

HSBC SAUDI 20 ETF
(An exchange-traded fund)
Managed by HSBC Saudi Arabia
FINANCIAL STATEMENTS
For the year ended 31 December 2018
together with the
INDEPENDENT AUDITORS' REPORT



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Licence No. 46/11/323 issued 11/3/1992

Independent auditors' report

To the unitholders of HSBC Saudi 20 ETF

Opinion

We have audited the financial statements of **HSBC Saudi 20 ETF** ("the Fund"), managed by HSBC Saudi Arabia ("the Fund Manager"), which comprise of the statement of financial position as at 31 December 2018, 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 2018, 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.

Key audit matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
<p>Valuation of investments at fair value through profit or loss <i>Refer to Note 8 for accounting policy for investments and Note 11 for Investments at fair value through profit or loss disclosure.</i></p> <p>Investments at fair value through profit or loss ("FVTPL") comprise of a portfolio of listed equity investments. These investments are measured at fair value with the corresponding fair value change recognised in statement of comprehensive income. The fair value of these financial instruments is determined through obtaining market observable prices, as these are actively traded equity investments.</p> <p>The valuation of the Fund's FVTPL investment is considered a key audit matter given the amount of audit attention required due to its scale and significance to the financial statements.</p>	<p>We performed the following audit procedures in relation to the valuation of investments:</p> <ul style="list-style-type: none"> Assessed the design and implementation, and tested the operating effectiveness of the key controls relating to investment valuations; Agreed carrying value of investments to the underlying system transaction report; Tested the integrity of the system transaction report; and Obtained market prices as at 31 December 2018 from external sources for all listed equity investments held by the Fund and recalculated the fair value of these investments as at 31 December 2018.

Independent auditors' report

To the unitholders of HSBC Saudi 20 ETF (continued)

Responsibilities of management 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 compliance 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 are responsible for overseeing the Fund's financial reporting process.

Auditors' 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'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.

Independent auditors' report

To the unitholders of HSBC Saudi 20 ETF (continued)

Auditors' responsibilities for the audit of the financial statements (continued)

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 20 ETF** ("the Fund").

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Dr. Abdullah Hamad Al Fozan
License No. 348

28 Rajab 1440H
Corresponding to: 4 April 2019



HSBC SAUDI 20 ETF FUND
(An exchange-traded fund)
STATEMENT OF FINANCIAL POSITION
As at 31 December 2018
(Amounts in Saudi Arabian Riyal)

	<i>Note</i>	<i>31 December</i> 2018	<i>31 December</i> 2017	<i>1 January</i> 2017
ASSETS				
Cash and cash equivalents	<i>10</i>	18,395	8,239	18,033
Investments at fair value through profit or loss	<i>11</i>	8,773,338	8,107,174	7,799,651
TOTAL ASSETS		8,791,733	8,115,413	7,817,684
LIABILITIES				
Accrued expenses	<i>13</i>	490	--	--
TOTAL LIABILITIES		490	--	--
NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS				
		8,791,243	8,115,413	7,817,684
Units in issue (numbers)		280,000	280,000	280,000
Net assets value (equity) per unit – Dealing	<i>18</i>	31.40	28.98	27.92
Net assets value (equity) per each unit – IFRS	<i>18</i>	31.40	28.98	27.92

The accompanying notes (1) to (22) form an integral part of these financial statements.

These financial statements and the accompanying notes are approved on behalf of the Fund Board based on the authorization issued on 4 April 2019 by:

Waleed H AlRashed
General Manager Asset Management

Christie K Moinuddin
Chief Financial Officer

HSBC SAUDI 20 ETF
(An exchange traded fund)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018
(Amounts in Saudi Arabian Riyal)

	<i>Note</i>	<u>2018</u>	<u>2017</u>
<u>INVESTMENT INCOME</u>			
Net gain from investments at fair value through profit or loss	12	426,858	115,656
Dividend income		318,762	252,074
TOTAL INCOME		745,620	367,730
<u>EXPENSES</u>			
Management fees	14	69,715	59,665
Other expenses		75	10,336
TOTAL EXPENSES		69,790	70,001
NET INCOME FOR THE YEAR		675,830	297,729
Other comprehensive income for the year		--	--
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		675,830	297,729

The accompanying notes (1) to (22) form an integral part of these financial statements.

These financial statements and the accompanying disclosures are approved on behalf of the Fund Board based on the authorization issued on 4 April 2019.

Waleed H AlRashed
General Manager Asset Management

Christie K Moinuddin
Chief Financial Officer

HSBC SAUDI 20 ETF
(An exchange traded fund)
STATEMENT OF CHANGES IN NET ASSETS (EQUITY) ATTRIBUTABLE TO
UNITHOLDERS
For the year ended 31 December 2018
(Amounts in Saudi Arabian Riyal)

	<u>2018</u>	<u>2017</u>
Net assets (equity) attributable to unitholders at beginning of the year	8,115,413	7,817,684
Net income for the year	675,830	297,729
<i>Contributions and redemptions by the Unitholders:</i>		
Proceeds from creation of units	--	--
Payments for redemption of units	--	--
Net change from unit transactions	--	--
Net assets attributable to the unit holders at end of the year	8,791,243	8,115,413

UNIT TRANSACTIONS:

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

	<u>2018</u>	<u>2017</u>
	<i>(In numbers)</i>	
Units at beginning of the year	280,000	280,000
Units created during the year	--	--
Units redeemed during the year	--	--
Net movement in units	--	--
Units as at end of the year	280,000	280,000

The accompanying notes (1) to (22) form an integral part of these financial statements.

HSBC SAUDI 20 ETF
(An exchange traded fund)
STATEMENT OF CASH FLOWS
For the year ended 31 December 2018
(Amounts in Saudi Arabian Riyal)

	<i>Note</i>	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income for the year		675,830	297,729
<i>Adjustment for:</i>			
Unrealized (gains) / losses on investments at fair value through profit or loss	12	<u>(399,764)</u>	<u>94,028</u>
		276,066	391,757
Net changes in the operating assets and liabilities:			
Investments at fair value through profit or loss		(266,400)	(401,551)
Accrued expenses		490	--
Net cash generated from / (used in) operating activities		<u>10,156</u>	<u>(9,794)</u>
Net increase / (decrease) in cash and cash equivalents		<u>10,156</u>	<u>(9,794)</u>
Cash and cash equivalents at beginning of the year		8,239	18,033
Cash and cash equivalents at end of the year		<u>18,395</u>	<u>8,239</u>

The accompanying notes (1) to (22) form an integral part of these financial statements.

HSBC SAUDI 20 ETF FUND
(An exchange traded fund)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018
(Amounts in Saudi Arabian Riyal)

1 GENERAL

HSBC Saudi 20 ETF (“the Fund”) is an exchange traded mutual investment fund created through an agreement between HSBC Saudi Arabia (“the Fund Manager”) and the investors established by virtue of the approval of the Capital Market Authority on 27 Shawwal 1432H corresponding to 25 September 2011. The objective of the Fund is to achieve capital growth over the long-term by replicating the performance of the HSBC Saudi 20 Equity Index the “Benchmark Index”, which is an index based on free-float market capitalization that tracks the performance of top 20 (by free float adjusted market capitalization) Shariah compliant Saudi equities listed on Tadawul. The Fund achieves its objective by passively investing in the shariah compliant listed Saudi equities in order to achieve the results of the Benchmark Index.

The Fund is managed by the Fund Manager who also is the market maker, administrator and custodian of the Fund. All income is reinvested in the Fund and is reflected in the unit price. Currently the Fund Manager is in process to transfer the custodianship of the Fund to Albilad Capital. Accordingly the Terms and Conditions of the Fund has been updated.

2 REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (“the Regulations”) published by the Capital Market Authority (“the CMA”) on 3 Dhul Hijja 1427H (corresponding to 24 December 2006) detailing requirements for all investment funds operating within the Kingdom of Saudi Arabia. The Regulations were further amended on 16 Sha’aban 1437H (corresponding to 23 May 2016) (“the Amended Regulations”). The Fund Manager believes that the Amended Regulations was effective from 6 Safar 1438H (corresponding to 6 November 2016).

3 PRIMARY MARKET OPERATION (CREATION AND REDEMPTION OF UNITS)

The primary market operations are only carried out by the Fund Manager who is the authorized Market Maker. The Creation and Redemption activities are done on the basis of blocks of exchange traded fund (ETF) units (*for the Fund, one block equals 10,000 ETF Units*), referred to Creation Unit and Redemption Unit respectively. The process of creation and redemption of ETF units is on an in-kind basis whereby the Fund Manager and the Market Maker interexchange ETF Units with the Fund and the basket of assets, through the custodian, for the purpose of creation and redemption of ETF units. The created units are then freely floated on Tadawul for public trading.

4 BASIS OF PREPARATION

These 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 the 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.

For all periods up to and including the year ended 31 December 2017, the Fund prepared its financial statements in accordance with the generally accepted accounting standards as issued by Saudi Organization of Certified Public Accountants (“SOCPA”). The financial statements for the year ended 31 December 2018 are the first financial statements of the Fund prepared in accordance with IFRS and IFRS 1 “First-time Adoption of International Financial Reporting Standards” has been applied.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Fund is provided in note 19.

HSBC SAUDI 20 ETF FUND
(An exchange traded fund)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018
(Amounts in Saudi Arabian Riyal)

4 BASIS OF MEASUREMENT

These 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 the 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 the resources to continue in business for the 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.

5 FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Saudi Arabian Riyal (“SR”), which is also the Fund’s functional currency.

6 USE OF JUDGEMENTS AND ESTIMATES

The preparation of these financial statements in conformity 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 judgment 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.

7 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 periods presented, unless otherwise stated. Where policies are applicable only after 1 January 2018, those policies have been particularly specified.

Revenue recognition

Net gain from investments at FVTPL

Net gain from investments at FVTPL includes all realized and unrealized fair value changes and foreign exchange differences (if any), but excludes interest and dividend income, and dividend expense on securities sold short.

Net realized gain from investments at FVTPL is calculated using the weighted average cost method.

Dividend income

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

HSBC SAUDI 20 ETF FUND
(An exchange traded fund)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018
(Amounts in Saudi Arabian Riyal)

8 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net asset value (Equity)

Net assets value (equity) 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.

Subscription and redemption of units

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

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. Purchases or sales of financial assets require delivery of those assets within the timeframe generally established by regulation or convention in the market place.

Management fees

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.

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.

Zakat and income tax

Under the current system of taxation in Kingdom of Saudi Arabia the Fund is not liable to pay any 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 maximize the use of relevant observable inputs and minimize 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.

HSBC SAUDI 20 ETF FUND
(An exchange traded fund)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018
(Amounts in Saudi Arabian Riyal)

8 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and financial liabilities

Policy applicable before 1 January 2018

Investments held for trading

Investment securities purchased for trading are initially recognized at cost on the trade date and are subsequently measured at their market values. The unrealized gains and losses from revaluation of investments held for trading and realized gains and losses from sale of investments held for trading are recognized in the statement of comprehensive income.

Financial liabilities

The Fund classifies its financial liabilities at amortised cost. All financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these are measured at amortized cost using the effective interest method.

Policy applicable from 1 January 2018

Recognition and initial measurement

Financial assets and financial liabilities at FVTPL are initially recognized 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 recognized on the date on which they are originated.

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

Classification

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”).

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 assets 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.

A debt instrument is measured at FVOCI only 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 achieved by both collecting contractual cash flows and selling financial assets; 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.

HSBC SAUDI 20 ETF FUND
(An exchange traded fund)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018
(Amounts in Saudi Arabian Riyal)

8 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and financial liabilities (continued)

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 other comprehensive income. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

Business model assessment

The Fund 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 realizing 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 Funds' stated objective for managing the financial assets is achieved and how cash flows are realized.

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.

Reclassifications

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

HSBC SAUDI 20 ETF FUND
(An exchange traded fund)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018
(Amounts in Saudi Arabian Riyal)

8 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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 statement of comprehensive income. Transactions in which the Fund neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Fund continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

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 set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

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

9 STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of amendments and standards are effective for the period beginning on or after 1 January 2019 and earlier application is permitted; however, the Fund has not early applied these new amendments and standards in preparing these financial statements as these do not have material impact on the Fund's financial statements.

10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents balance comprise of cash held with the custodian.

HSBC SAUDI 20 ETF FUND
(An exchange traded fund)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018
(Amounts in Saudi Arabian Riyal)

11 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Investments comprise the following sector exposures as at statement of financial position:

	<u>31 December 2018</u>		<u>31 December 2017</u>		<u>1 January 2017</u>	
	<i>Cost</i> SR	<i>Fair value</i> SR	<i>Cost</i> SR	<i>Fair value</i> SR	<i>Cost</i> SR	<i>Fair value</i> SR
Equities						
Materials	2,589,830	3,132,287	2,377,772	2,650,264	2,244,183	2,352,768
Banks	1,869,967	2,732,969	1,651,681	2,053,406	1,568,708	1,848,661
Real Estate Management & Development	925,720	1,004,274	692,572	1,236,849	600,431	1,171,148
Telecommunication Services	899,950	868,677	836,932	614,088	798,313	684,427
Food & Beverage	555,257	503,094	559,499	695,755	493,815	674,473
Retailing	151,446	323,456	165,262	273,193	148,520	202,384
Capital Goods	421,421	208,581	405,648	206,296	395,055	206,621
Insurance	--	--	278,816	237,426	149,750	152,007
Energy	--	--	179,009	139,897	169,656	180,506
Utilities	--	--	--	--	177,209	326,656
Total	7,413,591	8,773,338	7,147,191	8,107,174	6,745,640	7,799,651

The Fund aims to invest in component securities of the Benchmark Index in weights and proportions similar to the Benchmark index, while keeping adequate amounts of cash to account for the Funds' expenses and liabilities on an ongoing basis. Fund rebalancing activities are undertaken periodically to ensure proper tracking of performance of the Benchmark Index and to keep adequate cash balance.

12 NET GAIN / (LOSS) FROM INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>2018</u>	<u>2017</u>
Realised gains for the year	27,094	209,684
Unrealised gains / (losses) for the year	399,764	(94,028)
Total	426,858	115,656

Realized gain 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

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 of HSBC Saudi Arabia (being the Fund Manager, administrator and custodian of the Fund), the Fund Board and The Saudi British Bank ("SABB") (being the 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 are 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 fee at a rate of 0.75% of Net assets value (2017: 0.75% of Net assets value). All Fees and expenses related to the management of the Fund including but not limited to custody, administration, audit, regulatory and index fees, etc, are included in the management fee.

Subscription fee up to 2% is not considered in the financial statement of the Fund, as investment in 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.

Related party	Nature of transactions	Amount of transaction during the year		Closing balance	
		<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
HSBC Saudi Arabia	Management fee	69,715	59,665	490	--
	Cash and cash equivalents	--	--	18,395	8,239

As at 31 December 2018, 231,321 units (31 December 2017: 232,042 units) having market value of SAR 7.26 million (31 December 2017: SAR 6.7 million) were held by the Fund Manager.

Cash and cash equivalents are deposited in a current account maintained with SABB under the name of the Fund Manager. No interest is receivable on this balance.

15 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below sets out the classifications of the carrying amounts of the Fund's financial assets and financial liabilities into categories of financial instruments:

	<i>Amortized cost</i>	<i>FVTPL</i>
<u>31 December 2018</u>		
Cash and cash equivalents	18,395	--
Investments held at FVTPL	--	8,773,338
Total Financial Assets	18,395	8,773,338
Accrued expenses	490	--
Total Financial Liabilities	490	--
	<i>Loans and receivables</i>	<i>Held for trading</i>
<u>31 December 2017</u>		
Cash and cash equivalents	8,239	--
Investments held for trading	--	8,107,174
Total Financial Assets	8,239	8,107,174

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15 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

<u>1 January 2017</u>	<u>Loans and receivables</u>	<u>Held for trading</u>
Cash and cash equivalents	18,033	--
Investments held for trading	--	7,799,651
Total Financial Assets	<u>18,033</u>	<u>7,799,651</u>

16 FINANCIAL RISK MANAGEMENT

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

- credit risk;
- liquidity risk;
- market risk; and
- operational risk

This note presents information about the Fund's objectives, policies and processes for measuring and managing risk, and the 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 Fund Board. In instances where the portfolio has diverged from the target asset allocations, the Fund's investment manager is obliged to take actions to rebalance the portfolio in line with the established targets, within prescribed time limits.

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 is exposed to credit risk on its bank balance. The Fund Manager seeks to limit its credit risk by monitoring credit exposure and by dealing with reputed counterparties.

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

	<i>31 December 2018 SR</i>	<i>31 December 2017 SR</i>	<i>1 January 2017 SR</i>
Cash and cash equivalents	<u>18,395</u>	8,239	18,033
<i>Total exposure to credit risk</i>	<u><u>18,395</u></u>	<u>8,239</u>	<u>18,033</u>

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16 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.

The Fund's securities are considered to be readily realizable as they are actively traded on Tadawul. 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 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 objective as per 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.

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 market 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 the 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, remain constant.

	2018		2017	
<i>Net gain / (loss) on investments held at FVTPL</i>	+ 5%	438,667	+ 5%	405,359
	- 5%	(438,667)	- 5%	(405,359)

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 SR.

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 these financial statements.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Fund's activities with financial instruments, either internally within the Fund or externally at the Fund's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behavior.

The Fund's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to unitholders.

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16 FINANCIAL RISK MANAGEMENT (CONTINUED)

Operational risk (continued)

The primary responsibility for the development and implementation of control over operational risks rests with the Risk Management Team. This responsibility is supported by the development of overall standard for the management of operational risk, which encompasses the controls and processes at the service providers and the establishment of service levels with the service providers, in the following areas:

- documentation of controls and procedures
- requirements for
 - appropriate segregation of duties between various functions, roles and responsibilities;
 - reconciliation and monitoring of transactions; and
 - periodic assessment of operational risks faced,
- the adequacy of controls and procedures to address the risks identified;
- compliance with regulatory and other legal requirements;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance if this is effective.

17 FAIR VALUES OF FINANCIAL INSTRUMENTS

The Fund measures certain financial instruments at fair value at each reporting date.

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 principal or the most advantageous market must be accessible by the Fund. 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, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Changes in assumptions about these factors could affect the fair value of financial instruments.

Valuation models

The fair values of financial instruments that are traded in active markets are based on prices obtained directly from an exchange on which the instruments are traded or obtained from a broker that provides an unadjusted quoted price from an active market for identical instruments. For all other financial instruments, the Fund determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

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17 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Fund values equity securities that are traded on an approved stock exchange at their last reported prices. To the extent that equity securities are actively traded and valuation adjustments are not applied, they are categorized in Level 1 of the fair value hierarchy, hence the Fund's assets recorded at fair value have been categorized based on fair value hierarchy Level 1.

	Carrying value	31 December 2018			
		-----Fair value-----			
		Level 1	Level 2	Level 3	Total
Investments at FVTPL	8,773,338	8,773,338	--	--	8,773,338
Total	<u>8,773,338</u>	<u>8,773,338</u>	<u>--</u>	<u>--</u>	<u>8,773,338</u>

	Carrying value	31 December 2017			
		-----Fair value-----			
		Level 1	Level 2	Level 3	Total
Held for trading investments	8,107,174	8,107,174	--	--	8,107,174
Total	<u>8,107,174</u>	<u>8,107,174</u>	<u>--</u>	<u>--</u>	<u>8,107,174</u>

	Carrying value	1 January 2017			
		-----Fair value-----			
		Level 1	Level 2	Level 3	Total
Held for trading investments	7,799,651	7,799,651	--	--	7,799,651
Total	<u>7,799,651</u>	<u>7,799,651</u>	<u>--</u>	<u>--</u>	<u>7,799,651</u>

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

Other financial instruments includes cash and cash equivalents. These are short-term financial assets whose carrying amounts approximate fair value, because of their short-term nature and the high credit quality of counterparties.

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18 LAST VALUATION DAY

The last valuation day of the year was 31 December 2018 (2017: 31 December 2017) and the dealing net assets value on this day was SR 31.40 per unit (31 December 2017: SR 28.98). The IFRS net assets value per unit on 31 December 2018 was SR 31.40 (31 December 2017: SR 31.40).

19 EXPLANATION OF TRANSITION TO IFRS

As stated in note 4, these are the Fund's first annual financial statements prepared in accordance with IFRSs as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the SOCPA.

The accounting policies set out in note 8 have been applied in preparing the financial statements for the year ended 31 December 2018, the comparative information presented in these financial statements for the year ended 31 December 2017 and in the preparation of an opening IFRS statement of financial position at 1 January 2017 (the Fund's date of transition) except for IFRS 9 as disclosed in note 20.

The transition from previous GAAP i.e. generally accepted accounting standards in the Kingdom of Saudi Arabia as issued by SOCPA to IFRSs as endorsed in the Kingdom of Saudi Arabia has no significant impact on the Fund's statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in net assets attributable to the unitholders and hence no further reconciliation statements have been prepared.

20 IMPACT OF CHANGE IN ACCOUNTING POLICIES

Adoption of IFRS 9 "Financial Instruments"

The Fund has adopted IFRS 9 with date of transition of 1 January 2018, opting to apply exemption allowed under IFRS 1 "First-time Adoption of International Financial Reporting Standards" from retrospective application. Accordingly, comparative information has been presented under the previous GAAP.

The assessment relating to determination of business model within which a financial instrument is held and classification and measurements of all of the Fund's financial instruments have been made based on the facts and circumstances that existed at the date of transition.

As all of the Fund's investments are either held for trading and/or managed and evaluated on a fair value basis, they have remained classified as fair value through profit or loss (FVTPL) upon adoption of IFRS 9. Therefore, transition to IFRS 9 has not resulted in material change to the classification or measurement of investments, in the current year. Accordingly, no separate reconciliation statement is prepared to reconcile the financial position balances from previous GAAP to IFRS 9.

The following table shows the original measurement categories in accordance with previous GAAP and the new measurement categories under IFRS 9 for the Fund's financial instruments as at 1 January 2018:

	Classification under previous GAAP	New classification under IFRS 9	Original carrying value under previous GAAP	New carrying value under IFRS 9
<i>Financial assets</i>				
Cash and cash equivalents	Loans and receivables	Amortized cost	8,239	8,239
Investments	Held for Trading	FVTPL	8,107,174	8,107,174
<i>Financial liabilities</i>				
Accrued expenses	Loans and receivables	Amortized cost	--	--

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21 SUBSEQUENT EVENT

There were no events subsequent to the reporting date which require adjustments of or disclosure in the financial statements or notes thereto.

22 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Fund Board on 28 Rajab 1440H (corresponding to 4 April 2019).