

HSBC SAUDI EQUITY INCOME FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
FINANCIAL STATEMENTS
For the year ended 31 December 2019
together with the
INDEPENDENT AUDITOR'S REPORT

HSBC SAUDI EQUITY INCOME FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
FINANCIAL STATEMENTS
For the year ended 31 December 2019

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Independent auditor's report

To the unitholders of HSBC Saudi Equity Income Fund

Opinion

We have audited the financial statements of **HSBC Saudi Equity Income Fund** ("the Fund"), managed by HSBC Saudi Arabia ("the Fund Manager"), which comprise the statement of financial position as at 31 December 2019, the statements of comprehensive income, changes in net assets (equity) attributable to the unitholders and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with the 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").

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing ("ISA") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditors' 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 that are 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.

Responsibilities of the Fund Manager and those charged with governance for the financial statements

The Fund Manager 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 pronouncements issued by SOCPA and to comply with the applicable provisions of the Investment Funds Regulations issued by the Capital Market Authority, the Fund's Terms and Conditions and the Information Memorandum and for such internal control as the Fund Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Fund Manager 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 the Fund Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, the Fund Board, are responsible for overseeing the Fund's financial reporting process.



Independent auditor's report

To the unitholders of HSBC Saudi Equity Income Fund (continued)

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 ISA 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 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 ISA that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement 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 Fund Manager's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund Manager.
- Conclude on the appropriateness of the Fund Manager'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, then 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 of **HSBC Saudi Equity Income Fund** ("the Fund").

**For KPMG AI Fozan & Partners
Certified Public Accountants**

Hani Hamzah A. Bedairi
License No. 460

2 Shaban 1441H
Corresponding to: 26 March 2020



HSBC SAUDI EQUITY INCOME FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
Statement of financial position
As at 31 December 2019
(Amounts in Saudi Arabian Riyal)

	<i>Note</i>	31 December 2019	31 December 2018
Assets			
Cash at bank	<i>10</i>	1,332,291	4,669,336
Investments at fair value through profit or loss (FVTPL)	<i>11</i>	252,316,381	239,444,442
Receivables and advances		3,995,936	391,280
Total assets		257,644,608	244,505,058
Liabilities			
Accrued expenses	<i>13</i>	4,914,236	473,513
Dividend payable		--	3,062,942
Total liabilities		4,914,236	3,536,455
Net assets (equity) attributable to the unitholders		252,730,372	240,968,603
Units in issue (numbers)		2,355,729	2,463,153
Net assets (equity) value per unit – Dealing	<i>17</i>	107.28	97.83
Net assets (equity) value per unit – IFRS	<i>17</i>	107.28	97.83

The accompanying notes 1 to 20 form integral part of the financial statements.

HSBC SAUDI EQUITY INCOME FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
Statement of comprehensive income
For the year ended 31 December
(Amounts in Saudi Arabian Riyal)

	<i>Note</i>	<u>2019</u>	<u>2018</u>
Investment income			
Net gain from investments at FVTPL	<i>12</i>	26,493,385	27,308,721
Dividend income		12,976,068	12,628,648
Total income		39,469,453	39,937,369
Expenses			
Management fees	<i>14</i>	4,705,015	4,309,470
Other expenses		182,403	2,934
Total expenses		4,887,418	4,312,404
Net income for the year		34,582,035	35,624,965
Other comprehensive income for the year		--	--
Total comprehensive income for the year		34,582,035	35,624,965

The accompanying notes 1 to 20 form an integral part of the financial statements.

HSBC SAUDI EQUITY INCOME FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
Statement of changes in net assets (equity) attributable to unitholders
For the year ended 31 December
(Amounts in Saudi Arabian Riyal)

	<u>2019</u>	<u>2018</u>
Net assets (equity) attributable to unitholders at the beginning of the year	240,968,603	217,263,774
Net income for the year	34,582,035	35,624,965
Dividends paid during the year (refer note 18)	(10,892,442)	(10,755,394)
Contributions and redemptions by the Unitholders:		
Proceeds from issuance of units	18,407,861	9,185,393
Payments for redemption of units	(30,335,685)	(10,350,135)
Net change from unit transactions	(11,927,824)	(1,164,742)
Net assets (equity) attributable to the unitholders at the end of the year	<u>252,730,372</u>	<u>240,968,603</u>

UNIT TRANSACTIONS:

Transactions in units for the year ended 31 December are summarized as follows:

	<u>2019</u>	<u>2018</u>
	<i>(In numbers)</i>	
Units at the beginning of the year	2,463,153	2,478,011
Units issued during the year	175,858	93,039
Units redeemed during the year	(283,282)	(107,897)
Net decrease in units	(107,424)	(14,858)
Units at the end of the year	<u>2,355,729</u>	<u>2,463,153</u>

The accompanying notes 1 to 20 form an integral part of the financial statements.

HSBC SAUDI EQUITY INCOME FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
Statement of cash flows
For the year ended 31 December
(Amounts in Saudi Arabian Riyal)

	<i>Note</i>	<u>2019</u>	<u>2018</u>
Cash flows from operating activities			
Net income for the year		34,582,035	35,624,965
<i>Adjustment for:</i>			
Unrealized gain on investments at FVTPL	12	<u>(10,486,575)</u>	<u>(44,624,111)</u>
		24,095,460	(8,999,146)
Net changes in operating assets and liabilities			
(Increase) / decrease in investments at FVTPL		(2,385,364)	20,284,204
Increase in receivables and advances		(3,604,656)	(332,378)
Increase in accrued expenses		4,440,723	412,846
(Decrease) / increase in dividend payable		(3,062,942)	730,612
Net cash generated from operating activities		<u>19,483,221</u>	<u>12,096,138</u>
Cash flows from financing activities			
Proceeds from issuance of units		18,407,861	9,185,393
Payments for redemption of units		(30,335,685)	(10,350,135)
Dividends paid during the year		(10,892,442)	(10,755,394)
Net cash used in financing activities		<u>(22,820,266)</u>	<u>(11,920,136)</u>
Net (decrease) / increase in cash and cash equivalents		(3,337,045)	176,002
Cash and cash equivalents at the beginning of the year		4,669,336	4,493,334
Cash and cash equivalents at the end of the year		<u>1,332,291</u>	<u>4,669,336</u>

The accompanying notes 1 to 20 form an integral part of the financial statements.

HSBC SAUDI EQUITY INCOME FUND
(An open-ended mutual fund)
Managed by HSBC Saudi Arabia
Notes to the financial statements
For the year ended 31 December 2019
(Amounts in Saudi Arabian Riyal)

1 GENERAL

HSBC Saudi Equity Income Fund (“the Fund”) is an investment fund established through an agreement between HSBC Saudi Arabia (“the Fund Manager”) and investors (“the Unitholders”).

The objective of the Fund is to achieve capital appreciation over the medium to long-term by investing in Shariah compliant Saudi equities listed on Tadawul (Saudi Stock Market).

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. All income is reinvested in the Fund and is reflected in the unit price. The Fund distributes income, subject to the approval of the Fund Board, on a semi-annual basis.

The Fund Manager has made certain revisions to the Terms and Conditions of the Fund. The main changes in the Terms and Conditions relates to the fee structure and enhancement of investment objectives. The Fund updated its terms and conditions which were approved by the CMA on 27 Shawwal 1440H (corresponding to 1 July 2019).

2 REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (“the Regulations”) published by the Capital Market Authority (“the CMA”).

3 SUBSCRIPTION/ REDEMPTION (DEALING DAY AND VALUATION DAY)

The Fund is open for subscriptions / redemptions of units twice weekly on Sunday and Tuesday (each being a “Dealing Day”). The value of the Fund’s portfolio is determined twice weekly on Monday and Wednesday (each being a “Valuation Day”). The net asset value of the Fund for the purpose of purchase or sale of units is determined by dividing the net value of assets (fair value of fund assets minus fund liabilities) by the total number of outstanding fund units on the relevant Valuation Day.

4 BASIS OF PREPARATION

The financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants (“SOCPA”) and to comply with the applicable provisions of the Investment Fund Regulations issued by the Capital Market Authority, the Fund’s Terms and Conditions and the Information Memorandum.

5 FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in Saudi Arabian Riyals (“SAR”) which is also the functional currency of the Fund.

6 BASIS OF MEASUREMENT

The financial statements have been prepared on a historical cost basis, (except for investments at fair value through profit or loss (FVTPL) which are stated at their fair value) using accrual basis of accounting.

The Fund Manager has made an assessment of the Fund’s ability to continue as a going concern and is satisfied that the Fund has resources to continue in business for a foreseeable future. Furthermore, the Fund Manager is 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. The financial statement accounts in the statement of financial position have been presented in the order of liquidity.

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7 USE OF JUDGEMENTS AND ESTIMATES

Preparation of the financial statements in accordance with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Fund's accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

8 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Net Asset (Equity) Value

Net assets (equity) value per unit, as disclosed in the statement of financial position is calculated by dividing the net assets attributable to the Unitholders by the numbers of units in issue at the year end.

Trade date accounting

All purchases and sales of financial assets are recognized and derecognized on the trade date, i.e. the date that the Fund commits to purchase or sell the assets. Regular-way purchases or sales of financial assets require delivery of those assets within the timeframe generally established by regulation or convention in the marketplace.

Subscription and redemption of units

Units subscribed and redeemed are recorded at net asset (equity) value per unit on the Valuation Day for which the subscription request and redemption applications are received.

Revenue from contracts with customers

The Fund recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Fund. The revenue is recognised when (or as) each performance obligation is satisfied.

Net gain from financial instruments at FVTPL

Net gain from financial instruments at FVTPL includes all realised and unrealised fair value changes and foreign exchange differences (if any).

Net realised gain from financial instruments at FVTPL is calculated using the weighted average cost method.

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8. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividend income

Dividend income is recognised in the statement of comprehensive income on the date on which the right to receive payment 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 statement of comprehensive income in a separate line item.

Distributions to the Unitholders

Distribution to the Fund's unitholders is accounted for as a deduction from net assets (equity) attributable to the Unitholders. During the year dividend distribution is irrevocably declared by the Fund Board and it is recognized as a liability in the year in which it is approved and declared.

Management fees

Fund management fees are charged at rates agreed with the Fund Manager. These charges are calculated on each Valuation Day at an annual percentage of the Fund's net assets value. These expenses are charged to the statement of comprehensive income.

Zakat and tax

Under the current system of zakat and income tax in the Kingdom of Saudi Arabia, the Fund is exempt from paying any zakat and income tax. Zakat and income tax are considered to be the obligation of the Unitholders and are not provided in the accompanying financial statements.

The Value Added Tax (VAT) applicable for fees and expenses are recognized in the statement of comprehensive income.

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 in the principal or, in its absence, the most advantageous market to which the Fund has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Fund measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis. The Fund measures instruments quoted in an active market at a mid-price, because this price provides a reasonable approximation of the exit price.

If there is no quoted price in an active market, then the Fund uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Fund recognizes transfers between levels of the fair value hierarchy as at the end of the reporting year during which the change has occurred.

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8. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and financial liabilities

Recognition and initial measurement

Financial assets and financial liabilities at FVTPL are initially recognised on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognised on the date on which they are originated.

Financial assets and financial liabilities at FVTPL are initially recognised at fair value, with transaction costs recognised in the statement of comprehensive income. Financial assets or financial liabilities not at FVTPL are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue.

Classification of financial assets

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

Financial asset at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial asset at fair value through other comprehensive income ("FVOCI")

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL.

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; 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.

On initial recognition of an equity investment that is not held for trading, the Fund may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

Financial asset at fair value through profit or loss ("FVTPL")

All other financial assets are classified as measured at FVTPL.

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8. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and financial liabilities (continued)

Business model assessment

The Fund Manager makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual commission revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Fund's managers;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Fund's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Commission / Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Fund considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Fund considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Fund's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

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8. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and financial liabilities (continued)

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Fund changes its business model for managing financial assets.

Classification of financial liabilities

The Fund classifies its financial liabilities at amortised cost unless it has designated liabilities at FVTPL.

Derecognition

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

The Fund derecognize a financial liability when contractual obligations are discharged, cancelled, or expire.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS as endorsed in the Kingdom of Saudi Arabia, or for gains and losses arising from a group of similar transactions such as in the Fund's trading activity.

Cash and cash equivalents

Cash and cash equivalents comprise deposits with banks and highly liquid financial assets with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value and are used by the Fund in the management of short-term commitments.

Redeemable Units

The Fund classified financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

The Fund has redeemable units in issue. On liquidation of the Fund, they entitle the holders to the residual net assets. They rank pari passu in all respects and have identical terms and conditions. The redeemable units provide investors with the right to require redemption for cash at a value proportionate to the investor's share in the Fund net assets at each redemption date and also in the event of the Fund's liquidation.

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8. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Redeemable Units (continued)

Redeemable units are classified as equity as it meets all of the following conditions:

- it entitles the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation;
- it is in the class of instruments that is subordinate to all other classes of instruments;
- all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- apart from the contractual obligation for the Fund to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any other features that would require classification as a liability; and
- the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, the change in recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the Fund over the life of the instrument.

Incremental costs directly attributable to the issue or redemption of redeemable units are recognized directly in equity as a deduction from the proceeds or part of the acquisition cost.

9. IMPACT OF CHANGE IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARD

New IFRS standards, IFRIC interpretations and amendments thereof, adopted by the Fund

The following new standards, amendments and revisions to existing standards, which were issued by the International Accounting Standards Board (IASB) have been effective from 1 January 2019 and accordingly adopted by the Fund, as applicable:

<u>Standard / Amendments</u>	<u>Description</u>
IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
IAS 28	Long term interests in associates and joint ventures
IAS 19	Plan amendments, curtailments or settlements
IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRS 2015 - 2017 cycle
IFRS 9	Amendments regarding prepayment features with negative compensation and modification of financial liabilities

The adoption of the above standard / amendments and interpretations did not have any significant impact on these financial statements.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Fund's financial statements are listed below. The Fund intends to adopt these standards when they become effective and material impacts from the adoption are not expected.

<u>Standard / Interpretation</u>	<u>Description</u>	<u>Effective from periods beginning on or after the following date</u>
Amendments to IFRS 3	Definition of business	1 January 2020
Amendments to IAS 1 & IAS 8	Definition of material	1 January 2020
IFRS 7 and IFRS 9	Pre – replacement issues in the context of the IBOR reforms	1 January 2020
Amendments to IAS 1	Classification of liabilities	1 January 2022

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10. CASH AT BANK

Cash at bank comprise of cash balance with banks who have investment grade credit ratings, as rated by the international rating agencies.

11. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

The exposure of the trading investments as at 31 December is as follows:

	<i>31 December 2019</i>		<i>31 December 2018</i>	
	<i>Cost</i>	<i>Fair value</i>	<i>Cost</i>	<i>Fair value</i>
<i>Equities</i>				
Materials	63,201,721	77,157,978	76,366,614	91,377,420
Banks	41,803,911	56,896,476	48,359,621	60,138,830
Real Estate Management & Development	32,133,771	34,307,774	21,561,820	19,505,497
Telecommunication				
Services	18,266,378	24,733,939	15,923,115	24,731,930
Retailing	12,973,401	22,972,363	14,177,576	23,042,896
Energy	16,575,058	16,902,023	-	-
Food & Beverage	6,334,744	10,150,712	11,905,131	13,393,661
Transportation	6,569,734	9,195,116	7,179,477	7,254,208
Total	197,858,718	252,316,381	195,473,354	239,444,442

12. NET GAIN FROM INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>2019</u>	<u>2018</u>
Realized gain / (loss) for the year	16,006,810	(17,315,390)
Unrealized gain for the year	10,486,575	44,624,111
Total	26,493,385	27,308,721

Realized gain / (loss) on investments at FVTPL is calculated based on weighted average cost of securities.

13. ACCRUED EXPENSES

Accrued expenses include management fee payable (inclusive of VAT) to the Fund Manager.

14. TRANSACTIONS WITH RELATED PARTIES

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).

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14. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

In the ordinary course of its activities, the Fund transacts business with 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.

The Fund Manager charges to the Fund on each Valuation Day, management fees at a rate of 1.70% of Net assets value (2018: 1.70% of Net assets value).

Subscription fee up to 2% is not considered in the financial statement of the Fund, as investment to the Fund are always net of subscription fees. The Fund does not charge any redemption fees on redemption of units.

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

<u>Related party</u>	<u>Nature of transactions</u>	<u>Amount of transaction during the year</u>		<u>Closing balance</u>	
		<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
HSBC Saudi Arabia (Fund Manager)	Fund management fee	4,705,015	4,309,470	75,133	473,513
	Administration fee	68,884	--	1,567	--
	Board member fee	10,082	--	6,959	--

During the year, the Fund Manager revised the Terms and Conditions of the Fund such that Administration Fee and Fund Board member compensation is now borne and paid by the Fund.

15. FINANCIAL RISK MANAGEMENT

The Fund has exposure to the following risks from financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Fund's objectives, policies and processes for measuring and managing risk and the Fund's management of capital.

Risk management framework

The Fund maintains positions in non-derivative financial instruments in accordance with its investment management strategy. The Fund's investment portfolio comprises of listed equities.

The Fund's investment manager has been given discretionary authority to manage the assets in line with the Fund's investment objectives. Compliance with the target asset allocations and the composition of the portfolio are monitored by the Investment Committee of the Fund. In instances where the portfolio has diverged from target asset allocations, the Fund Manager is obliged to take actions to rebalance the portfolio in line with the established targets, within prescribed time limits.

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15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund.

The Fund is exposed to credit risk on its bank balance and receivables. For risk management reporting purposes, the Fund considers and aggregates all elements of credit risk exposure such as individual obligor default risk, country risk and sector risk.

The Fund's policy over credit risk is to minimize its exposure to counterparties with perceived higher risk of default by dealing only with counterparties that meet certain credit standards.

Credit risk is monitored on a regular basis by the Fund Manager to ensure it is in line with the investment guidelines of the Fund Board.

The Fund's activities may give rise to settlement risk. 'Settlement risk' is the risk of loss due to the failure of an entity to honor its obligations to deliver cash, securities or other assets as contractually agreed.

For all of transactions, the Fund mitigates this risk by conducting settlements through a regulated broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

The table below shows the maximum exposure to credit risk for the component of the statement of financial position:

	31 December 2019	31 December 2018
Cash and cash equivalents	1,332,291	4,669,336
Receivables and advances	3,995,936	391,280
Total exposure to credit risk	5,328,227	5,060,616

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 counterparties.

Analysis of credit quality

The Fund's cash is held with SABB and Bank AlBilad which are rated A1 and A2 (2018: A1 and A2) respectively, based on Moody's ratings.

Allowance for expected credit losses

Financial instruments such as cash and cash equivalents and receivables are of short term in nature and have limited credit exposure. Therefore, no allowance for expected credit losses is provided in these financial statements.

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15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Fund's Terms and Conditions provide for the subscriptions and redemptions of units throughout the week and it is, therefore, exposed to the liquidity risk of meeting unitholders redemptions. However the Fund is allowed to borrow in order to satisfy redemptions. The Fund's securities are considered to be readily realizable as they are all listed. 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.

Market risk

Market risk is the risk that changes in market prices – such as interest rates, foreign exchange 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 objectives as per the Fund's Terms and Conditions. The Fund's market risk is managed on a timely basis by the investment 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.

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 is not subject to currency risks as all the assets and liabilities of the Fund are denominated in local currency. The investment risks of the fund are included in the Terms and Conditions detailed on the website of the Fund Manager at www.hsbcSaudi.com. The Terms and Conditions do not form part of the financial statements.

Equity price risk

Equity price risk is the risk that the value of financial instruments will fluctuate because of changes in market prices.

The Fund's investments are susceptible to equity price risk arising from uncertainties about future prices. The Fund Manager manages this risk through diversification of its investment portfolio in terms of industry concentration.

Sensitivity analysis

The table below sets out the effect on net assets attributable to unitholders of a reasonably possible weakening / strengthening in the individual equity market prices of 5% at reporting date. The estimates are made on an individual investment basis. The analysis assumes that all other variables, in particular interest and foreign currency rates, remain constant.

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15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (continued)

Equity price risk (continued)

	<i>31 December 2019</i>		<i>31 December 2018</i>	
<i>Net gain / (loss) on investments held at FVTPL</i>	+ 5%	12,615,819	+ 5%	11,972,222
	- 5%	(12,615,819)	- 5%	(11,972,222)

16. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

When available, the Fund measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis. The Fund measures instruments quoted in an active market at a market price, because this price reasonable approximation of the exit price.

If there is no quoted price in an active market, then the Fund uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. The Fund recognizes transfer between levels of fair value at the end of the reporting period during which the change has occurred.

The fair value hierarchy has the following levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Fair value hierarchy – Financial instruments measured at fair value

The table below analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognised in the statement of financial position.

	Carrying value	31 December 2019			
		-----Fair value-----			
		Level 1	Level 2	Level 3	Total
Investments at FVTPL	252,316,381	252,316,381	--	--	252,316,381
Total	252,316,381	252,316,381	--	--	252,316,381

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16. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

	Carrying value	31 December 2018			Total
		-----Fair value-----			
		Level 1	Level 2	Level 3	
Investments at FVTPL	239,444,442	239,444,442	--	--	239,444,442
Total	<u>239,444,442</u>	<u>239,444,442</u>	<u>--</u>	<u>--</u>	<u>239,444,442</u>

During the year, there has been no transfer in fair value hierarchy for the financial assets held at FVTPL.

Other financial instruments such as receivables and accrued expenses are financial assets and financial liabilities whose carrying amounts approximate fair value, because of their short-term nature and the high credit quality of counterparties.

17. LAST VALUATION DAY

The last valuation day of the year was 31 December 2019 (2018: 31 December 2018) and the dealing net assets value on this day was SR 107.28 per unit (2018: SR 97.83). The IFRS net assets value per unit on 31 December 2019 was SR 107.28 (31 December 2018: SR 97.83).

18. DIVIDEND DISTRIBUTION

In accordance with the Terms and Conditions of the Fund, the Fund Board made the following dividend distributions out of the Fund during the year:

	<u>2019</u>	<u>2018</u>
1 st dividend at a rate of SR 1.35 (2018: SR 1.25) per unit	3,331,163	3,058,444
2 nd dividend at a rate of SR 3.21 (2018: SR 3.10) per unit	7,561,279	7,696,950
	<u>10,892,442</u>	<u>10,755,394</u>

19. SUBSEQUENT EVENT

Since early January 2020, the coronavirus (“COVID-19”) outbreak has spread across globally, causing disruption to business and economic activity. The COVID-19 pandemic has significantly impacted the stock markets around the world to date and may continue to do so in the coming months of 2020, whereby potentially impacting the earnings and cash flows of the Fund. The Fund Manager considers this outbreak to be a non-adjusting post balance sheet event. The scale and duration of this outbreak remains uncertain and as it evolves globally in 2020, the Fund Manager will evaluate the potential impacts to the Fund and respond accordingly.

20. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Fund Board on 2 Shaban 1441H (corresponding to 26 March 2020).