

# Kingdom of Saudi Arabia Transparency Report

ISSUED IN RESPECT OF THE YEAR ENDED 31 DECEMBER 2018

# Moody's Investors Service ("MIS") Kingdom of Saudi Arabia ("KSA" or the "Kingdom") Transparency Report

Provided in Accordance with Article 22 of the Capital Market Authority (the "Authority", or the "CMA") Credit Rating Agencies Regulations dated 10/11/2014G (the "CRA Regulation") in respect of the year ended 31 December 2018<sup>1</sup>

---

<sup>1</sup> The effective date of this Transparency Report is 28 May 2019. The report was published 28 May 2019 and amendments to text were made on 20 November 2019.

# Contents

<b>1. Introduction from Monica Merli, Regional Head of Moody's Investors Service for Europe, the Middle East and Africa .....</b>	<b>5</b>
Supporting Kingdom of Saudi Arabia ("KSA's") capital markets.....	5
1.1 Who We Are .....	6
1.2 How We Determine Ratings.....	6
1.3 Key Attributes of MIS's Ratings.....	7
<b>2. Compliance with CRA Regulation.....</b>	<b>8</b>
2.1 Codes of Conduct.....	8
2.2 Policies and Procedures.....	8
2.3 Management of Conflicts of Interest.....	8
2.4 MIS Compliance Department.....	9
2.5 Internal Audit.....	9
<b>3. Legal Structure and Ownership.....</b>	<b>10</b>
Regional Management.....	10
Detailed Information on Legal Structure and Ownership.....	10
<b>4. Internal Control Mechanisms Ensuring the Quality of MIS's Credit Rating Activities.....</b>	<b>11</b>
4.1 Credit Strategy and Standards ("CSS") .....	11
4.1.1 CSS Structure.....	11
4.1.2 Methodology Development Group.....	11
4.1.3 Methodology Review Group.....	11
4.1.4 Ratings & Process Oversight Group.....	11
4.1.5 Analytic and Technology Solutions Group.....	11
4.1.6 Strategy & Research Group .....	11
4.2 Enterprise Risk Management.....	12
4.3 Rating Committees.....	12
4.4 Methodologies .....	12

4.5	Surveillance.....	12
4.6	Credit Ratings Performance.....	12
<b>5.</b>	<b>Allocation of Staff in KSA / ME Subsidiary .....</b>	<b>13</b>
<b>6.</b>	<b>MIS's Record-Keeping Policy .....</b>	<b>14</b>
<b>7.</b>	<b>Internal Audit Review of MIS's Compliance Department.....</b>	<b>15</b>
<b>8.</b>	<b>Revenue of Moody's Investors Service Middle East Limited KSA Branch ....</b>	<b>16</b>
<b>9.</b>	<b>Governance Statement .....</b>	<b>17</b>
9.1	Governance.....	17
9.2	KSA Supervisory Committee's remit: .....	17
<b>10.</b>	<b>Policies for distributing credit ratings, reports and updates .....</b>	<b>18</b>
<b>11.</b>	<b>Material Changes .....</b>	<b>19</b>
<b>12.</b>	<b>Financial Statement 2018 .....</b>	<b>20</b>

# 1. Introduction from Monica Merli, Regional Head of Moody's Investors Service for Europe, the Middle East and Africa

In this section we describe who we are and what we do.

Moody's Investors Service ("MIS") has decades of experience in helping market participants globally understand credit risk.

Moody's defines credit risk as the risk that an entity may not meet its contractual, financial obligations as they come due and any estimated financial loss in the event of default. This risk is inherent in bank loans, fixed-income securities and other financial products that are amongst the building blocks of the world's capital markets. In addition to traditional bank loan markets, debt capital markets are a powerful mechanism for channeling funds into companies preparing to expand and for governments that intend to fund a variety of projects, including infrastructure projects.

Assessing the credit risk in these loans and instruments is what MIS does.

Credit ratings and research help investors analyse the credit risks associated with fixed-income securities and other financial obligations. By providing predictive and independent assessments of their credit risk, our ratings and research contribute to the funding of the economy.

MIS analyses available information to assess the credit risk in an accessible and digestible form for use by market professionals. We have developed a rating system that rank-orders our view of the relative credit risk of the issuers and financial obligations we rate. This rating system communicates an informed opinion of how issuers or financial obligations across all geographies and asset classes in a given rating category will perform over time relative to other issuers and obligations in higher or lower rating categories.

In so doing, credit ratings have standardised the language of credit by establishing common points of reference that can be compared across markets, industries and geographies. This comparability is especially important as capital markets have become increasingly global and interconnected and investors are faced with an extensive, and often bewildering, choice of investment opportunities.

Credit ratings therefore provide a commonly understood measure of credit risk that helps issuers, investment managers, other financial market professionals and commentators communicate with one another. This, in turn, promotes dialogue, debate and more informed decision making amongst market participants. MIS's ratings and in-depth research services provide a sound basis for helping to understand and manage credit risk in the context of present – and future – market realities.

## **Supporting Kingdom of Saudi Arabia ("KSA's") capital markets**

MIS commenced business operations in the Kingdom in 2018, building on our decades of experience helping market participants understand credit risk in the KSA, Gulf Cooperation Council and Middle East region.

MIS began assigning credit ratings to entities domiciled in KSA in 1996, and remains committed to the development of KSA's capital markets.

MIS now has published credit ratings across several sectors in KSA, including ratings for 11 out of 12 KSA financial institutions as well as large corporates.

The information below provides further insight into our operations.

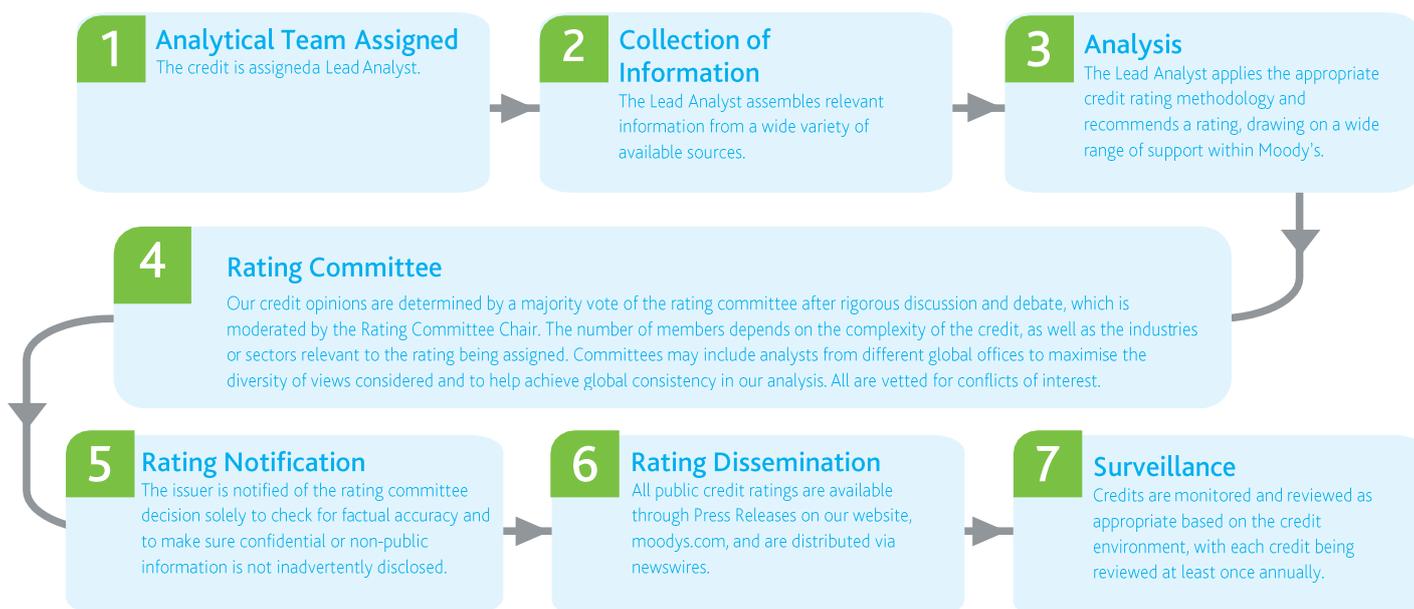
## 1.1 Who We Are

MIS's company mission is "to be the world's most respected authority serving credit and risk-sensitive markets." This requires that we have an analytical, data-driven culture that rewards intellectual rigour and innovative thinking.

Founded more than 100 years ago, it all began with the publishing of Moody's Manual of Industrial and Miscellaneous Securities, by John Moody & Company in 1900. John Moody created the manual based on his assessment of the market's needs at the time. Now, the firm's ratings and analyses track debt covering non-financial corporate issuers, financial institutions issuers, public finance issuers, structured finance transactions and infrastructure and project finance issuers.

## 1.2 How We Determine Ratings

MIS's credit ratings are determined by rating committees in which methodologies, not formulae, provide a framework for group decision making. Our methodologies, which are publicly available, set out the key analytical factors that we believe are the most important determinants for generating predictive credit ratings. Below, we describe a typical rating process:



### 1.3 Key Attributes of MIS's Ratings

MIS's credit ratings are intended to augment – not replace – the independent credit analysis that sophisticated investors and other market participants conduct for portfolio management, capital allocation and other purposes.

#### KEY ATTRIBUTES OF MIS'S RATINGS



Dedicated, experienced analytical teams using proprietary analytics



A common language of credit risk



A process that brings together analytical views



A long institutional memory of credit



A comprehensive view of credit risk in the capital markets based on unparalleled coverage

## 2. Compliance with CRA Regulation

MIS operates as a branch of Moody's Investors Service Middle East Limited in the Kingdom (the "MIS KSA branch").<sup>2</sup> MIS KSA branch is committed to complying with the CRA Regulation and other relevant laws and regulations applicable to its business. MIS's credit ratings of entities or securities domiciled in KSA and subject to the CRA Regulation ("KSA Credit Ratings") are issued by MIS credit rating agencies outside KSA where the lead analyst for the relevant entity or security is located. The codes, policies and procedures described below are applicable to MIS staff in in these offices when KSA Credit Ratings are assigned.

The obligations of the CRA Regulation are codified in codes of conduct, policies and procedures as described below and are implemented through MIS's operational and control structures. MIS staff are expected to comply with these codes, policies and procedures to the extent relevant to them when assigning KSA Credit Ratings and adherence is overseen by the business and tested by each of Compliance, the Methodology Review Group and Internal Audit as appropriate.

### 2.1 Codes of Conduct

MIS credit ratings, including KSA Credit Ratings, are assigned pursuant to the MIS Code of Professional Conduct which establishes guiding principles applicable to MIS employees and establishes the basis upon which MIS engages with issuers and investors. The Moody's Corporation ("MCO") Code of Business Conduct, applies to all MIS staff and sets out guiding principles to which each employee and corporate director is expected to adhere.

### 2.2 Policies and Procedures

The principles established by the codes of conduct described above are elaborated upon in MIS's policies and procedures. These documents implement MIS's obligations under applicable laws and regulations in the countries in which it operates, including in the Kingdom, and govern the conduct of employees during the credit rating process, including with respect to KSA Credit Ratings. These documents establish a consistent approach throughout MIS and extend to, among other matters, the independence of the credit rating process, the avoidance of conflicts of interest and disclosure requirements.

### 2.3 Management of Conflicts of Interest

While it is not possible for MIS to eliminate all conflicts of interest in its business model, those that cannot be eliminated are identified, managed and disclosed to maintain objectivity, independence and integrity in the credit rating process. MIS has published a specific list of its potential conflicts affecting KSA Credit Ratings<sup>3</sup> and has adopted policies and procedures to prevent, identify and manage them. In particular, MIS has put in place the following:

- » MIS's codes of conduct establish both high-level principles addressing potential conflicts of interest and high-level standards on the handling of confidential information. Pursuant to MIS's policies and procedures employees are subject to restrictions with respect to receipt of gifts, personal ownership and trading of securities and other personal interests that could create a potential conflict with the independence of MIS's credit rating activities.
- » MIS is operationally and legally segregated from MCO's non-ratings businesses.
- » As an institution, MIS does not act as a principal or make markets in securities.
- » MIS's Commercial Group, which is responsible for all commercial relationships with issuers, is operationally segregated from any analytical rating group and any involvement in credit rating activities. Analysts are prohibited from participating in fee discussions with issuers or their agents.
- » Credit ratings are determined by rating committees.
- » Analysts are not compensated or evaluated based on the amount of revenue that MIS derives from issuers that the analyst rates or with which the analyst interacts.
- » MIS applies a mechanism for the gradual rotation of relevant analytical staff to protect their independence.
- » MIS conducts a "look-back review" when an analyst leaves MIS and joins an issuer with which he or she had significant dealings as part of his or her duties as an analyst.

---

<sup>2</sup> Further information on the legal structure of MIS KSA branch is set out in section 3 below.

<sup>3</sup> See Moody's Conflicts of Interest Related to the Issuance of Credit Ratings statement on [https://www.moodys.com/pages/default\\_me.aspx](https://www.moodys.com/pages/default_me.aspx).

## 2.4 MIS Compliance Department

The MIS Compliance Department is part of the wider Legal, Compliance and Government and Public Affairs organisation, which reports to the Global General Counsel of MCO and is independent of the rating groups. It is responsible for assessing MIS's adherence to regional and local laws and regulations as well as codes of conduct, policies and procedures. The MIS Compliance Department monitors the adequacy and effectiveness of the measures and procedures put in place to maintain compliance with the CRA Regulation and provides reports to a Supervisory Committee of MIS KSA branch ("MIS KSA Supervisory Committee").

## 2.5 Internal Audit

Although not a requirement of the CRA Regulation, MCO maintains a centralised and independent Internal Audit function, which is responsible for performing internal audits in relation to all MIS entities, including the MIS KSA branch. The Internal Audit function is responsible for bringing a systematic and disciplined approach to evaluating and improving the effectiveness of MCO's internal controls and governance processes. The Board of Directors of MCO has established an Audit Committee (the "MCO Audit Committee") to whom the Internal Audit function reports.

Internal Audit's coverage of the ratings process is assessed through a combination of three types of audits: (1) rating compliance audits; (2) general office reviews of MCO's international locations; and (3) corporate functions such as Compliance or Credit Strategy and Standards ("CSS").

## 3. Legal Structure and Ownership

### Regional Management

MIS's management group is complemented by regional managers for each of Europe, Middle East and Africa (EMEA), Americas and Asia/Pacific. Monica Merli is the Regional Head of MIS EMEA and is based in London. The Regional Head of MIS EMEA oversees information flow between MIS's subsidiaries in EMEA and provides centralised oversight in the region. Reporting to the Regional Head of MIS EMEA, the Head of EMEA Emerging Markets for Relationship Management and Regional Management<sup>4</sup>, provides managerial oversight of MIS country managers in the Middle East, Africa and the CIS<sup>5</sup>. The Head of EMEA Emerging Markets for Relationship Management and Regional Management is responsible for overseeing the management of MIS KSA branch as conducted by the country manager and reporting in such capacity to the Regional Head of MIS EMEA.

### Detailed Information on Legal Structure and Ownership

MIS KSA branch is a branch of Moody's Investors Service Middle East Limited ("MISMEL"). MISMEL is a wholly-owned indirect subsidiary company of MCO, a Delaware (USA) incorporated company listed on the New York Stock Exchange ("NYSE"). MIS KSA branch is registered in accordance with the laws of the Kingdom and operates as part of the MIS division of MCO.

Legal Structure of MIS KSA branch:

Name of Shareholder	% Shareholding	Country
Moody's Investors Service Middle East Limited	100%	UAE (DIFC)
Moody's EMEA Holdings Limited	100%	UK
Moody's Shared Services UK Limited	100%	UK
Moody's Holdings Limited	100%	UK
Moody's Group UK Limited	100%	UK
Moody's Group Cyprus Limited	100%	Cyprus
Moody's Holdings LLC	100%	US
Moody's International (UK) Limited	100%	UK
Moody's Group (Holdings) Unlimited	100%	UK
Moody's Financing (BVI) Limited	100%	BVI
Moody's International LLC	100%	US
Moody's Overseas Holdings Inc.	100%	US
Moody's Corporation	100%	US

<sup>4</sup> This role was created in August 2018.

<sup>5</sup> The Commonwealth of Independent States.

## 4. Internal Control Mechanisms Ensuring the Quality of MIS's Credit Rating Activities

MIS's approach to maintaining key internal control mechanisms to ensure the quality of its credit rating activities includes the structures and operations outlined below.

### 4.1 Credit Strategy and Standards ("CSS")

#### 4.1.1 CSS Structure

CSS comprises several functions: the Methodology Development Group ("MDG"); the Methodology Review Group ("MRG"); the Ratings and Process Oversight Group ("RPO"); the Analytics and Technology Solutions Group ("ATS"); the Strategy & Research Group ("S&R"), including the Default & Ratings Analytics Group ("DRA"). Each function reports to the MIS Chief Credit Officer.

#### 4.1.2 Methodology Development Group

MDG is responsible for credit rating methodology development and delivery across MIS. MDG provides analytical resources and leadership, manages a robust end-to-end process and has direct accountability for credit rating methodology development and publication.

#### 4.1.3 Methodology Review Group

The MRG's four main responsibilities are to (1) approve new and revised credit rating methodologies, acting through the Methodology Review Committee, (2) review specifications of MIS credit rating models for consistency with published credit rating methodologies, (3) review the appropriateness of existing credit rating methodologies on an annual basis, and (4) review credit rating actions, on a sampled basis, to evaluate the application of published credit rating methodologies.

#### 4.1.4 Ratings & Process Oversight Group

Credit Officers within RPO enhance ratings quality and promote cross-sector consistency in the application of methodologies by contributing a broader view than that available to individual business lines and rating teams. In support of these objectives, RPO provides guidance on the credit implications of the global macro-economic environment and its Credit Officers provide guidance to analysts on complex credit situations, participate and vote in rating committees and lead credit portfolio reviews.

The policy development and support staff within RPO are responsible for the development and maintenance of the RPO's library of documents, including policies, procedures, guidance and best practices and the implementation of key credit rating processes.

RPO's decision-making forum for key policies and procedures is the Rating Practices Committee, which is comprised of members of CSS and senior managers of rating groups, and is chaired by the Managing Director, RPO. The committee is responsible for setting overall best practices that govern MIS's credit rating process.

#### 4.1.5 Analytic and Technology Solutions Group

ATS is responsible for developing the quantitative models and analytical tools used in the rating process and across MIS, as well as MIS technology innovation activities, including advanced capabilities in machine learning and artificial intelligence.

#### 4.1.6 Strategy & Research Group

S&R is responsible for proactively identifying and prioritizing emerging strategic credit issues, defining a cross line of business strategic viewpoint and generating macro-financial and thematic research. S&R gathers, analyses, and synthesises external and internal data sources to identify key credit issues and guide credit strategy. S&R includes the DRA group, which is responsible for generating rating performance and analysis reports for MRG. The group also contributes to strategically important quantitative projects.

## 4.2 Enterprise Risk Management

Although not a requirement of the CRA Regulation, MCO has established an Enterprise Risk Management function with a global remit, including MIS KSA branch. Its remit includes identifying principal operational risks across MIS's business.

## 4.3 Rating Committees

MIS credit ratings, including MIS KSA Credit Ratings, are determined by rating committees pursuant to a majority vote of the rating committee's voting members and, not by individual analysts. The rating committee is a critical mechanism for promoting the quality, consistency and integrity of MIS's credit ratings. MIS has established policies, procedures and guidelines governing the preparation for, convening and conducting rating committees. Among other things, those policies, procedures and guidelines cover the composition of rating committees, the type, quality and format of information that needs to be provided and retained, voting procedures, management of conflicts of interest and maintenance of confidentiality.

## 4.4 Methodologies

MIS's credit rating methodologies are publicly and freely available on its website. They are typically global in nature and tailored to take account of structural or regional variations. New credit rating methodologies or changes to existing credit rating methodologies are approved by the MRG as necessary. They are subject to ongoing refinement and are reviewed at least annually. MIS's credit rating methodologies represent the core of MIS's analytical approach in a given sector and are applied consistently in the credit rating process. Credit rating methodologies applicable to MIS KSA Credit Ratings are available in both English and Arabic on MIS's website.

## 4.5 Surveillance

Once a credit rating is published, MIS monitors the credit rating on an ongoing basis and reviews it at least annually, and semi-annually for sovereign credit ratings, until the credit rating is withdrawn. In most of the rating groups, surveillance of credit ratings is conducted by the same analytical team that is responsible for the initial credit rating. In the Structured Finance Group ("SFG"), however, much of the surveillance activity is performed primarily by separate teams of surveillance analysts.

## 4.6 Credit Ratings Performance

MIS periodically analyses the performance of its credit ratings to assess their consistency and quality. MIS publishes information including historical default, recovery and impairment rates for main geographic areas by credit rating category, the transitions between credit rating categories, and other periodic performance metrics so that financial market professionals can understand the historical performance of securities assigned to different credit rating categories. MIS's public credit ratings are publicly and freely available generally through press releases and on issuer landing pages on; [www.moody.com](http://www.moody.com), enabling third parties to assess their performance. Press releases for KSA Credit Ratings are published in both English and Arabic on MIS's website.

## 5. Allocation of Staff in KSA / ME Subsidiary

MIS KSA branch has two permanent staff members; a country manager, who is responsible for business development within KSA and an Office Manager.

All MIS credit rating and support staff involved in the assignment of KSA Credit Ratings are located in other MIS offices outside the Kingdom.

In general, surveillance of credit ratings, apart from SFG, typically is conducted by the same analytical team that is responsible for the initial credit rating. MIS allocates staff to a new credit rating but does not allocate staff separately to credit rating reviews.

Methodology Appraisal: as noted in section 4.5 above, MIS's credit rating methodologies, where feasible and appropriate, are typically global in nature and may be tailored to take account of regional or national considerations. CSS and, in particular, MDG as described above operate globally and review and approve credit rating methodologies for all MIS entities globally, including all entities that issue KSA Credit Ratings.

Model Appraisal: within MIS, the Model Verification team is tasked with verifying models that are used globally. Staff undertake model reviews for all MIS entities globally, including all entities that issue KSA Credit Ratings and are supported by third party vendors.

Credit Ratings Support Staff directly support credit rating analysts enabling the analysts to allocate greater time to core analytical responsibilities. These include staff in the Global Middle Office and other support or administrative functions.

Senior Management are persons who effectively direct the business of each of MIS's subsidiaries and/or members of its administrative and/or supervisory board.

## 6. MIS's Record-Keeping Policy

MIS maintains a Policy and Procedure for Record Retention for Rating Services. These documents, along with the Appendix of Rating Services Record Retention Schedules, provide the fundamental principles of MIS's record retention policy, including:

- » the type of documents subject to the policy;
- » categories of document types for purposes of retention obligations;
- » retention periods for records relating to the credit rating services, in accordance with applicable law and regulation in the jurisdictions in which MIS operates;
- » instructions on the repositories used for record retention; and
- » specifying the parties responsible for retention and deletion of records related to the credit rating services.

Records that are required to be retained include certain documents obtained or created during the credit rating process, whether provided by external sources or created by MIS. In addition, those documents and other credit-relevant documents are generally retained in a consolidated file for each issuer or transaction. Access rights to the document management databases are restricted to maintain the confidentiality of the information stored.

Rating applications and other contractual documents with issuers, along with exchanges with issuers related to commercial and fee information are handled by the Commercial Group, which is segregated from the analytical teams. For credit rating services covered by the policy, records that relate to contracts, commercial or fee information are electronically filed in a separate retention system from the records filed as part of the analytical process. MIS KSA Branch complies with the policy to the extent relevant to its activities.

## 7. Internal Audit Review of MIS's Compliance Department

The MCO Internal Audit function completed the annual audit of the MIS Compliance Department, which supports MIS, and issued the report in September 2018.<sup>6</sup> The audit focused on processes and controls established by Compliance to support administration of policies and procedures and training and responding to regulatory requests. Internal Audit also performed inspection procedures over a sample of credit rating action surveillance reports.

The review resulted in an audit opinion of Satisfactory. Internal controls, governance and processes were adequately established and functioning well.

---

<sup>6</sup> The report covered the period of September 1, 2017 through August 15, 2018.

## 8. Revenue of Moody's Investors Service Middle East Limited KSA Branch

The annual revenue of MIS KSA branch is derived exclusively from the provision of business development and related services to MISMEL in connection with credit rating services and non-credit rating services. The revenue for the financial year ended 31 December 2018 was SAR 2.6m. and was confirmed as such in the audited financial statements (see section 12 of this report).

## 9. Governance Statement

### 9.1 Governance

As a NYSE listed company, MCO complies with the NYSE's Corporate Governance Standards. MIS KSA branch has enhanced its governance structure in line with the requirements of the CRA Regulation and has established the MIS KSA Supervisory Committee.

Structure: The KSA Supervisory Committee is a sub-committee of the MISMEEL board of directors.

Composition: The KSA Supervisory Committee comprises three MISMEEL directors. During the reporting period, the members were Jehad El Nakla, Monica Merli and David Staples. Each member of the KSA Supervisory Committee is required to be of good repute and sufficiently skilled and experienced in order to perform his/her respective function.

### 9.2 KSA Supervisory Committee's remit:

The KSA Supervisory Committee's remit is as follows:

1. Oversight of the activities of MIS KSA branch;
2. Oversight of compliance with relevant aspects of the CRA Regulation; and
3. Oversight of compliance with policies and procedures governing MIS KSA Credit Ratings.

To enable it to execute its duties, the KSA Supervisory Committee receives reports from each of the following:

1. The KSA branch country manager on the KSA Branch's operations;
2. MIS Compliance;
3. The "formal review function", being MRG; and
4. Ad hoc from other relevant functions as appropriate in relation to executing its responsibilities.

The KSA Supervisory Committee provides reports to the MISMEEL board of directors as required.

Meetings: the KSA Supervisory Committee will usually meet quarterly but not less than twice a year. The KSA Supervisory Committee meetings will normally be held concurrently with the quarterly MISMEEL board meetings. Ad hoc meetings of the KSA Supervisory Committee can be called on request by any member of the KSA Supervisory Committee.

Quorum and Voting: the quorum for a KSA Supervisory Committee meeting is two. Each member of the KSA Supervisory Committee has one vote and no member has a casting vote. In the event of a split vote, the matter can be referred to the MISMEEL board of directors.

Term of appointment: the members of the KSA Supervisory Committee will remain in position while they remain on the board of directors and will be terminated should a member resign or be removed from the MISMEEL board of directors, if the MISMEEL board of directors or shareholder resolves to change the membership, or if they cease employment with the Moody's group or where otherwise determined by the MISMEEL board of directors.

Compensation: members of the KSA Supervisory Committee are not additionally compensated for their role.

## 10. Policies for distributing credit ratings, reports and updates

MIS updates its policies as required over the course of a calendar year. As of 31 December 2018, MIS published the following policies for distributing KSA Credit Ratings, reports and updates on its website in English and Arabic:

- » Policy on Conflict of Interest Certification
- » Credit Rating Refusal Policy
- » Policy Regarding SEC Rule 17g-5(a)(3)
- » Anti-Bribery and Anti-Corruption Policy
- » Policy that Prohibits MIS from Rating MCO
- » Policy on Anticompetitive Rating Practices (SEC Rule 17g-6)
- » Policy for Fee Discussions (last updated on 06-Feb-17)
- » Policy Banning Recommendations Associated with Credit Ratings
- » MIS – MA Separation Policy
- » Policy for Material Non-Public Information
- » Policy for Receipt, Review and Retention of External Complaints
- » Policy on Not Maintaining Credit Ratings on Issuers From Whom Moody's Investors Service Receives 10 Percent of its Annual Billings
- » Policy on the Separation of Credit Rating Personnel from Commercial Information and Activities
- » Policy For Outsourcing MIS Important Operational Functions
- » Policy for Public Point-In-Time Credit Ratings Outside Argentina
- » Policy for Disclosures
- » Policy for Solicitation or Acceptance of Money, Gifts, Favors, or Entertainment
- » Compensation of Designated Compliance Officer
- » Outside Business Interest Policy
- » Independence of Compliance
- » Policy on Communication of Public Rating Actions
- » Policy Prohibiting Sales and Marketing by Credit Rating Personnel
- » Policy for Withdrawal of Credit Ratings
- » Policy for Designating Non-Participating Rated Entities
- » Policy for Securities Trading
- » Policy for Designating and Assigning Unsolicited Credit Ratings
- » Policy for Sovereign Ratings
- » Policy for Rated Entity Notification
- » Policy for Analyst Rotation
- » Post Employment Policy
- » Policy on Shareholding
- » Policy on Credit Rating Symbols, Numbers and Scores

## 11. Material Changes

MIS publishes the MIS Code of Professional Conduct and its core policies, including its conflict of interest policy, that relate to KSA Credit Ratings in English and Arabic on its website.

For the reporting timeframe, there were no material modification to MIS KSA branch systems, resources or procedures other than as set out in this report.

## 12. Financial Statement 2018

MIS KSA branch's audited financial statements for 2018 are attached to this Transparency Report.

© 2019 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody's.com](http://www.moody's.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

Company Branch of Moody's Investors Service  
Moon Tower,  
Mezzanine Floor,  
7586 King Fahad Branch Road - Ar Rahmanyah,  
P.O.Box 9175, Riyadh 11413, Saudi Arabia

BP55311

**MOODY'S INVESTORS SERVICE COMPANY  
BRANCH  
(a branch of a foreign company)**

**Financial Statements  
For the Period from January 18, 2018 (Date  
of Commercial Registration) to December  
31, 2018 and Independent Auditor's Report**

**MOODY'S INVESTORS SERVICE COMPANY BRANCH  
(a branch of a foreign company)**

**Financial statements**

**For the period from January 18, 2018 (Date of Commercial Registration) to December 31, 2018**

	<b>Page</b>
Independent auditor's report	1 - 2
Statement of comprehensive income	3
Statement of financial position	4
Statement of changes in Branch's equity	5
Statement of cash flows	6
Notes to the financial statements	7 - 14



## *Independent auditor's report to the management of Moody's Investors Service Company Branch*

### **Report on the audit of the financial statements**

---

#### ***Our opinion***

In our opinion, the financial statements present fairly, in all material respects, the financial position of Moody's Investors Service Company Branch (the "Branch") as of December 31, 2018, and its financial performance and its cash flows for the period from January 18, 2018 (date of commercial registration) to December 31, 2018 in accordance with International Financial Reporting Standards ("IFRS"), that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncement issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

#### **What we have audited**

The Branch's financial statements comprise:

- the statement of comprehensive income for the period from January 18, 2018 (date of commercial registration) to December 31, 2018;
- the statement of financial position as at December 31, 2018;
- the statement of changes in Head office account for the period from January 18, 2018 (date of commercial registration) to December 31, 2018;
- the statement of cash flows for the period from January 18, 2018 (date of commercial registration) to December 31, 2018; and
- the notes to the financial statements, which include a summary of significant accounting policies.

---

#### ***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (ISA), 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We are independent of the Branch in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

---

#### ***Responsibilities of management for the financial statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncement issued by SOCPA and the requirements of the Regulations for Companies 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.

## *Independent auditor's report to the management of Moody's Investors Service Company Branch (continued)*

### ***Responsibilities of management for the financial statements (continued)***

In preparing the financial statements, management is responsible for assessing the Branch'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 Branch or to cease operations, or has no realistic alternative but to do so.

### ***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, as 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.

As part of an audit in accordance with International Standards on Auditing, as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, 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 Branch's 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 Branch'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 disclosures 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 Branch 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 represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management 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.

### **PricewaterhouseCoopers**



Ali H. Al Basri  
License Number 409

March 31, 2019

**MOODY'S INVESTORS SERVICE COMPANY BRANCH**  
**(a branch of a foreign company)**

**Statement of comprehensive income**

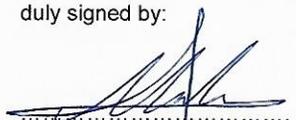
**For the period from January 18, 2018 (date of commercial registration) to December 31, 2018**

(All amounts in Saudi Riyals unless otherwise stated)

	Notes	
Revenue	4	2,604,670
Operating expenses	5	<u>(2,411,732)</u>
<b>Operating profit</b>		<b>192,938</b>
Foreign exchange gain		<u>16</u>
<b>Profit before income tax</b>		<b>192,954</b>
Income tax expense	6	<u>(56,511)</u>
<b>Profit after income tax for the period</b>		<b>136,443</b>
<b>Other comprehensive income</b>		
<i>Items that will not be reclassified to profit or loss:</i>		
Exchange differences on translation		<u>709</u>
<b>Total comprehensive income for the period</b>		<b><u>137,152</u></b>

The entire revenue is derived from continuing operations.

These financial statements were approved by the General Manager of the Branch on ~~31-3-2019~~ and duly signed by: ~~24-7-1440~~

  
.....  
Mahmoud Ahmad A. Totonji

The accompanying notes from 1 to 14 form an integral part of these financial statements.

**MOODY'S INVESTORS SERVICE COMPANY BRANCH**  
**(a branch of a foreign company)**  
**Statement of financial position**  
**As of December 31, 2018**  
 (All amounts in Saudi Riyals unless otherwise stated)

	Notes	2018
<b>Assets</b>		
<b>Non-current asset</b>		
Property and equipment	7	<u>4,855</u>
<b>Current asset</b>		
Security deposit		7,812
Due from a related party	11	379,419
Cash and cash equivalents	8	<u>991,358</u>
		<u>1,378,589</u>
<b>Total assets</b>		<u><b>1,383,444</b></u>
<b>Liabilities</b>		
<b>Non-current liability</b>		
End-of-service benefits	9	<u>48,629</u>
<b>Current liabilities</b>		
Accrued expenses and other liabilities	10	635,264
Due to a related party	11	5,878
Income tax payable		<u>56,521</u>
		<u>697,663</u>
<b>Total liabilities</b>		<u>746,292</u>
<b>Branch's equity</b>		
Branch capital	11	500,000
Statutory reserve	12	13,644
Translation reserve		709
Retained earnings		<u>122,799</u>
<b>Total Branch's equity</b>		<u>637,152</u>
<b>Total liabilities and Branch's equity</b>		<u><b>1,383,444</b></u>

These financial statements were approved by the General Manager of the Branch on 31-12-2019 and duly signed by: 24-7-1440

  
 .....  
 Mahmoud Ahmad A. Totonji

The accompanying notes from 1 to 14 form an integral part of these financial statements.

**MOODY'S INVESTORS SERVICE COMPANY BRANCH**

(a branch of a foreign company)

**Statement of changes in Branch's equity**

For the period from January 18, 2018 (date of commercial registration) to December 31, 2018

(All amounts in Saudi Riyals unless otherwise stated)

	Branch capital	Statutory reserve	Translation reserve	Retained earnings	Total
Balance as at January 18, 2018	-	-	-	-	-
Contributed capital (Note 11)	500,000	-	-	-	500,000
Profit for the period	-	-	-	136,443	136,443
Exchange differences on translation	-	-	709	-	709
Total comprehensive income for the period	-	-	709	136,443	137,152
Transfer to statutory reserve (Note 12)	-	13,644	-	(13,644)	-
<b>December 31, 2018</b>	<b>500,000</b>	<b>13,644</b>	<b>709</b>	<b>122,799</b>	<b>637,152</b>

The accompanying notes from 1 to 14 form an integral part of these financial statements.

**MOODY'S INVESTORS SERVICE COMPANY BRANCH**  
**(a branch of a foreign company)**

**Statement of cash flows**

**For the period from January 18, 2018 (date of commercial registration) to December 31, 2018**

(All amounts in Saudi Riyals unless otherwise stated)

	Notes	2018
<b>Cash flow from operating activities</b>		
Profit before income tax		192,954
<u>Adjustments for non-cash items:</u>		
Provision for end-of-service benefits	9	48,629
Depreciation	5, 7	1,619
Effect of change in foreign exchange rates		123
Operating cash flows before changes in working capital		<u>243,325</u>
<u>Changes in working capital</u>		
Security deposit		(7,812)
Due from a related party		(379,419)
Accrued expenses and other liabilities		635,264
Net cash generated from operating activities		<u>491,358</u>
<b>Cash flow from financing activities</b>		
Proceeds from capital contribution	11	500,000
Working capital finance received	11	50,000
Repayment of working capital finance	11	(50,000)
Net cash generated from financing activities		<u>500,000</u>
<b>Net increase in cash and cash equivalents</b>		991,358
Cash and cash equivalents at beginning of the period		<u>-</u>
<b>Cash and cash equivalents at end of the period</b>	8	<u>991,358</u>
<b>Supplemental Non-cash information</b>		
Purchase of property and equipment	7	6,474
Exchange differences on translation		<u>709</u>

The accompanying notes from 1 to 14 form an integral part of these financial statements.

M.T.

**MOODY'S INVESTORS SERVICE COMPANY BRANCH**

(a branch of a foreign company)

**Notes to the financial statements**

**For the period from January 18, 2018 (date of commercial registration) to December 31, 2018**

(All amounts in Saudi Riyals unless otherwise stated)

**1 General information**

Moody's Investors Service Company Branch (the "Branch") is a branch of Moody's Investors Service Middle East Limited (the "Head Office"), a company registered in the United Arab Emirates (UAE). The Branch's ultimate parent is Moody's Corporation, a company incorporated in the United States of America (USA). The Branch is registered in the Kingdom of Saudi Arabia under Commercial Registration Number 1010614264 issued in Riyadh on 30 Rabi Al-Thani 1439H (January 18, 2018). The registered address of the Branch is P.O. Box 9420, Riyadh 21413, Kingdom of Saudi Arabia.

The principal activity of the Branch is the provision of credit rating, research and risk analysis services.

The financial statements are prepared for the period from January 18, 2018, the date of commercial registration, to December 31, 2018.

**2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below.

**2.1 Basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

**2.2 Basis of measurement**

These financial statements have been prepared on the historical cost basis except for items, if any, as explained in the respective accounting policy.

**2.3 Functional and presentation currency**

The functional currency of the branch is United Arab Emirates Dirhams ("AED"). For reporting purposes, the financial statements are presented in Saudi Arabia Riyals ("SAR").

**2.4 Property and equipment**

Initial and subsequent recognition

Property and equipment are initially recognised at cost on the date when the items are delivered. Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Subsequent to initial recognition, property and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Depreciation

Depreciation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful life of an item of property and equipment or its major components, if any.

The estimated useful lives for the Branch's property and equipment are as follows:

Computer equipment and software	3 years
---------------------------------	---------

Derecognition

The carrying amount of property and equipment is derecognized:

- upon disposal of assets; or
- when no future economic benefits are expected from its use or disposal.

**MOODY'S INVESTORS SERVICE COMPANY BRANCH**

**(a branch of a foreign company)**

**Notes to the financial statements**

**For the period from January 18, 2018 (date of commercial registration) to December 31, 2018**

(All amounts in Saudi Riyals unless otherwise stated)

The gain or loss, if any, arising from the derecognition of an item of property and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. The gain or loss on derecognition, if any, is recognised in the statement of comprehensive income and classified as other non-operating income / (expenses), net.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of comprehensive income.

Maintenance and normal repairs which do not materially extend the estimated useful life of an asset are charged to the statement of comprehensive income as and when incurred. Major renewals and improvements, if any, are capitalized and the assets so replaced are retired.

**2.5 Income tax**

The Branch is subject to income tax in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT"). Provision for income tax for the Branch is charged to the statement of comprehensive income. Additional amounts payable at the finalisation of final assessments are accounted for when such amounts are determined.

Deferred income taxes are recognized on all major temporary differences between financial income and taxable income and are recognized during the period in which such differences arise, and are adjusted when related temporary differences are reversed. Deferred income taxes are determined using tax rates which have been enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income taxes arising out of such temporary differences were not significant as of December 31, 2018.

The Branch also withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under the Saudi Arabian Income Tax Law.

**2.6 Cash and cash equivalents**

Cash and cash equivalents include cash at bank and deposits held at call with banks with an original maturity of 90 days or less.

**2.7 Employee benefits**

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Employee entitlements to annual leave are recognised as they are earned by employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Employee entitlements to sick leave and maternity or paternity leave are recognised at the time of leave.

End-of-service benefits

The Branch operates an unfunded gratuity scheme for employees in accordance with the Saudi Labor Law. The gratuity scheme provides a lump sum amount to employees upon termination of their employment. The Branch recognises expenses in accordance with IAS 19 "Employee Benefits" as the benefits are earned.

The end-of-service benefits are disclosed as non-current liabilities. On termination of employment, respective employee benefits are reclassified as current liabilities while those employees continue to provide services during their notice period.

**2.8 Revenue**

Revenue is recognised when control of promised goods or services is transferred to the customer, in an amount that reflects the consideration the Branch expects to be entitled to in exchange for those goods or services.

Service fees represent a fee charged to a related party for services provided by the Branch under the terms of the service agreement. Fees are charged on a cost-plus basis and are recognised on an accrual basis.

M.T.

**MOODY'S INVESTORS SERVICE COMPANY BRANCH  
(a branch of a foreign company)**

**Notes to the financial statements**

**For the period from January 18, 2018 (date of commercial registration) to December 31, 2018**

(All amounts in Saudi Riyals unless otherwise stated)

**2.9 Financial instruments**

The Branch recognises a financial instrument when it becomes a party to the contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

All financial assets are measured initially at fair value plus, in the case of financial assets not measured at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

The Branch classifies financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of its business model for managing the financial assets and the contractual cash flows characteristics of the financial asset.

Financial assets at amortised cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Due from a related party, security deposit and cash and cash equivalents are classified under this category.

Financial liabilities

All financial liabilities are measured initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. Financial liabilities are classified either at amortised cost or fair value through profit and loss. Financial liabilities at amortised cost include due to a related party and accrued expenses.

Derecognition

All financial instruments are derecognised when:

- rights and obligations to the cash flows have expired or settled; and
- control or, risks and rewards (where applicable), have been transferred.

The gain or loss arising from the derecognition of financial instruments shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount. The gain or loss on derecognition is recognised in the statement of comprehensive income and classified as other non-operating income (expenses), net.

The Branch presents fair value disclosures for those financial instruments held at amortised cost that are expected to be settled after more than 12 months or where counter party credit risk is assessed as high. In regards to all other financial instruments, the Branch assumes that the carrying amount is a reasonable approximation of fair value and does not provide any additional disclosures.

**2.10 Impairment**

Financial assets

The Branch uses the expected credit losses (ECL) model for measurement and recognition of impairment loss on the financial assets that are held at amortised cost. The Branch has no financing component for such financial assets.

Under the simplified approach, the Branch recognises a loss allowance for estimated ECL based on historical experience adjusted for current and forward-looking factors specific to the debtors and the economic environment and current conditions that will always equal a lifetime of expected credit losses. Lifetime expected credit losses are those that result from all possible default events over the expected life of such financial assets. Estimates of uncollectible accounts are recorded as impairment loss and are reflected as additions to the loss allowance.

The Branch evaluates its loss allowance by reviewing and assessing historical collection and the current aging status of customer accounts. The Branch also considers the economic environment of the customers, both from

M.T.

**MOODY'S INVESTORS SERVICE COMPANY BRANCH**  
**(a branch of a foreign company)**

**Notes to the financial statements**

**For the period from January 18, 2018 (date of commercial registration) to December 31, 2018**

(All amounts in Saudi Riyals unless otherwise stated)

an industry and geographic perspective, in evaluating the need for allowances. Based on its analysis, the Branch adjusts its allowance as considered appropriate in the circumstances.

**2.11 Foreign currency transactions**

Transactions in foreign currencies are initially recorded by the Branch at the functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. All foreign exchange differences are recognised in the statement of comprehensive income.

Functional currency translations

The functional currency of the Branch is AED and the reporting currency for financial statements is Saudi Arabia Riyals. The assets and liabilities of the Branch are translated in to reporting currency using the exchange rates at the reporting date. The income and expenses of the Branch are translated using the average exchange rate for the period. The exchange differences resulting from translation of amounts from functional currency to reporting currency are recognised in the other comprehensive income as "translation reserve".

**2.12 Payables and accruals**

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Branch.

**2.13 Provisions**

Provisions are recognized when; the Branch has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

**2.14 Significant accounting judgments, estimates and assumptions**

The preparation of the Branch's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosures of contingent liabilities, at the end of reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The Branch reviews the estimations and underlying assumptions on an ongoing basis. Revisions to accounting estimations are recognised in the period in which the estimate is revised.

**3 New and revised accounting standards issued but not yet effective**

Significant standards issued but not yet effective as at the date of issuance of the Branch's financial statements are listed below:

- IFRS 16, 'Leases', (effective from 1 January 2019).

In January 2016, the IASB issued IFRS 16 "Leases". IFRS 16 will require lessees to recognise all of its leases in the same manner, where all of the rights and obligations from using leased assets will be recognised in the financial statements. A lessee will be required to recognise right-of-use assets and lease liabilities, which results in lease interest expense from leasing assets. IFRS 16 is effective for annual periods beginning 1 January 2019, early application permitted but conditionally that IFRS 15 was already applied. The Branch is planning to apply IFRS 16 initially on 1 January 2019 with no restatement of comparative information. The Branch believes that it will have no material impact on its financial statements.

- Amendments to IAS 1 and IAS 8, "Definition of material"

The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. The amendments clarify that materiality

**MOODY'S INVESTORS SERVICE COMPANY BRANCH**

(a branch of a foreign company)

**Notes to the financial statements**

**For the period from January 18, 2018 (date of commercial registration) to December 31, 2018**

(All amounts in Saudi Riyals unless otherwise stated)

will depend on the nature or magnitude of information. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The amendments to IAS 1 and IAS 8 are applicable from annual periods beginning on or after 1 January 2020. Earlier application is permitted. The Branch is deciding when to apply this amendment. The Branch does not expect material impact from applying this amendment to its financial statements.

There are no other new and revised accounting standards issued but not yet effective that are expected to have a material impact on the financial statements of the Branch.

**4 Revenue**

Revenue by category	Note	For the period ended December 31, 2018
Services	11	<u>2,604,670</u>

The following table presents the timing of revenue recognition:

	For the period ended December 31, 2018
Revenue recognised over time	<u>2,604,670</u>

**5 Operating expenses**

	Note	For the period ended December 31, 2018
Staff costs	5.1	1,557,955
Recruitment		237,632
Registration and licensing		125,995
Office service agreements		109,950
Audit fees		90,016
Legal and professional fees		86,792
Travel		78,730
Seminars and conferences		8,301
Depreciation	7	1,619
Others		114,742
		<u>2,411,732</u>

**5.1 Staff costs**

	Note	For the period ended December 31, 2018
Salaries and bonus		1,366,334
End-of-service benefits charge	9	48,629
Other benefits		142,992
		<u>1,557,955</u>

M.I.

**MOODY'S INVESTORS SERVICE COMPANY BRANCH**  
**(a branch of a foreign company)**

**Notes to the financial statements**

For the period from January 18, 2018 (date of commercial registration) to December 31, 2018

(All amounts in Saudi Riyals unless otherwise stated)

<b>6</b>	<b>Income tax matters</b>	<b>2018</b>
	Charge for the period	<u>56,511</u>
	<b>6.1 Reconciliation for effective tax</b>	<b>For the period ended December 31, 2018</b>
	Profit before income tax	192,954
	Income tax expense	<u>(56,511)</u>
	<b>Profit after income tax for the period</b>	<u>136,443</u>
	<b>Income tax at statutory rate of 20%</b>	<b>38,591</b>
	<b>Reconciliation:</b>	
	Non-deductible items	<u>17,920</u>
	<b>Income tax expense</b>	<u>56,511</u>
<b>7</b>	<b>Property and equipment</b>	<b>Computer equipment and software</b>
	<b>Cost:</b>	<b>Note</b>
	Opening balance	-
	Additions	11 <u>6,474</u>
	Closing balance	<u>6,474</u>
	<b>Accumulated depreciation:</b>	
	Opening balance	-
	Charge for the period	5 <u>(1,619)</u>
	Closing balance	<u>(1,619)</u>
	<b>Net book value as at December 31, 2018</b>	<u>4,855</u>
<b>8</b>	<b>Cash and cash equivalents</b>	<b>2018</b>
	Cash at bank	<u>991,358</u>
<b>9</b>	<b>End-of-service benefits</b>	<b>Note 2018</b>
	Charge for the period and balance at December 31, 2018	5.1 <u>48,629</u>
<b>10</b>	<b>Accrued expenses and other liabilities</b>	<b>2018</b>
	Accrued employee benefits	236,446
	Accrued social insurance	175,198
	Accrued professional fees	125,558
	Other accrued expenses	<u>98,062</u>
		<u>635,264</u>

**MOODY'S INVESTORS SERVICE COMPANY BRANCH**  
**(a branch of a foreign company)**  
**Notes to the financial statements**  
**For the period from January 18, 2018 (date of commercial registration) to December 31, 2018**  
(All amounts in Saudi Riyals unless otherwise stated)

**11 Related party transactions**

The Branch is a member of an affiliated group of companies, which are owned directly or indirectly by the ultimate parent company, Moody's Corporation.

The following transactions were carried out with related parties during the period:

	Notes	For the period ended December 31, 2018
<b>Head office</b>		
Revenue earned	4	<u>2,604,670</u>
Working capital finance received		<u>50,000</u>
Repayment of working capital finance		<u>(50,000)</u>
Payments made on behalf of the Branch		<u>(1,532,136)</u>
<b>Fellow subsidiary</b>		
Purchase of computer equipment	7	<u>6,474</u>

Significant balances arising from transactions with related parties are as follows:

	2018
<b>Due from a related party</b>	
Receivable from Head Office for services	<u>379,419</u>
<b>Due to a related party</b>	
Purchase of computer equipment from a fellow subsidiary	<u>5,878</u>

During the period, the Head office provided Saudi Riyals 500,000 as capital contribution to the Branch.

**Key management compensation**

The directors of the Head office are the key management personnel of the Branch. They perform their work without compensation of any kind by the Branch.

**12 Statutory reserve**

In accordance with the requirements of the Regulations for Companies in the Kingdom of Saudi Arabia, the Branch is required to transfer 10% of its annual profit to a statutory reserve, until the said reserve equals at least 30% of the Branch capital. The reserve is currently not available for distribution.

**13 Financial instruments and associated risks**

The Branch's financial instruments are subject to credit, liquidity and foreign currency risk.

**13.1 Credit risk**

Credit risk is the risk that an issuer, counterparty or an underlying third party will be unable to meet commitments that it has entered into with the Branch. The Branch's receivable balance is entirely with its Head Office for which credit risk is assessed to be low. The Branch's cash and cash equivalents are held with the Saudi British Bank. The Branch regularly monitors the bank's credit rating. As at reporting date, Moody's short-term credit rating for Saudi British Bank with a total balance of Saudi Riyals 991,358 was P-1.

Moody's employs the following designations to indicate the relative repayment ability of rated entities:

- P-1 - Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.

M.T.

**MOODY'S INVESTORS SERVICE COMPANY BRANCH**  
**(a branch of a foreign company)**

**Notes to the financial statements**

**For the period from January 18, 2018 (date of commercial registration) to December 31, 2018**

(All amounts in Saudi Riyals unless otherwise stated)

The following table provides information about the exposure to credit risk for balances due from a related party by geographic region:

Region	2018
United Arab Emirates	<u>379,419</u>

The Branch has a history of collecting its intercompany receivables when due. Therefore, credit risk is insignificant and there is no requirement to create ECL on its intercompany receivables.

**13.2 Liquidity risk**

Liquidity risk is the risk that the Branch will encounter difficulties raising liquid funds to meet commitments as they fall due. There is a treasury function at Head Office level which regularly monitors the liquidity position and maintains appropriate funds to meet the Branch's liquidity requirements.

The following table analyses the Branch's financial assets and liabilities into relevant maturity groupings as at the reporting date. The amounts in the table are the contractual undiscounted cash flows.

	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Security deposit	-	7,812	-	-	7,812
Due from a related party	379,419	-	-	-	379,419
Cash and cash equivalents	991,358	-	-	-	991,358
Accrued expenses and other liabilities	(460,105)	-	-	-	(460,105)
Due to a related party	(5,878)	-	-	-	(5,878)
<b>Net position</b>	<u>904,794</u>	<u>7,812</u>	<u>-</u>	<u>-</u>	<u>912,606</u>

**13.3 Foreign currency risk**

Foreign currency risk is the risk of changes in value due to changes in foreign exchange rates. The foreign currency risk is monitored and assessed at Head Office level. The amounts in the table below provide sensitivity analysis for Branch's foreign currency risk exposure as at the reporting date:

	SAR	GBP	USD	Total
Security deposit	7,812	-	-	7,812
Cash and cash equivalents	991,358	-	-	991,358
Accrued expenses and other liabilities	(118,369)	-	(45,675)	(164,044)
Due to a related party	(120,924)	(5,878)	(30,742)	(157,544)
<b>Total</b>	<u>759,877</u>	<u>(5,878)</u>	<u>(76,417)</u>	<u>677,582</u>
Foreign exchange rate	1.0000	4.7776	3.7513	
Change in rate by 10% (+/-)	0.1000	0.4778	0.3751	
<b>Effect on profit (+/-)</b>	<u>(75,987)</u>	<u>588</u>	<u>7,641</u>	<u>(67,758)</u>

**14 Subsequent events**

There are no subsequent events after the reporting date that require adjustments to or disclosure in the accompanying financial statements.

M.T.