

**Annual Report
(HSBC GCC Equity Income Fund)
2021**

*** All reports are available upon request free of charge.**



Table of Contents

1. Fund Information	3
2. Services Consideration and Commissions	4
3. Fund Manager	9
4. Custodian	11
5. Auditor	12

(A) Fund Information

1- Fund Name

HSBC GCC Equity Income Fund

2- Investment Objectives and Policies

The Fund is an open investment fund that aims at achieving capital growth over the long term in addition to distribution of income by investing in the shares of companies listed on various GCC stock exchanges (KSA, UAE, Bahrain, Kuwait, Oman & Qatar) provided that they are compliant with Sharia standards approved Sharia Supervisory Board as set forth in the Information Memorandum. The Fund will act as a fund for distribution of income so that the income generated by the Fund is distributed biannually to Unitholders. The Board of Directors has the sole discretion to cease distribution if it so deems necessary with the exclusion of the capital profits achieved by the Fund.

3- Income & Dividends Distribution Policy

The distribution of income is determined at the end of March and September each year. All Unitholders, recorded on the last valuation day in March and September, are entitled to dividends.

4- Description of the Fund Indicative Index and Service Provider Website

The Fund performance is measured against the performance of S&P GCC Composite Index with a maximum weight of 15% per share and compliant with Islamic Sharia.

(B) Fund Performance

- Fund performance during the past three years (SAR)

	2019	2020	2021
Net Asset Value at the end of the year	123,540,875	120,520,198	126,959,542
Net Asset Value per Unit at the end of the year	10.6771	10.4482	12.8753
Highest Net Asset Value per Unit	11.4202	10.9204	14.9334
Lowest Net Asset Value per Unit	10.0203	8.0160	8.0160
Number of Issued Units at the end of the Year	11,570,684	11,535,002	9,860,727
Value of Distributed Dividends per unit (if any)	0.6	0.6	0.6
Expense Ratio	1.80%	1.87%	1.96%
Percentage of Assets Borrowed from the Asset Value, Exposure Period and Maturity Date	-	-	-

- **Fund Returns**

	One Year	Three Years	Five Years	Since Inception
Fund Returns	29.36%	50.83%	54.13%	103.40%
Benchmark Returns	24.68%	47.63%	74.52%	106.88%

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Fund Returns	4.66%	39.37%	-2.07%	-14.03%	7.46%	-4.89%	7.43%	11.64%	-2.14%	29.36%

- **Services Consideration and Commissions**

Type of Expenses or Commission (Including VAT, if any)	Value in SAR	Percentage according to Fund Asset Average
Fund Management Fees	2,474,570	1.96%
Custodian Fees	-	-
Auditor's Fees	-	-
Independent Board Members Remuneration	-	-
CMA Registration Fees	-	-
Tadawul Fees	-	-
Administrative Services Fees	-	-
Shariah Purification Fees	11,945	0.01%
Other Expenses	174	0.00%

3- Any material changes that affected the Fund performance

No material changes affected the Fund performance in 2021.

4- Annual Voting Practices

None

5- Fund Board of Directors' Annual Report

(A) Names and Types of Membership of the Board Members:

- Hamad Ibrahim Al-Washmi, Chairman of the Board of Directors, (a non-independent Board member);
- Tariq Saad Abdul Aziz Al-Tuwaijri, (an independent Board member);
- Ali Saleh Al-Othaim, (an independent Board member);
- Abdulrahman Al-Mudaimigh, (an independent Board member); and
- Rehab Saleh Al-Khudair, (a non-independent Board member).

Names of Members of the Fund's Board of Directors	Experience and qualifications	Current position
Hamad Ibrahim Al-Washmi (Chairman of the Board of Directors – Non-Independent Member)	<ul style="list-style-type: none"> - Head of Compliance, HSBC Saudi Arabia (2018) - Member of Audit Committee, Najm Insurance Co. (2002) - Head of Customer Experience, SABB Customer Experience Department, SABB Bank (2016) - International Assignment with the Global Compliance Department, HSBC Holdings PLC, London, United Kingdom (2016) - Head of RBWM Compliance, Compliance Department, SABB (2014) - Senior Manager, Business Performance & Planning – Retail Banking & Wealth Management, SABB (2010) - Manager Business Performance & Planning, SABB (2009) - Relationship Manager – Large Corporate and Government Entities, Arab National Bank (2003) - Consumer Loans Credit Officer, Arab National Bank (2002) - Recommendation & Call Verification Units Supervisor, Arab National Bank (2002) - Package Account Unit Supervisor, Arab National Bank (2002) - Showroom Manager, Jarir Bookshop (2000) - MBA, University of San Diego, School of Business Administration, San Diego (2009) - Bachelor of Science in Business Administration (2000) 	Chief Risk and Compliance Officer, HSBC Saudi Arabia (2021)
Rehab Alkhudair (Non-Independent Member)	<ul style="list-style-type: none"> - Senior Investment Performance Analysis Manager– Asset Management Department, HSBC Saudi Arabia (2019) - Performance Analyst – Asset Management Department, HSBC Saudi Arabia (2016) - Assistant Performance Analyst – Asset Management Department, HSBC Saudi Arabia (2014) - Assistant Manager, Regulatory Compliance, HSBC Saudi Arabia (2014) - Assistant Financial Analyst - Treasury & Investments, Riyadh Bank (2012) - Master Degree in Finance Management, Durham University, United Kingdom (2013) - BBA, Finance (with honors degree), Al Yamamah University, Saudi Arabia (2010) 	Chief Operating Officer Asset Management, HSBC Saudi Arabia (2020)
Tariq Saad Abdul-Aziz Al-Tuwaijri (Independent Member)	<ul style="list-style-type: none"> - Director of Equity Investments at Nessel Holding Company (2010) - Deputy General Executive President of Mediation at Wasatah Capital Company (2008) - Senior Mediator at Al Jazeera Capital (2004) - Relations Director - Banking Services of Samba Financial Group (1998) - Bachelor of Business Administration from the Open Arabian University (2015) 	Head of the Nomination and Compensation Committee, Non-Independent Member of the Board of Directors of

	- General Institute of Technical Education and Vocational Training, Diploma of Business Administration (2010)	Thoub Al Asil Company and Member of the Saudi Economics Association (2018)
Ali Saleh Ali Al-Othaim (Independent Member)	- Member of the Board Directors of Al Khair Capital (2012) - Member of the Board of Directors of the Chamber of Commerce and Industry, Riyadh (2003) - Member of the Board of Directors of Al Othaim Commercial Group (1998) - Deputy President of Al Othaim Jewelry (formerly) (1994) - Bachelor of Business Administration, Major: Financial Management, King Saud University (1998)	Businessman
- Abdulrahman Ibrahim Al-Mudaimigh (Independent Member)	- Board member of National Building and Marketing Company (2019) - Chairman of Future Ceramics (2019) - Board member of National Gypsum Company (2019) - Board member of Impact Capital Company (2019) - Board member of FIPCO (2019) - Board member of AL Maather REIT Fund (2017) - CEO of Watar Partners for Business Trading Company (2017) - Acting CEO of Bawan Company (2016) - Deputy President of Business Development for Bawan Company (2011) - Founding partner, General Manager of Bina Holding Company (2007) - Senior credit analyst for the Industrial Development Fund (2004) - MBA from London Business School (2018) - Bachelor degree in Financial Management from Prince Sultan University (2004)	Executive partner of Watar Partners for Business Trading Company (2017)

(B) Roles and Responsibilities of the Fund Board of Directors

Responsibilities of the Fund Board Members include without limitation:

- Approving all contracts, decisions and material reports to which the Fund is a party.
- Approving a written policy with regard to the voting rights in respect of Fund assets.
- Supervising and, where appropriate, approving any conflict of interest disclosed by the Fund Manager pursuant to Article (13) of the IFR.
- Holding, twice a year at least, a meeting with the Conformity and Compliance Committee at the Fund Manager, or the officer in charge of Conformity and Compliance at the Fund Manager, in order to review compliance by the Fund with all relevant laws and regulations.
- Recognizing any recommendation raised by the liquidator, in case a liquidator is appointed.
- Ensuring completion and accuracy of the Fund Terms and Conditions and any other document involving disclosures in connection with the Fund and the Fund Manager as well as its management of the Fund and the amended Investment Funds Regulations.

- Ensuring that the Fund Manager is fulfilling its responsibilities in a way realizing the interests of the Unitholders pursuant to the Fund Terms and Conditions, and the amended provisions of the Investment Funds Regulations.
- Working honestly, in good faith, and exerting diligence, skill and care, and in a way realizing the interests of the Unitholders.
- Recording the minutes of meetings showing all the occurrences affecting the meetings and decisions taken by the Board.
- Approving delegating the powers and authorities of the Fund Manager to other financial institutions in order to function as adviser, sub-manager, custodian, agent or mediator after having obtained the approval by CMA.
- Approving the appointment of the Auditor.
- Approving the services authorized by the Manager in respect of keeping the books, subscription, redemption, sale and purchase and financial transfers, confirmation and information affecting the investments in response to the subscribers' inquiries. Assuming the tasks of follow-up and control of the Fund's performance, and ensuring that the Fund Manager carries out its responsibilities in a way realizing the interests of the Unitholders, pursuant to the Terms and Conditions of the Fund, the Information Memorandum, the relevant documentation and the provisions of the Investment Fund Regulations.

(D) Particulars of the Fund Board Members' Remuneration

Remuneration of the Board independent members shall be paid by the Fund Manager. The Fund will not pay any expenses of the Fund Board of Directors.

(E) Statement of any real or potential conflict of interest between the interests of a Fund board member and those of the Fund:

- There is no real or potential conflict between the interest of any Board member and the interests of the Fund.
- No Fund Board member may sit on the boards of directors of other funds in the Kingdom of Saudi Arabia.

The Board of Directors of the Fund shall supervise and resolve any conflicts of interest, and shall exercise due care and diligence towards Unitholders, and shall exert utmost effort to appropriately resolve conflicts of interest in good faith. The Fund Manager shall ensure that none of its subordinates is engaged in any business involving a conflict of interest. In the event of any material conflict between the interests of the Fund Manager or the Sub-Manager's interest and the interests of any investment fund managed thereby or another client's account, then the Fund Manager shall disclose this to the Board of Directors as soon as possible.

(F) All Fund Boards of Directors in which the relevant Board Member participates:

Fund Name	Hamad Al-Washmi	Rehab Al-Khudair	Tariq Al-Tuwajri	Ali Saleh Al-Othaim	Abdulrahman Al-Mudaimigh
HSBC Saudi Riyal Murabaha Fund	√	√	√	√	√
HSBC US Dollar Murabaha Fund	√	√	√	√	√
HSBC Saudi Equity Fund	√	√	√	√	√
HSBC Saudi Equity	√	√	√	√	√

Income Fund					
HSBC Saudi Financial Institutions Equity Fund	√	√	√	√	√
HSBC Saudi Companies Equity Fund	√	√	√	√	√
HSBC Saudi Industrial Companies Equity Fund	√	√	√	√	√
HSBC Saudi Construction and Cement Equity Fund	√	√	√	√	√
HSBC Global Equity Index Fund	√	√	√	√	√
HSBC GCC Equity Fund	√	√	√	√	√
HSBC China and India Equity Freestyle Fund	√	√	√	√	√
HSBC Multi-Assets Defensive Fund	√	√	√	√	√
HSBC Multi-Assets Balanced Fund	√	√	√	√	√
HSBC Multi-Assets Growth Fund	√	√	√	√	√
HSBC Saudi Freestyle Equity Fund	√	√	√	√	√
HSBC MSCI Tadawul 30 Saudi ETF	√	√	√	√	√
HSBC Sukuk Fund	√	√	√	√	√
HSBC GCC Equity Income Fund	√	√	√	√	√

(G) Subjects Discussed and Resolutions passed thereon including the fund Performance and Attainment of its Objectives

Subject	Approval Description	Meeting Date
Changing the Auditor	The Fund Board of Directors agreed to replace the present auditor with Ernst & Young (EY)	4 March 2021 (By circulation via email)
Preparing the Financial Statements of the Mutual Investment Fund	The Fund Board of Directors agreed to outsource the preparation of the financial statements of the mutual fund	21 February 2021
Changing the Broker	The Fund Board of Directors approved the new mediators to carry out the investment fund trading operations.	21 February 2021

(C) Fund Manager

HSBC Saudi Arabia

1- Address

HSBC Building 7267, Olaya St. (AlMurooj,
Riyadh 12283-2255,
Kingdom of Saudi Arabia,
Unified Number: 920022688,
Fax: +966 1299 2385
Website: www.hsbcSaudi.com

2- Fund Sub-Manager and/or Investment Advisor (if any)

Not Applicable

3- Investment Activities during the Period

During 2021, the Fund increased its exposure to GCC stock exchanges with the exclusion of Saudi Stock Exchange due to the improved economic conditions and easing COVID-19 precautionary measures. The Fund increased its exposure to a number of income companies and greatly concentrated on telecommunication sector and Basic Materials Sector in the wake of the rise in prices of goods and the improvement witnessed in profit margins and operation rates. Furthermore, the Fund increased its concentration on the energy sector following the substantial improvement in the energy prices supported by the improved demand and OPEC success in supporting the balance between supply and demand. The Fund maintained its exposure to the real estate and services sectors due to the improved consumption and remarkable recovery in both sectors after easing the pandemic related procedures.

4- Report on the Fund Performance during the Period

During 2021, Sharia compliant S&P GCC Composite Index (total returns) increased by 24.68% supported by the rise in prices of oil, petrochemicals and other goods. Furthermore, the banking sector improved due to the growth in the loan volume and decline in allocations triggered by the improvement witnessed in the economic conditions. In addition, easing the precautionary measures adopted to curb the outbreak of COVID-19 had a positive impact on all economic activities in GCC countries.

During 2021, the Fund achieved returns up to 29.36% whereas the benchmark Index (Sharia compliant S&P GCC Composite Index with a maximum weight of 15%) achieved returns of 24.68%.

5- Changes made to the Terms and Conditions of the Fund during the Period

Date	Fund Name	Change
20 May 2021	HSBC GCC Equity Income Fund	- The Auditor was replaced. - The Auditor's fees were amended.
1 June 2021	HSBC GCC Equity Income Fund	-The Fund Board membership was updated.
10 October 2021	HSBC GCC Equity Income Fund	- The objectives, policies and risks of investment and the stock exchanges in which the Fund may purchase and sell have been amended to include investment in priority rights, initial subscriptions, traded equity funds, and real estate funds traded in Saudi Stock Exchange (including the main and parallel market). -Some paragraphs of the Fund documents have been corrected and re-drafted.

6- Any Additional Information that May Enable Unit Holders to Make Informed Decisions that are Based on Sufficient Information about the Fund Activities during the Period

There is no additional information to be disclosed except what has been stated in this Report, Fund's Terms and Conditions, and the Fund's financial statement. The investors need to read and understand the Fund's Terms and Conditions and all related documents and/or obtain advice from their own legal, tax, and/or investment advisors before taking any investment decision.

7- Percentage of Management Fees calculated on the Fund itself and other funds that the Fund is investing in (if the fund is substantially investing in other investment funds)

Not Applicable

8- Special Commission Received by Fund Manager during the Period

Not Applicable

9- Any other data or information that shall be included in this Report according to these Regulations

None

10- Management Term of the Person Recorded as the Fund Manager

Four Years

11- Percentage of the expenses of every Fund by the end of the year and the weighted average of the expenses of the main funds subject of investment

The Fund expenses reached 1.96% by the end of the year.

(D) Custodian

Albilad Capital Company

1- Address

Albilad Capital, Head Office
King Fahd Road, P.O. Box: 140, Riyadh 11411,
Kingdom of Saudi Arabia
Uniform No. 920003636
Fax: +966112906299
Website: www.albilad-capital.com

(2) Concise Description of the Custodian's main roles and responsibilities

- Take custody of the assets of the Investment Fund;
- Open a separate account under its name with a local bank in favor of the Fund;
- Segregate the Fund's assets and register Fund securities under its name for the benefit of the Investment Fund;
- Maintain all necessary documents to support the performance of its contractual responsibilities towards the Fund.
- Deposit all cash belonging to the Fund into the relevant bank account; and
- Manage the Fund cash i.e. deduct the investment amounts and Fund expenses in accordance with the Fund's Terms and Conditions and the Information Memorandum.
- The Fund Custodian and Fund Sub-Custodian shall not be a Fund Manager, sub- Fund manager, or any of their affiliates;
- The Custodian shall be liable to the Fund Manager and Unitholders for its obligations pertaining to any losses caused to the Investment Fund due to the Custodian fraud, negligence, willful misconduct or default.
- The Custodian shall be liable for taking custody of, and protecting the Fund's assets on behalf of Unitholders.
- The Custodian shall be liable for taking all necessary administrative measures in relation to the custody of the Fund's assets.

(E) Fund Operator

1- Name & Address of the Fund Operator

HSBC Saudi Arabia
HSBC Building 7267, Olaya Street (Al-Murooj District)
Riyadh 12283-2255,
Kingdom of Saudi Arabia
Uniform Number: 920022688
Fax: +96612992385
Website: www.hsbcSaudi.com

(2) Concise Description of the Fund Operator main roles and responsibilities

As responsible for operating the Fund; the Fund Operator shall:

- Keep the books and records related to the Fund operation;
- Prepare and update the unit subscribers record and maintain it in the Kingdom according to the Investment Fund Regulations;
- Be liable for the distribution of dividends, if any, according to the distribution policy provided for under these Terms and Conditions;
- Conclude the subscription and redemption procedures provided for under these Terms and Conditions; and
- Fully and fairly evaluate the Fund assets and calculate the Fund unit price.

(F) Auditor:

Ernst & Young & Co.
Olaya Street, 14th Floor, Al Faisaliah Office Tower, Riyadh,
P.O. Box 12212,
Kingdom of Saudi Arabia
Telephone: + 9662159898

(G) Financial Statements

Attached

**HSBC GCC Equity Income Fund
(Managed by HSBC Saudi Arabia)**

**AUDITED FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORT**

FOR THE YEAR ENDED 31 DECEMBER 2021



Ernst & Young Professional Services (Professional LLC)
Paid-up capital (SR 5,500,000 – Five million five hundred thousand Saudi Riyal)
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INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF HSBC GCC EQUITY INCOME FUND (MANAGED BY HSBC SAUDI ARABIA)

Opinion

We have audited the financial statements of HSBC GCC Equity Income Fund (the "Fund") managed by HSBC Saudi Arabia (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, statement of changes in equity attributable to the unitholders and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2021, 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 that are endorsed by the Saudi Organisation for Chartered and Professional Accountants.

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 Fund in accordance with the professional code of 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The financial statements of the Fund for the year ended 31 December 2020 were audited by another auditor who expressed unqualified opinion on those financial statements on 26 Sha'aban 1442H (corresponding to 8 April 2021).

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 that are endorsed by the Saudi Organization for Certified Public Accountants and the applicable provisions of the Investment Funds Regulations issued by the Board of the Capital Market Authority, and the Fund's terms and conditions and the Information Memorandum, 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 UNITHOLDERS OF HSBC GCC EQUITY INCOME FUND
(MANAGED BY HSBC SAUDI ARABIA) (CONTINUED)**

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

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

Those charged with governance are responsible for overseeing the Fund'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 that are 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 that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment 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 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



**INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF HSBC GCC EQUITY INCOME FUND
(MANAGED BY HSBC SAUDI ARABIA) (CONTINUED)**

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

- 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 Fund'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 Fund 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 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.

for Ernst & Young Professional Services


Fahad M. Al-Toaimi
Certified Public Accountant
License No. 354

Riyadh: 26 Sha'ban 1443H
(29 March 2022)



HSBC GCC EQUITY INCOME FUND

STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	<i>Note</i>	<i>31 December 2021 SR</i>	<i>31 December 2020 SR</i>
ASSETS			
Bank balances		10,450,906	15,117,500
Financial assets at fair value through profit or loss (FVTPL)	5	108,758,036	105,844,098
Receivables against sold securities		20,314,417	-
Advances for IPO subscription and other receivables		1,474,750	28,188
TOTAL ASSETS		140,998,109	120,989,786
LIABILITIES			
Management fee payable	6	27,148	19,401
Accrued expenses and other payables	7	169,200	450,187
Payable against purchased securities		13,842,219	-
TOTAL LIABILITIES		14,038,567	469,588
EQUITY			
Net assets attributable to unitholders of redeemable units		126,959,542	120,520,198
TOTAL LIABILITIES AND EQUITY		140,998,109	120,989,786
Redeemable units in issue		9,860,728	11,535,002
Net asset value attributable to each per unit		12.88	10.45

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

HSBC GCC EQUITY INCOME FUND
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2021

	<i>Note</i>	2021 <i>SR</i>	2020 <i>SR</i>
INCOME			
Net movement in unrealised (loss) gain on financial assets at FVTPL		(14,480,612)	6,241,964
Net realised gain (loss) on disposal of financial assets at FVTPL		45,011,787	(4,587,415)
Dividend income		4,396,727	4,526,393
Net exchange (loss) gain		(15,599)	10,886
Other income		1,141	-
TOTAL INCOME		34,913,444	6,191,828
EXPENSES			
Management fees	6	2,474,571	2,110,511
Other expenses		12,119	11,018
TOTAL EXPENSES		2,486,690	2,121,529
NET INCOME FOR THE YEAR		32,426,754	4,070,299
OTHER COMPREHENSIVE INCOME FOR THE YEAR			
Other comprehensive income for the year		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		32,426,754	4,070,299

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

HSBC GCC EQUITY INCOME FUND

STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO THE UNITHOLDERS

For the year ended 31 December 2021

	2021 SR	2020 SR
EQUITY AT THE BEGINNING OF THE YEAR	120,520,198	123,540,875
Net income for the year	32,426,754	4,070,299
Other comprehensive income for the year	-	-
Total comprehensive income for the year	32,426,754	4,070,299
Issue of units during the year	6,645,707	11,020,726
Redemption of units during the year	(26,294,208)	(11,140,907)
Net changes from unit transactions	(19,648,501)	(120,181)
DIVIDENDS TO UNITHOLDERS (note 12)	(6,338,909)	(6,970,795)
EQUITY AT THE END OF THE YEAR	126,959,542	120,520,198

	<u>Units</u>	<u>Units</u>
REDEEMABLE UNIT TRANSACTIONS		
Transactions in redeemable units during the year are summarised as follows:		
UNITS AT THE BEGINNING OF THE YEAR	11,535,002	11,570,684
Issue of units during the year	540,009	1,111,704
Redemption of units during the year	(2,214,283)	(1,147,386)
Net changes in units	(1,674,274)	(35,682)
UNITS AT THE END OF THE YEAR	9,860,728	11,535,002

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

HSBC GCC EQUITY INCOME FUND

STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	2021 SR	2020 SR
OPERATING ACTIVITIES		
Net income for the year	32,426,754	4,070,299
<i>Adjustments to reconcile net income to net cash flows from operating activities:</i>		
Net movement in unrealised loss (gain) on financial assets at FVTPL	14,480,612	(6,241,964)
	<u>46,907,366</u>	<u>(2,171,665)</u>
<i>Working capital changes:</i>		
Financial assets at FVTPL	(17,394,550)	18,352,761
Receivables against sold securities	(20,314,417)	-
Receivables and advances	(1,446,562)	(28,189)
Management fee payable	7,747	16,906
Accrued expenses and other payables	(280,987)	(73,602)
Payables for purchased securities	13,842,219	-
	<u>21,320,816</u>	<u>16,096,211</u>
Net cash flows from operating activities		
	<u>21,320,816</u>	<u>16,096,211</u>
FINANCING ACTIVITIES		
Proceeds from issuance of units	6,645,707	11,020,726
Payment on redemption of units	(26,294,208)	(11,140,907)
Dividend paid during the year	(6,338,909)	(6,970,795)
	<u>(25,987,410)</u>	<u>(7,090,976)</u>
Net cash flows used in financing activities		
	<u>(25,987,410)</u>	<u>(7,090,976)</u>
(DECREASE) INCREASE IN BANK BALANCE	(4,666,594)	9,005,235
Bank balance at the beginning of the year	15,117,500	6,112,265
BANK BALANCE AT THE END OF THE YEAR	10,450,906	15,117,500

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

HSBC GCC EQUITY INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS

31 December 2021

1. INCORPORATION AND ACTIVITIES

HSBC GCC Equity Income Fund (the “Fund”) is an open-ended investment fund created by an agreement between HSBC Saudi Arabia (the “Fund Manager”) and investors (the “Unitholders”) in the Fund. The address of the Fund Manager is as follows:

HSBC Saudi Arabia, Head Office
HSBC Building 7267
Olaya Street (Al-Murooj District)
Riyadh 12283-2255
Kingdom of Saudi Arabia

The Fund seeks to achieve long-term capital appreciation and income by investing in Shariah-compliant equities listed on the GCC stock markets that offer sustainable dividend yields and / or the potential for dividend growth over the long term. The fund invests in accordance with Shariah screening criteria, approved by the Shariah supervisory committee.

The Fund is managed by the Fund Manager who also acts as the administrator of the Fund. Albilad Capital is the custodian of the Fund. The fund pays semi-annual dividends according to the terms and conditions. The Fund Manager has made certain revisions to the terms and conditions of the Fund. The latest update was approved by the Capital Market Authority (“CMA”) on 10 October 2021.

During the year, the Fund Manager has announced that it agreed to transfer its asset management, retail brokerage and retail margin lending businesses to Alawwal Invest, a wholly owned subsidiary of the Saudi British Bank. Accordingly, the Fund Manager is in the process to obtain necessary approvals from CMA for transferring the management of the Fund to the new Fund Manager.

2. REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (the “Regulations”) issued by the CMA on 3 Dhul Hijja 1427H (corresponding to 24 December 2006) and effective from 6 Safar 1438H (corresponding to 6 November 2016) by the New Investment Fund Regulations (“Amended Regulations”) published by the CMA on 16 Sha’aban 1437H (corresponding to 23 May 2016) detailing requirements for all funds within the Kingdom of Saudi Arabia. The Regulations were further Amended by Resolution of the Board of the Capital Market Authority Number 2-22-2021 Dated 12 Rajab 1442H (corresponding to 24 February 2021G). The amended regulation are effective from 19 Ramadan 1442H (corresponding to 1 May 2021).

3. BASIS OF PREPARATION AND CHANGES TO SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organisation for Chartered and Professional Accountants (“SOCPA”) (collectively referred to as “IFRS as endorsed in the KSA”) and the applicable provisions of the Investment Funds Regulations issued by the Board of the Capital Market Authority, and the Fund’s terms and conditions and the Information Memorandum.

3.2 Basis of preparation

These financial statements are prepared under the historical cost convention, using the accrual basis of accounting except for financial assets at FVTPL that are measured at fair value. These financial statements are presented in Saudi Arabian Riyals (“SR”), which is the Fund’s functional currency. All financial information presented has been rounded to the nearest SR.

3.3 Changes in accounting policies

The accounting policies adopted and methods of computation followed are consistent with those of the previous financial year. There were several new and amendments to standards and interpretations which are applicable for the first time in 2021, but either not relevant or do not have an impact on the financial statements of the Fund. The Fund has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

HSBC GCC EQUITY INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2021

3. BASIS OF PREPARATION AND CHANGES SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Significant accounting policies

The following are the significant accounting policies applied by the Fund in preparing its financial statements.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and short-term deposits in banks that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with original maturities of three months or less.

Short-term investments that are not held for the purpose of meeting short-term cash commitments and restricted margin accounts are not considered as “cash and cash equivalents”.

For the purpose of the statement of cash flows, cash and cash equivalents includes bank balances.

Financial instruments

(i) Classification

In accordance with IFRS 9, the Fund classifies its financial assets and financial liabilities at initial recognition into the categories of financial assets and financial liabilities discussed below.

In applying that classification, a financial asset or financial liability is considered to be held for trading if:

- a) It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or
- b) On initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which, there is evidence of a recent actual pattern of short-term profit-taking or
- c) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument)

Financial assets

The Fund classifies its financial assets as subsequently measured at amortised cost or measured at fair value through profit or loss on the basis of both:

- The entity's business model for managing the financial assets
- The contractual cash flow characteristics of the financial asset
- Financial assets measured at amortised cost
A debt instrument is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets measured at fair value through profit or loss (FVTPL)
A financial asset is measured at fair value through profit or loss if:
 - i. Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding (SPPI); and
 - ii. It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell; or

**3. BASIS OF PREPARATION AND CHANGES SIGNIFICANT ACCOUNTING POLICIES
(continued)**

3.4 Significant accounting policies (continued)

Financial assets (continued)

- iii. At initial recognition, it is irrevocably designated as measured at FVTPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial liabilities

- Financial liabilities measured at fair value through profit or loss (FVTPL)
A financial liability is measured at FVTPL if it meets the definition of held for trading. The Fund does not hold any financial liabilities measured at FVTPL.
- Financial liabilities measured at amortised cost
This category includes all financial liabilities, other than those measured at fair value through profit or loss.

(ii) Recognition

The Fund recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

(iii) Initial measurement

Financial assets and financial liabilities at FVTPL are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in profit or loss.

Financial assets and liabilities (other than those classified as at FVPL) are measured initially at their fair value including any directly attributable incremental costs of acquisition or issue.

(iv) Subsequent measurement

After initial measurement, the Fund measures financial instruments which are classified as at FVTPL, at fair value. Subsequent changes in the fair value of those financial instruments are recorded in net gain or loss on financial assets and liabilities at FVTPL in the statement of comprehensive income. Special commission income and dividends earned or paid on these instruments are recorded separately in special commission income or expense and dividend income or expense in the statement of comprehensive income.

(v) Derecognition of financial instruments

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Fund's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership.

31 December 2021

3. BASIS OF PREPARATION AND CHANGES SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Significant accounting policies (continued)

Financial assets (continued)

(v) Derecognition of financial instruments (continued)

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Fund continues to recognise the transferred asset to the extent of the Fund's continuing involvement. In that case, the Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained.

The Fund derecognises a financial liability when the obligation under the liability is discharged, cancelled or expired.

(vi) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is generally not the case with master netting agreements unless one party to the agreement defaults and the related assets and liabilities are presented gross in the statement of financial position.

(vii) Impairment of financial assets

The Fund assesses on a forward-looking basis the Expected Credit Losses ("ECL") associated with its financial assets, carried at amortised cost, the ECL is based on a 12-month ECL and lifetime ECL. The 12-month ECL is the portion of lifetime the ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in financial statements at fair value on a recurring basis, the Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each year. The Fund determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement.

HSBC GCC EQUITY INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2021

3. BASIS OF PREPARATION AND CHANGES SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Significant accounting policies (continued)

(vii) Impairment of financial assets (continued)

Fair value measurement (continued)

At each reporting date, the Fund analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Fund's accounting policies. For this analysis, the Fund verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Fund also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Trade date accounting

All regular way purchases and sales of financial assets are recognised / derecognised on the trade date (i.e. the date that the Fund commits to purchase or sell the assets). Regular way purchases or sales are purchases or sales of financial assets that require settlement of assets within the time frame generally established by regulation or convention in the market place.

Provisions

Provisions are recognised when the Fund has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably. If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects, where appropriate, the risk specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured.

Accrued expenses

Liabilities are recognised for amounts to be paid in the future for services received, whether billed by the suppliers or not. These are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method.

Redeemable units

Redeemable units are classified as equity instruments when:

- The redeemable units entitle the Unitholder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation
- The redeemable units are in the class of instruments that is subordinate to all other classes of instruments
- All redeemable units in the class of instruments that is subordinate to all other classes of instruments have identical features
- The redeemable units do not include any contractual obligation to deliver cash or another financial asset other than the Unitholder's rights to a pro rata share of the Fund's net assets
- The total expected cash flows attributable to the redeemable units over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund over the life of the instrument

In addition to the redeemable shares having all of the above features, the Fund must have no other financial instrument or contract that has:

- Total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund
- The effect of substantially restricting or fixing the residual return to the redeemable shareholders

HSBC GCC EQUITY INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2021

3. BASIS OF PREPARATION AND CHANGES SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Significant accounting policies (continued)

Redeemable units (continued)

The Fund continuously assesses the classification of the redeemable units. If the redeemable units cease to have all the features, or meet all the conditions set out, to be classified as equity, the Fund will reclassify them as financial liabilities and measure them at fair value at the date of reclassification, with any differences from the previous carrying amount recognised in net assets attributable to the Unitholders. If the redeemable units subsequently have all the features and meet the conditions to be classified as equity, the Fund will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of the reclassification.

The issuance, acquisition and cancellation of redeemable units are accounted for as equity transactions.

No gain or loss is recognised in the statement of comprehensive income on the purchase, issuance or cancellation of the Fund's own equity instruments

Net assets value per unit

The net asset value per unit as disclosed in the statement of financial position is calculated by dividing the net assets of the Fund by the number of units outstanding at year end.

Management fees

Fund management fees are recognised on an accrual basis and charged to the statement of comprehensive income. Fund management fees are charged at agreed rates with the Fund Manager and as stated in the Terms and Conditions of the Fund.

Net gain or loss on financial assets and liabilities at FVTPL

Net gains or losses on financial assets and liabilities at FVTPL are changes in the fair value of financial assets and liabilities held for trading or designated upon initial recognition as at FVTPL and exclude commission and dividend income and expenses.

Unrealised gains and losses comprise changes in the fair value of financial instruments for the year and from reversal of the prior year's unrealised gains and losses for financial instruments, which were realised in the reporting year. Realised gains and losses on disposals of financial instruments classified as at FVTPL are calculated using the weighted average cost method. They represent the difference between an instrument's initial carrying amount and disposal amount, or cash payments or receipts made on derivative contracts (excluding payments or receipts on collateral margin accounts for such instruments).

Dividend income

Dividend income is recognised in the statement of comprehensive income on the date on which the right to receive the payment for dividend is established. For quoted equity securities, this is usually the ex-dividend date. For unquoted equity securities, this is usually the date on which the shareholders approve the payment of a dividend. Dividend income from equity securities designated as at FVTPL is recognised in the statement of comprehensive income in a separate line item.

Foreign currencies

Transactions in foreign currencies are translated into SR at the exchange rate at the dates of the transactions. Foreign exchange gains and losses arising from translation are included in profit or loss.

Monetary assets and liabilities denominated in foreign currencies are retranslated into SR at the exchange rate at the reporting date.

Foreign currency differences arising on retranslation are recognised in the statement of comprehensive income as net foreign exchange losses.

HSBC GCC EQUITY INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2021

3. BASIS OF PREPARATION AND CHANGES SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Significant accounting policies (continued)

Expenses

Expenses are measured and recognised as expenses on an accrual basis in the year in which they are incurred.

Zakat and income tax

Zakat and income tax is the obligation of the Unitholders and is not provided for in these financial statements.

New standards, amendments and interpretations adopted by the Fund

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the financial statements of the Fund. The Fund intends to use the practical expedients in future periods if they become applicable.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. However, these amendments had no impact on the financial statements of the Fund.

Standards issued but not yet effective and not early adopted

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Fund's financial statements are disclosed below. The Fund intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Based on the Fund's assessment, the below standards are not expected to have potential impacts on the reported numbers and disclosures.

Standards	Description	Mandatory effective date
IFRS 17	Insurance Contracts	1 January 2023
IFRS 1	First-time Adoption of International Financial Reporting Standards: Subsidiary as a first-time adopter	1 January 2022
IFRS 9	Financial Instruments: Fees in the '10 per cent' test for derecognition of financial liabilities	1 January 2022
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to IAS 37	Onerous Contracts: Costs of Fulfilling a Contract	1 January 2022

HSBC GCC EQUITY INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2021

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Fund's financial statements in conformity with the International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Fund makes estimates and assumptions concerning the future. The resulting accounting estimates, by definition, may differ from the related actual results.

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

Going concern

The Fund Board of Directors, in conjunction with the Fund Manager made an assessment of the Fund's ability to continue as a going concern and are satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, they are not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Fair value measurement

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price (mid price), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e., using recent arm's length market transactions, adjusted as necessary, and reference to the current market value of another instrument that is substantially the same) and the income approach (i.e., discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible).

HSBC GCC EQUITY INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2021

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

The composition of the financial assets at fair value through profit or loss on the last valuation day of the year end is summarised below:

	31 December 2021			
	<i>% of Market Value</i>	<i>Cost SR</i>	<i>Market value SR</i>	<i>Unrealised gain (loss) SR</i>
<u>Investments in equities (by industry)</u>				
Materials	33.01	26,872,314	28,311,788	1,439,474
Banks	14.82	12,806,850	12,707,545	(99,305)
Telecommunication Services	13.85	10,242,620	11,878,432	1,635,812
Retailing	3.04	1,751,944	2,606,419	854,475
Energy	12.25	10,129,902	10,506,298	376,396
Software & Services	7.62	5,758,096	6,532,798	774,702
Utilities	4.13	3,234,534	3,538,968	304,434
Transportation	2.99	3,596,537	2,565,814	(1,030,723)
Real Estate Management and Development	4.46	4,231,675	3,821,176	(410,499)
Diversified Financials	3.83	2,770,920	3,301,622	530,702
Total	100	81,395,392	85,770,860	4,375,468

The above equity investments are listed on the Saudi Stock Exchange ("Tadawul"). The Fund Manager seeks to limit risk for the Fund by monitoring exposures in each investment sector and individual securities.

	<i>Cost SR</i>	<i>Market Value SR</i>	<i>Unrealised gain SR</i>
<u>Investments in equities (by country) 31 December 2021</u>			
Kingdom of Saudi Arabia	81,395,392	85,770,860	4,375,468
United Arab Emirates	21,115,636	22,987,176	1,871,540
Total	102,511,028	108,758,036	6,247,008

	31 December 2020			
	<i>% of Market Value</i>	<i>Cost SR</i>	<i>Market value SR</i>	<i>Unrealised gain/(loss) SR</i>
<u>Investments in equities (by industry)</u>				
Materials	20.14	14,121,212	18,508,766	4,387,554
Bank	18.99	10,965,054	17,452,326	6,487,272
Energy	16.50	14,076,255	15,162,229	1,085,974
Real Estate Management and Development	10.50	10,409,788	9,643,874	(765,914)
Retailing	9.26	6,038,793	8,504,403	2,465,610
Telecommunication Services	8.16	5,091,049	7,497,062	2,406,013
Utilities	6.15	5,720,662	5,652,850	(67,812)
Food and Beverage	5.44	4,956,435	4,994,675	38,240
Health Care Equipment and Services	4.86	2,046,499	4,461,370	2,414,871
Total	100	73,425,747	91,877,555	18,451,808

HSBC GCC EQUITY INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2021

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL) (Continued)

	<i>Cost</i> SR	<i>Market</i> <i>Value</i> SR	<i>Unrealised</i> <i>gain</i> SR
<i>Investments in equities (by country) 31 December 2020</i>			
Kingdom of Saudi Arabia	73,425,747	91,877,555	18,451,808
United Arab Emirates	11,690,731	13,966,543	2,275,812
Total	<u>85,116,478</u>	<u>105,844,098</u>	<u>20,727,620</u>

6. TRANSACTIONS WITH RELATED PARTIES

A. *Transactions and balances with Fund Manager*

Related parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties of the Fund comprise HSBC Saudi Arabia (being the Fund Manager, the Fund Board and administrator of the Fund), mutual funds managed by the Fund Manager and The Saudi British Bank (“SABB”) (being significant shareholder of the Fund Manager).

In the ordinary course of its activities, the Fund transacts business with Fund Manager and related parties. Related party transactions are governed by limits set by the regulations issued by CMA. All the related party transactions are undertaken at mutually agreed prices and approved by the Fund Manager. These transactions were carried out on the basis of approved Terms and Conditions of the Fund.

During the year, the Fund entered into the following transactions with related parties in the ordinary course of business:

<i>Related party</i>	<i>Nature of transactions</i>	<i>Amount of transactions</i>		<i>Balance</i>	
		<i>2021</i> SR	<i>2020</i> SR	<i>2021</i> SR	<i>2020</i> SR
HSBC Saudi Arabia (Fund Manager)	Fund management fee (including VAT)	2,474,571	2,110,511	27,148	19,401
Saudi British Bank	Bank balance			2,931	60,800

The Fund pays the Fund Manager a management fee calculated at an annual rate of 1.70% per annum calculated on the net asset value at each valuation date. The fee is intended to compensate the Fund Manager for administration of the Fund.

The units in issue at 31 December 2021 include 500 units held by the employees of the Fund Manager (31 December 2020: 500 units).

The units in issue at 31 December 2021 include 2,000,000 units held by the Fund Manager (31 December 2020: 2,000,000 units).

Fund Board member compensation and other fees such as custodian fee and administration fee during the year has been borne and paid by HSBC Saudi Arabia (“the Fund Manager”).

HSBC GCC EQUITY INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2021

7. ACCRUED EXPENSES AND OTHER PAYABLES

	<i>31 December</i> 2021 SR	<i>31 December</i> 2020 SR
Dividend payable	157,808	236,075
Shariah purification payable	11,392	10,134
Redemption payable	-	203,978
	<u>169,200</u>	<u>450,187</u>

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fund has only investments at fair value through profit or loss which is measured at fair values and are classified within level 1 of the fair value hierarchy. All other financial assets and liabilities are classified at amortised cost and management believes that the fair value of all other financial assets and liabilities at the reporting date approximate their carrying values owing to their short-term tenure and the fact that these are readily liquid. There were no transfers between various levels of fair value hierarchy during the current year or prior year

9. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liability according to when they are expected to be recovered or settled respectively:

	<i>Within</i> <i>12 months</i> SR	<i>After</i> <i>12 months</i> SR	<i>Total</i> SR
<i>As at 31 December 2021</i>			
ASSETS			
Bank balance	10,450,906	-	10,450,906
Financial assets at fair value through profit or loss (FVTPL)	108,758,036	-	108,758,036
Receivables against sold securities	20,314,417	-	20,314,417
Deposit for IPO Subscription	1,474,750	-	1,474,750
TOTAL ASSETS	<u>140,998,109</u>	<u>-</u>	<u>140,998,109</u>
LIABILITIES			
Management fee payable	27,148	-	27,148
Accrued expenses and other payables	169,200	-	169,200
Payable against purchased securities	13,842,219	-	13,842,219
TOTAL LIABILITIES	<u>14,038,567</u>	<u>-</u>	<u>14,038,567</u>
	<i>Within</i> <i>12 months</i> SR	<i>After</i> <i>12 months</i> SR	<i>Total</i> SR
<i>As at 31 December 2020</i>			
ASSETS			
Bank balance	15,117,500	-	15,117,500
Financial assets at fair value through profit or loss (FVTPL)	105,844,098	-	105,844,098
Receivables and advances	28,188	-	28,188
TOTAL ASSETS	<u>120,989,786</u>	<u>-</u>	<u>120,989,786</u>
LIABILITIES			
Management fee payable	19,401	-	19,401
Accrued expenses and other payables	450,187	-	450,187
TOTAL LIABILITIES	<u>469,588</u>	<u>-</u>	<u>469,588</u>

HSBC GCC EQUITY INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2021

10. FINANCIAL RISK MANAGEMENT

Introduction

The Fund's objective in managing risk is the creation and protection of unitholder's value. Risk is inherent in the Fund's activities, but it is managed through a process of ongoing risk identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Fund's continuing profitability. The Fund is exposed to market risk (which includes foreign currency risk, special commission rate risk and equity price risk), credit risk and liquidity risk arising from the financial instruments it holds.

Risk management

The Fund Manager is responsible for identifying and controlling risks. The Board of Directors supervises the Fund Manager and is ultimately responsible for the overall risk management of the Fund.

Risk measurement and reporting system

Monitoring and controlling risks is primarily set up to be performed based on limits established by the Board of Directors. These limits reflect the business strategy, including the risk that the Fund is willing to accept and the market environment of the Fund. In addition, the Fund monitors and measures the overall risk in relation to the aggregate risk exposure across all risks type and activities.

Risk mitigation

The Fund's terms and conditions has investment guidelines that set out its overall business strategies, its tolerance for risk and its general risk management philosophy.

Concentration risk

Concentration indicates the relative sensitivity of the Fund's performance to developments affecting a particular industry or geographical location. Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realise liquid assets. Concentrations of foreign exchange risk may arise if the Fund has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that tend to move together.

In order to avoid excessive concentrations of risk, the Fund's terms and conditions include specific guidelines to focus on maintaining a diversified portfolio. The Fund Manager manages excessive risk concentrations when they arise. Note 6 to the financial statements shows the Fund's concentration of investment portfolio.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Fund does not have a formal internal grading mechanism. Credit risk is managed and controlled by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. Credit risks are generally managed on the basis of external credit ratings of the counterparties. The Fund Manager seeks to limit its credit risk by monitoring credit exposure and by dealing with reputed counterparties.

The following table shows the Fund's maximum exposure to credit risk for components of the statement of financial position.

	<i>31 December</i> 2021 SR	<i>31 December</i> 2020 SR
Bank balance	10,450,906	15,117,500
Receivables from sold securities	20,314,417	-
Receivable and advances	1,474,750	28,188
	32,240,073	15,145,688

The management has conducted a review for allowance for impairment as required under IFRS 9 and based on such assessment, the management believes that there is no significant impairment allowance was required.

HSBC GCC EQUITY INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2021

10. FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in releasing funds to meet commitments associated with financial liabilities that are settled by delivering cash or another financial assets.

The Fund's terms and conditions provide for the terms of subscriptions and redemptions of units and it is, therefore, exposed to the liquidity risk of meeting Unitholder redemptions. The Fund's investments are considered to be readily realizable. The Fund Manager monitors the liquidity requirements on a regular basis and seeks to ensure that sufficient funds are available to meet any commitments as they arise.

The undiscounted value of all financial liabilities of the Fund at the reporting date approximate to their carrying values and all are to be settled within one year from the reporting date.

Market risk

Market risk is the risk that changes in market prices - such as foreign exchange rates, special commission rates and equity prices will affect the Fund's income or the fair value of its holdings in financial instruments.

The Fund's strategy for the management of market risk is driven by the Fund's investment objective as per Fund's terms and conditions. The Fund's market risk is managed on a timely basis by the Fund Manager in accordance with the policies and procedures in place. The Fund's market positions are monitored on a timely basis by the Fund Manager.

Equity price risk

Equity price risk is the risk that the fair value of financial instruments will fluctuate because of changes in market prices. The Fund's investments are susceptible to market price risk arising from uncertainties about future prices. The Fund Manager manages this risk through diversification of its investment portfolio in terms of sector concentration.

Sensitivity analysis

The Fund's financial assets at FVTPL are subject to equity price risk. According to the Fund's management, the effect on the statement of comprehensive income as a result of a change in fair value of equity instruments due to a reasonable possible change in equity indices, with all other variables held constant is as follows:

	<i>Change in equity price 2021 %</i>	<i>Effect on statement of comprehensive income 2021 SR</i>	<i>Change in equity price 2020 %</i>	<i>Effect on statement of comprehensive income 2020 SR</i>
Net gain (loss) on investments held at FVTPL	+10%	10,875,804	+10%	10,584,410
	-10%	(10,875,804)	-10%	(10,584,410)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to a change in foreign exchange rates.

The Fund invests in financial instruments and enters into transactions that are denominated in currencies other than its functional currency, primarily in Saudi Arabian Riyals (SAR), United Arab Emirates Dirham (AED) and Kuwaiti Dinar (KWD). Consequently, the Fund is exposed to risk that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the fair value or future cash flows of the Fund's financial assets or financial liabilities denominated in currencies other than US Dollars.

The Fund's currency risk is managed on a timely basis by the Fund Manager in accordance with the policies and procedures in place and the Fund's financial assets and liabilities are not exposed to significant currency risk..

HSBC GCC EQUITY INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2021

10. FINANCIAL RISK MANAGEMENT (Continued)

The table below indicates the Fund's foreign currency exposure at 31 December 2021, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the Fund's major currency exposures against the USD with all other variables held constant, on the statement of comprehensive income.

	<i>Increase/decrease in currency rate 2021 %</i>	<i>Effect on statement of comprehensive income 2021 SR</i>	<i>Increase/decrease in currency rate 2020 %</i>	<i>Effect on statement of comprehensive income 2020 SR</i>
United Arab Emirates Dirham (AED)	5%	1,332,083	5%	743,754
Kuwaiti Dinar (KWD)	5%	251	5%	650,180

Special commission rate risk

The Fund has no special commission rate bearing financial assets or liabilities, therefore, the Fund Manager believes the Fund is not exposed to any direct special commission rate rise

11. LAST VALUATION DAY

The last valuation day of the year was 29 December 2021 (year ended 31 December 2020: 31 December 2020).

12. DIVIDEND

In accordance with the terms and conditions of the Fund, the Fund Board made the following dividend distributions during the year:

	<i>31 December 2021 SR</i>	<i>31 December 2020 SR</i>
<i>Dividends on units declared and paid</i>		
1 st dividend at SR 0.30 per unit (2020: SR 0.30 per unit)	3,273,769	3,478,073
2 nd dividend at SR 0.30 per unit (2020: SR 0.30 per unit)	3,065,140	3,492,722
	<u>6,338,909</u>	<u>6,970,795</u>

13. SIGNIFICANT EVENT

As the COVID-19 pandemic continues, Government is constantly taking measures to address public health issues and the economic impact. Accordingly, the Group's management continues to assess whether it will be affected by any developments and measures taken by Government and proactively assess its impact on its operations.

It is still uncertain to determine the size and extent of these effects, depending on future developments that cannot be accurately predicted at the present time, such as the rate of transmission of the virus and the size and effectiveness of the measures taken to contain it. In light of the uncertainty of the economic impact, it is not possible to make a reliable estimate of the resulting impact on the date of approval of these financial statements.

14. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Fund's Board of Directors on 26 Sha'ban 1443 (corresponding to 29 March 2022).