the income statement on a straight line basis over the useful economic life of the software from the date that it is available for use. The estimated useful life of acquired software is three years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Impairment of non-financial assets

Non-financial assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units 'CGU'). Such impairment losses are recognised in the income statement within 'Other expense' and are recognised against the carrying amount of the impaired asset on the statement of financial position. Non-financial assets, other than goodwill if any, that have suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

i. Cash and cash equivalents

Cash and cash equivalents comprise cash and demand deposits with banks, along with highly liquid investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

j. Income tax

Income tax in the financial statements is calculated in accordance with the GAZT rules. The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is calculated based on taxable profit for the year. Taxable profit may differ from profit/ (loss) before taxation as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date. Current tax is charged or credited in the income statement, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the current tax is also recorded within other comprehensive income or equity respectively.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and limited to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is reflected within other comprehensive income or equity, respectively.

Current tax assets are offset against current tax liabilities when there is a legally enforceable right to set off current tax assets against current tax liabilities and the Company intends to settle its current tax assets and current tax liabilities on a net basis or to realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and current tax liabilities on a net basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Leases

Applicable from 1 January 2019

For leases whose original lease term exceeds one year, ROU assets and lease liabilities are initially recognised based on the present value of the lease payments over the lease term. The discount rate used in determining the present value is the Company's incremental borrowing rate. The ROU asset also includes any prepaid lease payments and initial direct costs incurred and are reduced to reflect lease incentives received. The interest on lease liabilities is accrued at a constant periodic rate of interest on the remaining balance of the lease liability. The liability is remeasured when there is changes in future lease payments arising from a change in an index or rate or from a market rent review. Additionally, the lease liability is remeasured if the Company changes its assessment of whether it will exercise an extension or termination option or undertakes certain modifications of the lease. The ROU asset is depreciated on a straight line basis from the lease commencement date to the earlier of the end of its useful life or the end of the lease term. Depreciation of ROU assets is presented within 'Other expenses'. In addition, the ROU asset is tested for impairment losses where there is an impairment event.

The Company evaluates contracts greater than one year to determine whether they contain lease components at inception. Where contracts contain both lease and non-lease components, they are accounted for as a single lease.

The Company presents ROU assets within the 'Property, plant and equipment' line and lease liabilities within the 'Trade and other payables' line of the statement of financial position.

Applicable until 31 December 2018

Rentals payable under operating leases are charged to 'Other expense' in the income statement on a straight line basis over the lease term. Lease incentives are allocated on a straight line basis over the lease term as a reduction to rental expense.

l. Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the year end date, taking into account the risks and uncertainties surrounding the obligation.

m. Offsetting of financial assets and financial liabilities

Where there is a currently legally enforceable right to set off the recognised amounts and an intention to either settle on a net basis or to realise the asset and the liability simultaneously, financial assets and financial liabilities are offset and the net amount is presented on the statement of financial position. In the absence of such conditions, financial assets and financial liabilities are presented on a gross basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n. Employee compensation plans

i) Equity-settled share-based compensation plans

Morgan Stanley issues awards in the form of restricted stock units ("RSUs") to employees of the MS Group for services rendered to the Company. Awards are equity-settled and the cost of the equity-based transactions with employees is measured based on the fair value of the equity instruments at grant date. The fair value of RSUs is based on the market price of Morgan Stanley common stock on the date the award is granted, measured as the volume-weighted average price on the date of grant.

Awards generally contain clawback and cancellation provisions. Certain awards provide Morgan Stanley the discretion to cancel all or a portion of the award under specified circumstances. Compensation expense for these awards is adjusted for changes in the fair value of the Morgan Stanley's common stock until conversion.

The Company recognises compensation cost over the relevant vesting period for each separately vesting portion of the award. An estimation of awards that will be forfeited prior to vesting due to the failure to satisfy service conditions is considered in calculating the total compensation cost to be amortised over the relevant vesting period.

Under Group chargeback agreements, the Company pays Morgan Stanley for the procurement of shares. The Company pays Morgan Stanley the grant date fair value.

Share based compensation expense is recorded within 'Staff costs' within 'Other expense' in the income statement.

ii) Deferred cash-based compensation plans

Morgan Stanley awards deferred cash-based compensation on behalf of the Company for the benefit of employees, providing a return to the participating employees based upon the performance of various referenced investments. Compensation expense for deferred cash-based compensation awards is calculated based on the notional value of the award granted, adjusted for changes in the fair value of the referenced investments that employees select.

The Company recognises compensation cost over the relevant vesting period for each separately vesting portion of the award. Forfeitures due to failure to satisfy service conditions are accounted for as they occur.

Deferred cash-based compensation expense is recorded within 'Staff costs' within 'Other expense' in the income statement. The liability for the awards is measured at fair value and is included within 'Other liabilities' in the statement of financial position.

o. Employee defined benefit liability

The Company operates a defined benefit post-employment plan ("the plan").

For the Company's defined benefit post-employment plan, the plan obligations are measured on an actuarial basis in accordance with the advice of an independent qualified actuary using the projected unit credit method. Given there is no deep market in corporate bonds within the Kingdom of Saudi Arabia ("KSA"), the US AA-rated corporate bond market has been used as a proxy for determining an appropriate discount rate. Salary increase rates are projected by the Company in line with future expectations.

The plan is unfunded as no assets are allocated to cover the Company's liabilities. When payments are required to be made, the Company pays a contribution to the plan equal to the benefit to be paid.

The current service cost and any past service costs together with the net interest on the net defined benefit obligation are charged to 'Staff costs' within 'Other expense' in the income statement. Remeasurements that arise in calculating the Company's obligation in respect of a plan are recognised in other comprehensive income, in the period in which they occur. Details of the plans are given in note 27 to these financial statements.

4. NET FEES AND COMMISSION INCOME

	2019 SAR'000	2018 SAR'000
Net fee and commission income:		
Asset management fee	33,677	36,388
Brokerage fee and commission income	39,351	20,495
Investment banking	15,947	11,073
Total net fees and commission income	**88,975**	**67,956**
Of which, revenue from contracts with customers	*41,374*	*63,789*

5. INTEREST INCOME AND INTEREST EXPENSE

All interest income and expense relates to financial assets and financial liabilities at amortised cost and is calculated using the EIR method.

	2019 SAR'000	2018 SAR'000
Interest income from Murabaha deposits	4,549	2,962
Interest income from loans to other MS Group undertakings	148	38
Interest expense on loans from other MS Group undertakings	(1,664)	(222)
Interest expense on lease liability	(143)	-
Net interest income	**2,890**	**2,778**

No other gains or losses have been recognised in respect of financial assets measured at amortised cost other than as disclosed as 'Interest income'.

No other gains or losses have been recognised in respect of financial liabilities measured at amortised cost other than as disclosed as 'Interest expense', and foreign exchange differences disclosed in 'Other expense' (see note 6).

6. OTHER EXPENSE

	2019	2018
	SAR'000	SAR'000
Staff costs	28,771	27,286
Management charges from other MS group undertakings relating to other services	19,739	130
Withholding tax	5,290	1,460
Marketing and business development	4,431	3,339
Information processing	4,117	3,714
Other professional service	3,096	2,833
Depreciation on property, plant and equipment	2,901	1,886
Bank charges	2,481	1,392
Accrued directors' remuneration	689	641
Government fees	685	506
Operating lease rentals	299	3,038
Office services and stationary	223	709
Management charges from other MS group undertakings relating to staff costs	40	3
Amortisation of intangible assets	14	279
Net foreign exchange losses	8	113
Reversal of reinstatement provision (see note 17)	-	(7,491)
Other expenses	703	740
	73,487	**40,578**

A description of the Company's significant leasing arrangements is presented at note 19 Leases.

Information regarding employee compensation plans is provided in note 26.

7. NET IMPAIRMENT LOSS ON FINANCIAL INSTRUMENTS

The following table shows the net ECL charge for the year:

	2019	2018
	SAR'000	SAR'000
Trade and other receivables	**(32)**	**(7)**

All of the above impairment losses were calculated on an individual basis. No collective impairment assessments were made during the year or prior year.

8. INCOME TAX

	2019 SAR'000	2018 SAR'000
Current tax		
Current year	4,776	5,334
Adjustments in respect of prior years	66	71
	4,842	5,405
Deferred tax		
Origination and reversal of temporary differences	(40)	970
Income tax	**4,802**	**6,375**

Reconciliation of effective tax rate

The reconciliation between accounting income and income tax expense is as follows:

	2019 SAR'000	2018 SAR'000
Profit before income tax	18,346	30,149
Income tax using the average standard rate of corporation tax in KSA of 20%	3,669	6,030
Impact on tax of:		
Expenses not deductible for tax purposes	1,067	307
Utilisation of tax losses		(32)
Other timing differences	-	(1)
Tax under/ (over) provided in prior years	66	71
Total income tax expense in the income statement	**4,802**	**6,375**

In addition to the amount charged to the income statement, the aggregate amount of current and deferred tax relating to each component of other comprehensive income was as follows:

	2019			2018		
	Before tax SAR'000	Tax benefit SAR'000	Net of tax SAR'000	Before tax SAR'000	Tax expense SAR'000	Net of tax SAR'000
Remeasurement of net defined benefit liability	(715)	143	(572)	984	(197)	787

9. CASH AND DEMAND DEPOSITS

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances which have less than three months of maturity from the date of acquisition:

	2019 SAR'000	2018 SAR'000
Murabaha deposit with original maturity of less than 3 months	30,000	60,000
Current account	85,875	47,208
Petty cash	8	8
Cash and cash equivalents	115,883	107,216
Murabaha deposit with original maturity of more than 3 months	150,000	120,000
Total cash and demand deposits	**265,883**	**227,216**

Murabaha deposit was placed with a local bank at an average commission rate of 2.46% per annum (2018: 2.09% per annum).

The Company has an arrangement with a local bank to settle brokerage transactions with Tadawul. The bank has given a guarantee to Tadawul to settle all the transactions entered into by the Company. On the request of the bank, the Company submitted an order note and counter guarantee agreeing not to perform any transactions exceeding the available limit agreed with the bank. As at 31 December 2019, the Company has maintained sufficient cash balances with the bank.

10. TRADE AND OTHER RECEIVABLES

	2019 SAR'000	2018 SAR'000
Trade and other receivables (amortised cost)		
Trade receivables		
Contracts with customers	1,907	2,523
Less: ECL allowance	(39)	(7)
	1,868	2,516
Other receivables		
Amounts due from other MS Group undertakings	7,179	3,719
Trade rejection account[1]	18,750	18,750
Employee and other receivables	242	775
Less: ECL allowance	-	-
	26,171	23,244
Total trade and other receivables (amortised cost)	**28,039**	**25,760**

1. The balance represents a funding buffer for possible rejected trade scenarios that the Company has provided following the implementation of the T+2 settlements cycle.

11. CURRENT TAX ASSETS AND LIABILITIES

The following table shows the breakdown of current tax assets:

	2019 SAR'000	2018 SAR'000
Income tax and zakat recoverable	336	336
Total current tax assets	**336**	**336**

Income tax and zakat recoverable represents amount considered to be recoverable from the GAZT with respect to payments made for additional assessments raised by the GAZT for the financial year 2010. Based on the advice from the Company's tax advisor and the management's assertion, the Company still believes that the remaining tax and zakat recoverable balance will be fully recovered. The movements in the current tax liabilities are as follows:

	2019 SAR'000	2018 SAR'000
At 1 January	1,432	1,011
Charge/ (reversal)		
Current year	4,776	5,334
Prior year	-	(97)
Payments/ Adjustments during the year		
Current year payments	(3,471)	(1,848)
Prior year payments	(1,432)	(1,621)
Prior year adjustment	-	(1,347)
Current tax liabilities at 31 December	**1,305**	**1,432**

12. DEFERRED TAX ASSETS

Deferred taxes are calculated on all temporary differences under the balance sheet liability method. The movement in the deferred tax account is as follows:

	2019 SAR'000	2018 SAR'000
At 1 January	3,308	4,475
Amount recognised in the income statement	40	(970)
Amount recognised in the other comprehensive income	143	(197)
At 31 December	**3,491**	**3,308**

12. DEFERRED TAX ASSETS (CONTINUED)

The deferred tax included in the statement of financial position and changes recorded in 'Income tax' are as follows:

	2019		2018	
	Deferred tax asset SAR'000	**Income statement SAR'000**	**Deferred tax asset SAR'000**	**Income statement SAR'000**
Temporary differences arising in net book value of property, plant and equipment	(196)	196	77	(77)
Temporary differences arising in net defined benefit obligation	373	(230)	(45)	(152)
Temporary differences arising in provisions for trade receivables	6	(6)	(110)	110
Less: Utilisation of tax losses for the year	-	-	(1,089)	1,089
	183	**(40)**	**(1,167)**	**970**

13. OTHER ASSETS

	2019 SAR'000	**2018 SAR'000**
Contract Assets	1,464	1,555
Accrued interest income from Murabaha deposits	411	465
Prepayments	325	412
Total other assets	**2,200**	**2,432**

14. PROPERTY, PLANT AND EQUIPMENT

2019	**Leasehold improvements SAR'000**	**Fixtures, fittings and equipment SAR'000**	**Assets work in progress SAR'000**	**(1) Right-of-use assets - Property SAR'000**	**Total SAR'000**
Cost					
At 1 January 2019	14,869	5,965	-	-	20,834
Impact of adoption of IFRS 16	-	-	-	6,395	6,395
Additions	412	520	319	-	1,251
Disposals	-	(25)	-	-	(25)
Reversal	-	-	-	-	-
At 31 December 2019	**15,281**	**6,460**	**319**	**6,395**	**28,455**
Depreciation					
At 1 January 2019	(14,490)	(4,253)	-	-	(18,743)
Charge for the year	(243)	(538)	-	(2,120)	(2,901)
Disposals	-	19	-	-	19
Reversal	-	-	-	-	-
At 31 December 2019	**(14,733)**	**(4,772)**	**-**	**(2,120)**	**(21,625)**
Carrying amount			-		
At 31 December 2019	**548**	**1,688**	**319**	**4,275**	**6,830**

1. ROU assets - Property were introduced by IFRS 16 (see note 19), for which comparative periods have not been restated.

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

2018	**Leasehold improvements SAR'000**	**Fixtures, fittings and equipment SAR'000**	**Total SAR'000**
Cost			
At 1 January 2018	19,882	5,201	25,083
Additions	419	957	1,376
Disposals	-	(193)	(193)
Reversal	(5,432)	-	(5,432)
At 31 December 2018	**14,869**	**5,965**	**20,834**
Depreciation			
At 1 January 2018	(18,401)	(4,078)	(22,479)
Charge for the year	(1,521)	(365)	(1,886)
Disposals	-	190	190
Reversal	5,432	-	5,432
At 31 December 2018	**(14,490)**	**(4,253)**	**(18,743)**
Carrying amount			
At 31 December 2018	**379**	**1,712**	**2,091**

15. INTANGIBLE ASSETS

	2019			**2018**		
	Computer software SAR'000	**Other intangible assets SAR'000**	**Total SAR'000**	**Computer software SAR'000**	**Other intangible assets SAR'000**	**Total SAR'000**
Cost						
At 1 January	1,500	158	1,658	1,500	158	1,658
Additions	94	-	94	-	-	-
At 31 December	**1,594**	**158**	**1,752**	**1,500**	**158**	**1,658**
Amortisation and impairment						
At 1 January	(1,500)	(158)	(1,658)	(1,221)	(158)	(1,379)
Amortisation for the year	(14)	-	(14)	(279)	-	(279)
At 31 December	**(1,514)**	**(158)**	**(1,672)**	**(1,500)**	**(158)**	**(1,658)**
Carrying amount At 31 December	**80**	**-**	**80**	**-**	**-**	**-**

16. TRADE AND OTHER PAYABLES

	2019 SAR'000	2018 SAR'000
Trade and other payables (amortised cost)		
Amounts due to other MS Group undertakings	29,439	6,288
Lease liabilities	4,294	-
Withholding and value added tax liabilities	3,136	1,499
Other amounts payable	102	205
Total trade and other payables (amortised cost)	**36,971**	**7,992**

17. PROVISIONS

	2019			2018		
	Property	**Tax**	**Total**	**Property**	**Tax**	**Total**
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
Cost						
At 1 January	-	122	122	7,491	-	7,491
(Reversal) / Additional provision	-	66	66	(7,491)	122	(7,369)
Provision utilized	-	(50)	(50)	-	-	-
At 31 December	**-**	**138**	**138**	**-**	**122**	**122**

Property

Property provisions represent the net present value of expected future costs of reinstating leasehold improvements at the end of the lease term. Lease reinstatement provisions are released when the reinstatement obligations have been fulfilled.

The lease reinstatement provision amounting to SAR 7,491,000 was reversed during the year 2018 since the Company was released from any reinstatement obligation following an updated lease addendum contract dated 13 December 2018.

Tax related provisions

The Company is subject to tax laws which are subject to different interpretations by the taxpayer and the GAZT. Management makes judgements and interpretations about the application of these tax laws when determining the provision for taxes. Disputes over interpretations of the tax laws may be settled with the taxing authority upon examination or audit. The Company periodically evaluates the likelihood of assessments resulting from current and subsequent years' examinations. Provisions related to potential losses that may arise from tax audits are established in accordance with the guidance on accounting for uncertain tax items. The Company has established provisions that it believes are adequate in relation to the potential for additional assessments. Whilst a range of outcomes is foreseeable, management considers the amount of the provision to be a reasonable estimate of expected future liabilities after consideration of all pertinent facts, based on the status of inquiries at the balance sheet date. Tax provision as at 31 December 2019 is composed of SAR 16,344 related to tax assessment for the financial year 2017 and SAR 121,748 for tax assessment for financial years 2011-2015.

18. OTHER LIABILITIES

	2019 SAR'000	2018 SAR'000
Employees compensation accruals	8,467	7,735
Accrued expenses	2,857	1,605
Accrued Directors' remuneration	668	641
Total other liabilities	**11,992**	**9,981**

19. LEASES

The Company's lease is primarily a real estate lease. The firm has made the election to include the non-lease component when computing the ROU asset and liability.

Extension and termination options

Certain real estate leases contain extension and termination options to provide additional operational flexibility. Extension and termination options that are at the option of the lessee are included in the assessment of the lease term where the extensions are considered reasonably certain of being exercised or where termination options are considered reasonably certain not to be exercised. Where the option is controlled by the lessor, the lease term assumes that extension options will be exercised and that termination options will not be exercised.

Lessee Disclosures

The Statement of Financial Position includes ROU assets within 'Property, plant and equipment' (see note 14) and lease liabilities within 'Trade and other payables' (see note 16).

The Income Statement includes depreciation of ROU assets within 'Other expense' (see note 6) and interest expense on lease liabilities within 'Interest expense' (note 5).

The total cash outflow relating to leases was SAR 2,250,898 during the year.

Maturity Analysis of Lease Liabilities

The following table represents lease liabilities analysed according to their earliest contractual maturity:

31 December 2019	On demand	Less than 1 month	Equal to or more than 1 month but less than 3 months	Equal to or more than 3 months but less than 1 year	Equal to or more than 1 year but less than 5 years	Equal to or more than 5 years	Total
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Lease liabilities	-	2,206	-	-	2,206	-	4,412

20. SHARE CAPITAL

The share capital of the Company, amounting to SAR 65,000,000, is divided into 6,500,000 shares of SAR 10 each. The Company is 100% owned by foreign shareholders. During the year, there was a reduction in the number of shareholders from five to four.

21. STATUTORY RESERVE

In accordance with the Companies Law of Saudi Arabia, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equalled to 30% of the share capital. During the year, there was no movement of statutory reserve of the Company.

22. EXPECTED MATURITY OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered, realised or settled.

At 31 December 2019	Less than or equal to twelve months	More than twelve months	Total
	SAR'000	SAR'000	SAR'000
ASSETS			
Cash and demand deposits	265,883	-	265,883
Trade and other receivables	28,039	-	28,039
Current tax assets	336	-	336
Deferred tax assets	-	3,491	3,491
Other assets	2,200	-	2,200
Property, plant and equipment	-	6,830	6,830
Intangible assets	-	80	80
	296,458	**10,401**	**306,859**
LIABILITIES			
Trade and other payables	34,260	2,711	36,971
Provision	138	-	138
Current tax liabilities	1,305	-	1,305
Other liabilities	11,481	511	11,992
Employee defined benefit liability	-	7,790	7,790
	47,184	**11,012**	**58,196**

22. EXPECTED MATURITY OF ASSETS AND LIABILITIES (CONTINUED)

At 31 December 2018	Less than or equal to twelve months	More than twelve months	Total
	SAR'000	SAR'000	SAR'000
ASSETS			
Cash and demand deposits	227,216	-	227,216
Trade and other receivables	25,760	-	25,760
Current tax assets	336	-	336
Deferred tax assets	-	3,308	3,308
Other assets	2,432	-	2,432
Property, plant and equipment	-	2,091	2,091
	255,744	**5,399**	**261,143**
LIABILITIES			
Trade and other payables	7,613	379	7,992
Provision	122	-	122
Current tax liabilities	1,432	-	1,432
Other liabilities	9,623	358	9,981
Employee defined benefit liability	-	5,925	5,925
	18,790	**6,662**	**25,452**

23. FINANCIAL RISK MANAGEMENT

Risk management procedures

Risk is an inherent part of the Company's business activity. The Company seeks to identify, assess, monitor and manage each of the various types of risk involved in its business activities in accordance with defined policies and procedures. The Company has developed its own risk management policy framework, which is consistent with and leverages the risk management policies and procedures of the MS Group and which include escalation to the Company's Board of Directors and to appropriate senior management personnel of the Company.

23.1 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. The Company's credit exposures can be categorized as:

- Risk against placement with the banks; and
- Risk against corporate and intercompany receivables.

23.1.1 Credit risk management

Credit risk exposure is managed on a global basis and in consideration of each significant legal entity within the MS 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.

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

23.1.1 Credit risk management (continued)

The Company enters into majority of its financial asset transactions with other MS Group undertakings, and both the Company and the other MS Group undertakings are wholly-owned subsidiaries of the same ultimate parent entity, Morgan Stanley. As a result of the implicit support that would be provided by Morgan Stanley, the Company is considered exposed to the credit risk of Morgan Stanley, except where the Company transacts with other MS Group undertakings that have a higher credit rating to that of Morgan Stanley.

Monitoring and Control

The regulatory framework distinguishes between Credit Risk and Counterparty Credit Risk capital requirements. The Credit Risk capital component reflects the capital requirements attributable to the risk of loss arising from a borrower failing to meet its obligations. Counterparty credit exposure arises from the risk that counterparties are unable to meet their payment obligations under contracts for traded products. The distinction between Credit Risk and Counterparty Credit Risk exposures is due to the bilateral nature of the risk for Counterparty Credit Risk exposures.

The Company uses the Standardized Approach prescribed under the Pillar 1 requirements of the prudential rules ("PRs") to calculate regulatory capital for credit risk.

- The capital requirement for positions relating to non-trading activities, correspond to net less than 14% of the Company's risk weighted assets ("RWA"). Each non-trading activity exposure is assigned to a range of exposures classes prescribed by the PRs.
- The Company uses credit ratings to determine which credit quality step an exposure corresponds to. The Company uses the correspondence tables provided by the CMA to determine the agency's credit ratings and the steps in the credit quality scales.

Credit Rating

When determining the risk weights of an exposure, the Company uses the CMA prescribed credit rating consistently and continuously. Where a credit rating is used to determine the risk weight of the exposure, the risk weight is assigned on the exposure's credit quality step in accordance with the rules for using credit rating.

23.1.2 Exposure to credit risk

The maximum exposure to credit risk ("gross credit exposure") of the Company as at 31 December 2019 is disclosed below, based on the carrying amounts of the financial assets and the maximum amount that the Company could have to pay in relation to unrecognised financial instruments, which the Company believes are subject to credit risk. Within the table financial instruments subject to accounting ECLs are distinguished from those that are not. The Company has not entered into any credit enhancements to manage its exposure to credit risk. The Company does not have any significant exposure arising from items not recognised on the Statement of Financial Position.

Class	2019 SAR'000 Gross credit exposure	2018 SAR'000 Gross credit exposure
Subject to ECL:		
Cash and demand deposits	265,883	227,216
Trade and other receivables	28,039	25,760
	293,922	**252,976**

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

23.1.3 Credit quality

Internal credit ratings are derived using methodologies generally consistent with those used by external agencies.

The following table provides an analysis of the credit risk exposure by ECL stage per class of recognised financial instrument subject to ECL, based on the following internal credit rating grades:

Investment grade: internal grades AAA - BBB

Non-investment grade: internal grades BB – CCC

Default: internal grades D

31 December 2019	**ECL staging**			
	Stage 1 12-month ECL SAR'000	**Stage 2 Lifetime ECL SAR'000**	**Stage 3 Lifetime ECL SAR'000**	**Total SAR'000**
Cash and demand deposits:				
Credit grade				
Investment grade	265,875	-	-	265,875
Unrated	8	-	-	8
Carrying amount	**265,883**	-	-	**265,883**
Trade and other receivables[(1)]				
Credit grade				
Investment grade	-	7,179	-	7,179
Unrated	-	20,051	848	20,899
Gross carrying amount	-	27,230	848	28,078
Loss allowance	-	-	(39)	(39)
Carrying amount	-	**27,230**	**809**	**28,039**

(1) There are no trade receivables at stage 1, as the MS Group's accounting policy is to measure lifetime credit losses on trade receivables under the simplified approach. Refer to Note 3(d) and 7 'Net impairment loss on financial instruments'.

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

23.1.3 Credit quality (continued)

31 December 2018	**ECL staging**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	12-month ECL SAR'000	**Lifetime ECL SAR'000**	**Lifetime ECL SAR'000**	**SAR'000**
Cash and demand deposits:				
Credit grade				
Investment grade	227,208	-	-	227,208
Unrated	8	-	-	8
Carrying amount	**227,216**	-	-	**227,216**
Trade and other receivables[(1)]				
Credit grade				
Investment grade	-	4,184	-	4,184
Unrated	-	20,741	842	21,583
Gross carrying amount	-	24,925	842	25,767
Loss allowance	-	-	(7)	(7)
Carrying amount	**-**	**24,925**	**835**	**25,760**

(1)There are no trade receivables at stage 1, as the MS Group's accounting policy is to measure lifetime credit losses on trade receivables under the simplified approach. Refer to Note 3(d) and 7 'Net impairment loss on financial instruments'.

23.1.4 Expected credit loss allowance

There have been no changes made to estimation techniques or significant assumptions for estimating impairment during the year. There were no modifications to financial assets during the year or since origination and therefore modifications have not impacted ECL staging.

The Company may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2019 was nil (31 December 2018: SAR 559,000). The Company still seeks to recover in full amounts it is legally owed, but which have been written off due to there being no reasonable expectation of full recovery.

This table summarises the loss allowance as of the year end by class of exposure / asset:

Loss allowance by class		**2019**	
	Gross SAR'000	**ECL SAR'000**	**Net SAR'000**
Trade and other receivables	28,078	(39)	28,039
	28,078	**(39)**	**28,039**

Loss allowance by class		**2018**	
	Gross SAR'000	**ECL SAR'000**	**Net SAR'000**
Trade and other receivables	25,767	(7)	25,760
	25,767	**(7)**	**25,760**

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

23.1.4 Expected credit loss allowance (continued)

The following table explains the changes in the loss allowance between the beginning and end of the year:

Trade and other receivables at amortised cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**
Loss allowance as at 1 January 2019	-	-	(7)	(7)
Movements with income statement impact				
New financial assets originated or purchased	-	-	(32)	(32)
Total net income statement charge during the year	-	-	(32)	(32)
Other movements with no income statement impact				
Write-off	-	-	-	-
Loss allowance as at 31 December 2019	**-**	**-**	**(39)**	**(39)**

Trade and other receivables at amortised cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**
Loss allowance as at 1 January 2018	-	-	(559)	(559)
Movements with income statement impact				
New financial assets originated or purchased	-	-	(7)	(7)
Total net income statement charge during the year	-	-	(7)	(7)
Other movements with no income statement impact				
Write-off	-	-	559	559
Loss allowance as at 31 December 2018	**-**	**-**	**(7)**	**(7)**

Gross carrying amount

There were no significant changes in the gross carrying amount of financial assets that contributed to the changes in loss allowance.

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

23.1.4 Expected credit loss allowance (continued)

Risk Mitigation

The Company's credit exposure mainly comprises of intercompany receivables, placements with banks and receivables in lieu of fee and commission and reimbursement of project expenses. The Company's placements with banks are with reputed banks and hence the credit risk is limited. The credit risk with respect to intercompany receivables is not significant and is spread over a number of counterparties. The related party receivable is from an affiliate which is financially stable therefore the Company does not consider any risk of default on due from related party balance.

23.2 Liquidity risk

Liquidity risk refers to the risk that the Company 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 the Company'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 MS Group's Liquidity Risk Management Framework is critical to helping ensure that the Company maintains sufficient liquidity reserves and durable funding sources to meet its daily obligations and to withstand unanticipated stress events. The Liquidity Risk Department is a distinct area in Risk Management, which oversees and monitors liquidity risk. The Liquidity Risk Department ensures transparency of material liquidity risks, compliance with established risk limits and escalation of risk concentrations to appropriate senior management. To execute these responsibilities, the Liquidity Risk Department:

- Establishes limits in line with the Morgan Stanley Group's risk appetite;
- Identifies and analyses emerging liquidity risks to ensure such risks are appropriately mitigated;
- Monitors and reports risk exposures against metrics and limits, and;
- Reviews the methodologies and assumptions underpinning the Morgan Stanley Group's Liquidity Stress Tests to ensure sufficient liquidity and funding under a range of adverse scenarios.

The liquidity risks identified by these processes are summarised in reports produced by the Liquidity Risk Department that are circulated to and discussed with the Europe, Middle East and Africa ("EMEA") Assets/ Liability Management Committee ("ALCO"), EMEA Risk Committee and the Morgan Stanley International Risk Committee as appropriate.

The Treasury Department and applicable business units have primary responsibility for evaluating, monitoring and controlling the liquidity risks arising from the MS Group's business activities, and for maintaining processes and controls to manage the key risks inherent in their respective areas. The Liquidity Risk Department coordinates with the Treasury Department and these business units to help ensure a consistent and comprehensive framework for managing liquidity risk across the MS Group.

The Company pursues a policy of maintaining a high level of liquidity through active and prudent management of assets and liabilities. The Company has insignificant liabilities compared to total assets and the majority of the assets are highly liquid assets.

The Company monitors the liquidity risk through liquidity and funding risk management policy framework that:

- Ensures that the liquidity profile of the Company is managed and maintained in a manner that is commensurate with the Company's asset risk profile and risk tolerances.
- Formalizes the governance structure for liquidity risk oversight by specifying the roles of the Company's Board of Directors and senior management in the liquidity risk management process.

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

23.2 Liquidity risk (continued)

Regulatory Liquidity Framework

The Required Liquidity Framework establishes the amount of liquidity the MS Group must hold in both normal and stressed environments to ensure its financial condition and overall soundness is not adversely affected by an inability (or perceived inability) to meet its financial obligations in a timely manner. The Required Liquidity Framework considers the most constraining liquidity requirement to satisfy all regulatory and internal limits at a consolidated and legal entity level.

The CMA has issued Prudential Regulations (the "Rules") dated 30 December 2012 (corresponding to 17 Safar 1434H) pursuant to Royal Decree No. M/30 dated 2/6/1424H. Pursuant to Article 57 of the Rules, the Company is required to manage its liquidity risks in accordance with the provisions set out in Chapter 18 and 19 and Annex 8 of the Rules.

Liquidity Stress Tests

The Company has a defined set of scenarios and assumptions used to measure liquidity risk over short and long term time horizon. Stress testing is an evolutional process that is reviewed and refined through time to capture the experiences of volatile markets.

The Saudi Finance team updates the stress testing assumptions on a semi-annual basis. These are reviewed by the CEO, the Audit Committee and approved by the Company Board on an annual basis.

The Company uses a simplified cash flow model to evaluate and report periodically its liquidity risk exposures. The model incorporates monthly average revenues and expenses that will impact the cash flow over a time horizon of 18 to 24 months. The model also factors in any potential non-recurring outflows in a given month (e.g. tax, bonus and rent payments).

Funding management

The MS Group manages its funding in a manner that reduces the risk of disruption to the MS Group's and the Company's operations. In the event of a liquidity stress, the MS Group will endeavour to cause the Company to conduct its operations in such a manner so as to ensure that all of its obligations to its creditors falling due within the period can be settled as they fall due and, to the extent necessary, to provide the Company support for that purpose.

Maturity analysis

In the following maturity analysis of financial assets and financial liabilities, amounts represent undiscounted cash flows receivable and payable by the Company arising from its financial assets and financial liabilities to earliest contractual maturities as at 31 December 2019 and 31 December 2018. Receipts of financial assets and repayments of financial liabilities that are subject to immediate notice are treated as if notice were given immediately and are classified as on demand. This presentation is considered by the Company to appropriately reflect the liquidity risk arising from these financial assets and financial liabilities, presented in a way that is consistent with how the liquidity risk on these financial assets and financial liabilities is managed by the Company.

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

23.2 Liquidity risk (continued)

31 December 2019	On demand	Less than 1 month	Equal to or more than 1 month but less than 3 months	Equal to or more than 3 months but less than 1 year	Equal to or more than 1 year but less than 5 years	Equal to or more than 5 years	Total
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
Financial assets							
Cash and demand deposits	85,883	-	30,000	150,000	-	-	265,883
Trade and other receivables	25,929	-	1,159	951	-	-	28,039
Total financial assets	**111,812**	**-**	**31,159**	**150,951**	**-**	**-**	**293,922**
Financial liabilities							
Trade and other payables	28,569	5,691	-	-	2,711	-	36,971
Total financial liabilities	**28,569**	**5,691**	**-**	**-**	**2,711**	**-**	**36,971**

31 December 2018	On demand	Less than 1 month	Equal to or more than 1 month but less than 3 months	Equal to or more than 3 months but less than 1 year	Equal to or more than 1 year but less than 5 years	Equal to or more than 5 years	Total
	SAR'000	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**	**SAR'000**
Financial assets							
Cash and demand deposit	47,216	-	60,000	120,000	-	-	227,216
Trade and other receivables	22,469	-	1,682	1,609	-	-	25,760
Total financial assets	**69,685**	**-**	**61,682**	**121,609**	**-**	**-**	**252,976**
Financial liabilities							
Trade and other payables	5,955	1,658		-	379		7,992
Total financial liabilities	**5,955**	**1,658**		**-**	**379**		**7,992**

23.3 Market risk

Market risk is defined by IFRS 7 *'Financial instruments – Disclosures' ("IFRS 7")* as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, 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.

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

23.3 Market risk (continued)

The Company manages the market risk associated with its trading activities at both division and an individual product level, and includes consideration of market risk at legal entity level.

Sound market risk management is an integral part of the Company's culture. The Company is responsible for ensuring that market risk exposures are well-manged and monitored. The various business units and trading desks are responsible for ensuring that market risk exposures are well managed and monitored. The control groups help ensure that these risks are measured, closely monitored and are made transparent to senior management.

The Company enters into the majority of its financial asset transactions with other MS Group undertakings, where both the Company and the other MS Group undertakings are wholly-owned subsidiaries of the same group parent entity, Morgan Stanley.

The Company's market risk exposure is restricted to holding foreign exchange exposures. The Company manages currency risk based on the Net Open Position ("NOP") 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.

24. ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE

For all financial instruments not measured at fair value, the carrying amount is considered to be a reasonable approximation of fair value due to the short term nature of these assets and liabilities.

25. CAPITAL MANAGEMENT AND REGULATORY REQUIREMENTS

The MS Group manages its capital on a global basis with consideration for its legal entities. The capital managed by the MS Group broadly includes ordinary share capital, preference share capital, subordinated loans and reserves.

The MS Group's required capital ("Required Capital") estimation is based on the Required Capital Framework, an internal capital adequacy measure. This framework is a risk-based and leverage use-of-capital measure, which is compared with the MS Group's regulatory capital to ensure that the MS Group maintains an amount of going concern capital after absorbing potential losses from stress events where applicable, at a point in time.

The MS Group defines the difference between its total average common equity and the sum of the average common equity amounts allocated to our business segments as Parent Company equity. The MS Group generally holds Parent Company equity for prospective regulatory requirements, organic growth, acquisitions and other capital needs.

The Required Capital Framework is expected to evolve over time in response to changes in the business and regulatory environment, for example, to incorporate stress testing or enhancements in modelling techniques. The Company will continue to evaluate the framework with respect to the impact of future regulatory requirements, as appropriate.

The MS Group actively manages its consolidated 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. In the future, the MS may expand or contract its capital base to address the changing needs of its businesses.

The MS Group also aims to adequately capitalise at a legal entity level whilst safeguarding that entity's ability to continue as a going concern and ensuring that it meets all regulatory capital requirements, so that it can continue to provide returns for the MS Group.

25. CAPITAL MANAGEMENT AND REGULATORY REQUIREMENTS (CONTINUED)

The Company is regulated by the CMA and as such is subject to minimum capital requirements. The Company's capital is monitored on an ongoing basis to ensure compliance with these requirements. At a minimum, the Company must ensure that Capital Resources (share capital, audited profit and loss and eligible reserves) are greater than the Capital Resource Requirement including credit, market and operational risk.

The Company complied with all of its regulatory capital requirements during the year. According to the Rules, the CMA has prescribed the framework and guidance regarding the minimum regulatory capital requirement and its calculation methodology as prescribed under Pillar 1.

In accordance with this methodology, the Company has calculated its minimum capital required and capital adequacy ratios as follows:

	2019 SAR'000	2018 SAR'000
Capital Base:		
Tier 1 Capital	245,092	232,383
Tier 2 Capital	-	-
Total capital base	**245,092**	**232,383**
Minimum Capital Requirements:		
Credit Risk	32,626	30,734
Market Risk	279	158
Operational Risk	19,578	11,712
Total minimum capital requirements	**52,483**	**42,604**
Capital Adequacy Ratio (time)	**4.67**	**5.45**
Surplus	**192,609**	**189,779**

The above calculations are based on the respective Capital Adequacy Model (CAM) that was provided by CMA as of the corresponding financial statement reporting years.

The Company has reclassified certain comparative amounts to conform to the current year presentation and the CAM figures for 2018 have been updated accordingly.

Pillar 3 disclosures

The Company produces Pillar 3 disclosures which allow investors and other market participants to understand capital adequacy, particular risk exposures and risk management processes of individual firms. The Pillar 3 disclosures for the Company can be found at: https://www.morganstanley.com/about-us/global-offices/europe-middle-east-africa/saudi-arabia#RegulatoryDocumentation

The Company manages the following items as capital:

	2019 SAR'000	2018 SAR'000
Ordinary share capital	65,000	65,000
Statutory reserve	19,500	19,500
Audited retained earnings	164,163	151,191
Total	**248,663**	**235,691**

26. EMPLOYEE COMPENSATION PLANS

Morgan Stanley maintains various equity-settled share-based and cash-based deferred compensation plans for the benefit of certain current and former employees.

Equity-settled share-based compensation plans

Morgan Stanley has granted RSU awards pursuant to several equity-based compensation plans. The plans provide for the deferral of a portion of certain employees' incentive compensation, with awards made in the form of restricted common stock. Awards under these plans are generally subject to vesting over time, generally six months to seven years, and are generally contingent upon continued employment and subject to restrictions on sale, transfer or assignment until conversion to common stock. All, or a portion of, an award may be forfeited if employment is terminated before the end of the relevant vesting period or cancelled after the vesting period in certain situations. Recipients of equity-based awards may have voting rights, at Morgan Stanley's discretion, and generally receive dividend equivalents if the awards vest, unless this is prohibited by regulation.

During the year, Morgan Stanley granted 4,928 units (2018: 2,840 units) of RSU to employees of the Company with a weighted average fair value per unit of $43.29 (2018: $56.84), based on the market value of Morgan Stanley common stock at grant date.

The equity-based compensation expense recognised in the year is SAR 559,424 (2018: SAR 414,915). The Company has also entered into a chargeback agreement with Morgan Stanley under which it is committed to pay to Morgan Stanley the grant date fair value of the awards granted to employees.

The related liability due to Morgan Stanley at the end of the year, reported within 'Other payables' in the statement of financial position, is SAR 933,810 (2018: SAR 538,643) and is expected to be settled wholly within one year, other than SAR 585,647 (2018: SAR 379,479) which is expected to be settled in greater than one year.

Deferred cash-based compensation plans

Morgan Stanley has granted deferred cash-based compensation awards to certain employees which defer a portion of the employees' discretionary compensation. The plans generally provide a return based upon the performance of various referenced investments. Awards under these plans are generally subject to a sole vesting condition of service over time, which normally ranges from six months to three years from the date of grant. All or a portion of an award may be forfeited if employment is terminated before the end of the relevant vesting period. The awards are settled in cash at the end of the relevant vesting period.

Awards with a value of SAR 957,132 (2018: SAR 695,413) have been granted to employees of the Company during the year.

The liability to employees at the end of the year, reported within 'Other liabilities' in the statement of financial position, is SAR 1,248,190 (2018: SAR 822,416) and is expected to be settled wholly within one year, other than SAR 510,941 (2018: SAR 357,765) which is expected to be settled in greater than one year.

27. EMPLOYEE DEFINED BENEFIT LIABILITY

Defined benefit plan

The Company operates an End of Service Gratuity Scheme ("the plan"). Employees who complete continuous employment of one year or more are entitled to the gratuity payment at the termination of the employment.

Eligible employees receive a lump sum when they leave the Company based on their final salary and number of years' service.

The plan is unfunded as no assets are allocated to cover the Company's liabilities. When payments are required to be made, the Company pays a contribution to the scheme equal to the benefit to be paid. The scheme exposes the Company to risks including salary and staff turnover risk.

The most recent actuarial valuation, of the present value of the defined benefit liability was carried out at 31 December 2019. The present value of the defined benefit liability and the related current service cost and past service cost, were measured using the projected unit credit method.

The weighted average duration of the defined benefit obligation at 31 December 2019 is 11.13 years (2018: 9.90 years). The following table provides a summary of the present value of the defined benefit obligation included in the statement of financial position:

Movement in the net defined benefit obligation

	Present value of obligation 2019	**Present value of obligation 2018**
	SAR'000	**SAR'000**
At 1 January	(5,925)	(6,151)
Current service cost	(910)	(964)
Past service cost	-	-
Net interest expense	(240)	(211)
Amounts recognised in the income statement	**(1,150)**	**(1,175)**
Remeasurements:		
Actuarial gain arising from changes in financial assumptions	(815)	429
Actuarial gain arising from experience adjustments	100	204
Adjustments arising from changes in demographic assumptions	-	351
Gross amount recognised in the statement of comprehensive income	**(715)**	**984**
Contributions:		
Employer	-	417
At 31 December	**(7,790)**	**(5,925)**

The benefit obligation is the total present value of the individuals attributed benefits for valuation purposes at the valuation date, and the service cost is the total present value of the individuals' benefits attributable to service during the year.

Based on actuarial demographic assumptions the Company would expect to contribute SAR 525,000 (2018: SAR 411,200) to the scheme in the next financial year.

27. EMPLOYEE DEFINED BENEFIT LIABILITY (CONTINUED)

The following table presents the principal actuarial assumptions at the end of the reporting period:

	2019 %	**2018 %**
Discount rate	3.1%	4.2%
Rate of increase in salaries	5.0%	5.0%

The actuarial assumptions presented above are weighted averages for the scheme.

Given there is no deep market in corporate bonds within the KSA, the US AA-rated corporate bond market has been used as a proxy for determining an appropriate discount rate. Salary increase rates are projected by the Company in line with future expectations.

The following demographic assumptions for mortality, withdrawal and retirement were applied:

	Percentage of male employees exiting the plan at each age (per annum)		**Percentage of female employees exiting the plan at each age (per annum)**	
Age	**2019**	**2018**	**2019**	**2018**
15-29	20%	20%	20%	20%
30-34	15%	15%	15%	15%
35-39	10%	10%	10%	10%
40-44	5%	5%	5%	5%
45-49	5%	5%	5%	5%
50-54	7%	7%	7%	7%
55-59	7%	7%	100%	100%

The sensitivities regarding the principal assumptions used to measure the defined benefit obligation are as follows:

2019

Assumption	**Change in assumption**	**Impact on scheme liabilities**
Discount rate	Increase/ decrease by 0.50%	Decrease/ increase by 4.8%/ 5.3%
Salary growth rate	Increase/ decrease by 0.50%	Increase/ decrease by 5.1%/ 4.8%

2018

Assumption	**Change in assumption**	**Impact on scheme liabilities**
Discount rate	Increase/ decrease by 0.25%	Decrease/increase by 2.42%/ 2.52%
Salary rate	Increase/ decrease by 0.25%	Increase/ decrease by 2.5%/ 2.41%

The sensitivity analysis presented above has been determined based on reasonably possible changes of the assumptions occurring at 31 December 2019 and 31 December 2018 assuming that all other assumptions are held constant. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior year.

28. RELATED PARTY DISCLOSURES

Parent and affiliates relationships

Parent and ultimate controlling entity

The Company's immediate parent undertaking is Morgan Stanley Middle East Inc, which is incorporated in the State of Delaware, the United States of America.

The ultimate parent undertaking and controlling entity and the largest group of which the Company is a member and for which group financial statements are prepared is Morgan Stanley. Morgan Stanley is incorporated in the state of Delaware, the United States of America. Copies of its financial statements can be obtained from www.morganstanley.com/investorrelations.

Key management compensation

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company. Key management personnel include the Board of Directors of Morgan Stanley Saudi Arabia.

Compensation paid to key management personnel, in respect of their services rendered to the Company comprised the following:

	2019	2018
	SAR'000	SAR'000
Short-term employee benefits	4,906	5,876
Post-employment benefits	2	1
Share-based payments	534	331
Other long-term employee benefits	576	375
Total	**6,018**	**6,583**

Key management compensation (continued)

The share-based payment costs disclosed above reflect the amortization of equity-based awards granted to key management personnel and are therefore not directly aligned with other staff costs in the current year.

Certain key management personnel compensation is borne by other MS Group undertakings in both the current and prior year.

Transactions with related parties

The MS Group conducts business for clients globally through a combination of both functional and legal entity organisational structures. Accordingly, the Company is closely integrated with the operations of the MS Group and enters into transactions with other MS Group undertakings on an arm's length basis for the purposes of utilising financing, trading and risk management, and infrastructure services.

The nature of these relationships along with information about the transactions and outstanding balances is given below. Settlement of the outstanding balances will be made in cash/ via inter-company mechanisms. The Company has recognised SAR nil (2018: SAR nil) of expense and SAR nil (2018: SAR nil) of provision for impairment relating to ECL on the outstanding balances from related parties.

28. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions with related parties (continued)

In addition, the management and execution of business strategies on a global basis results in many Morgan Stanley transactions impacting a number of MS Group undertakings. The MS Group operates a number of intra-group policies to ensure that, where possible, revenues and related costs are matched. For the year ended 31 December 2019, a net gain of SAR 27,822,035 was recognised in the Income Statement arising from such policies (2018: SAR nil).

General funding

General funding is undated, unsecured, floating rate lending, other than certain funding which is dated on a rolling 395 day term. Funding may be received or provided for specific transaction related funding requirements, or for general operational purposes. The interest rates are established by the MS Group Treasury function for all entities within the MS Group and approximate the market rate of interest that the MS Group incurs in funding its business.

As at 31 December 2019, there were no outstanding balances on these funding arrangements (2018: SAR nil). The related interest expense has been recognised in the Income Statement (see note 5).

Infrastructure services

The Company receives and incurs management charges to and from other MS Group undertakings for infrastructure services, including the provision of staff and office facilities. Management recharges received and incurred during the year are as follows:

	2019 SAR'000	**2018 SAR'000**
Amounts recharged to other MS Group undertakings	1,100	3,608
Amounts recharged from other MS Group undertakings	(20,879)	(132)
	(19,779)	**3,476**

Fees and commissions

The Company earns fee and commission income from other MS Group undertakings for value added services which include sales and marketing support and consultancy. It also incurs recharges in respect of such services performed by other MS Group undertakings. Fees and commissions received and incurred during the year are as follows:

	2019 SAR'000	**2018 SAR'000**
Fee and commission income received from other MS Group undertakings		
Brokerage fee and commission income	26,147	22,032
Asset management fee income	27,762	31,347
Investment banking fee income	(6,308)	3,200
	47,601	**56,579**

All of the outstanding related party balances are disclosed on notes 10 and 16.

29. ASSETS HELD IN FIDUCIARY CAPACITY

Fiduciary assets comprise investments and funds managed by the Company on behalf of its clients. The market value of the fiduciary assets at 31 December 2019 amounted to SAR 2.3 billion (2018: SAR 3.5 billion).

Fiduciary assets also include clients' cash accounts kept with a local commercial bank as a custodian of the funds, which amount to SAR 89 million as at 31 December 2019 (2018: SAR 42 million), to be only used for investments upon clients' discretion.

Consistent with the local regulatory rules, the above balances are not reported in the Company's financial statements.

30. COMPARATIVE FIGURES

Certain comparative figures of the Statement of Financial Position as of 31 December 2018 have been reclassified to conform with current year presentation as follows:

Item	Amounts as previously reported	Reclassification	Amount as presented
	SAR'000	SAR'000	SAR'000
Trade and other receivables:	26,225	(465)	25,760
Murabaha interest income and other trade receivables	474	(474)	-
Employee and other receivables	766	9	775
Other assets:	1,967	465	2,432
Accrued interest income from Murabaha deposits	-	465	465
Current tax liabilities	1,554	(122)	1,432
Provision	-	122	122

Certain comparative figures of the Income Statement for the period ended 31 December 2018 figures have been reclassified to conform with current year presentation as follows:

Item	Amounts as previously reported	Reclassification	Amount as presented
	SAR'000	SAR'000	SAR'000
Fees and commission income:	72,487	(4,531)	67,956
Brokerage fee and commission income	25,026	(4,531)	20,495
Other expense:	45,109	(4,531)	40,578
Brokerage and clearing and exchange fees	4,531	(4,531)	-

31. EVENTS AFTER THE REPORTING PERIOD

The emergence of COVID 19 (coronavirus) has created economic and financial disruptions in the global economy which has led to operational challenges that could impair Morgan Stanley's ability to manage or conduct some of its businesses around the world. In line with many national and local guidelines, Morgan Stanley has required nearly all staff to work from home and business travel is severely restricted, however Morgan Stanley remains open for business.

Given the disruptions in the financial markets, Morgan Stanley and the Company are closely tracking their operational capacity. Additionally, the financial effects of the outbreak have a high degree of uncertainty, given that they are dependent on external factors such as the spread of the virus and the measures taken by the various governments and central banks. Morgan Stanley and the Company have already observed significant volatility in the global marketplace which could have an impact on their financial results and financial position in the future. Morgan Stanley and the Company continue to use their Risk Management framework including Stress testing to understand the attendant uncertainties and their potential impact on our operations, liquidity and capital. Morgan Stanley is maintaining an active dialogue with all its relevant global regulators during this period.

This is a non-adjusting event as the significant changes in the business activities and economic conditions occurred as a result of events occurring after the reporting date.