

Annual Report

-HSBC Saudi Equity Fund- 2019

***FUND REPORTS ARE AVAILABLE UPON REQUEST FREE OF CHARGE**



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1. Management Information

| | |
|-------------------------------------|--|
| A. Fund name | HSBC Saudi Equity Fund |
| B. Fund Manager | |
| Name: | HSBC Saudi Arabia |
| Address: | HSBC Building 7267, Olaya Street (Al-Murooj District) Riyadh 12283-2255, Kingdom of Saudi Arabia. Phone: 920022688 Fax: +96612992385 Website: www.hsbcSaudi.com |
| C. Fund Sub-Manager (if any) | |
| Name: | None |
| Address: | |
| D. Custodian | |
| Name: | Albilad Capital |
| Address: | Albilad Capital, Main Office King Fahd Road P.O.Box 140, Riyadh 11411 Kingdom of Saudi Arabia. Phone: 920003636 Fax: 966112906299 Website: www.albilad-capital.com |
| Responsibilities | <ul style="list-style-type: none">• Safeguarding the Fund's assets• Safeguarding all necessary documents that support the performance of its contractual obligations towards the fund.• Depositing the Return cash amounts of the Fund in the account of the fund.• Managing the cash transaction of the Fund, including deducting the investment amounts and the expenses of the Fund according to Terms and Conditions of the Fund• The custodian shall be liable for holding and safeguarding the Fund's assets for the benefit of unit holders |
| E. Certified Accountant | |
| Name | KPMG Al Fawzan & Al Sadhan Company |
| Address | KPMG Building, Salahuddin Al Ayoubi Road P.O.Box 92876 Riyadh 11663 Kingdom of Saudi Arabia Tel .: +96612914350 |

2. Fund Information

A. Investment objectives and policies

The Fund is an open investment fund that aims at achieving medium to long term capital growth through investing in a portfolio consisting of companies shares listed in the Saudi Stock Exchange and approved by the Fund's Oversight Committee. This investment includes SABB share and SABB Takaful share, according to Tadawul Index components for Saudi stocks. The Fund manager can also invest the Fund extra cash flows in short-term cash instruments for the purpose of improving the Fund's Returns. The Fund will strictly adhere to investment directives - if any - issued by the Fund Board as well as Shariah Directives issued by the Fund's Oversight Committee. Performance of the Fund is measured according to the performance of the Saudi Stock Market Index.

B. Policy of Income and Profit Distribution

Profits will not be distributed, but will be added to the Fund assets so that income and profits are reinvested to increase the unit price.

C. Fund performance

- Fund Performance during the Past Three Years (SAR)

| | 2017 | 2018 | 2019 |
|--|-------------|-------------|-------------|
| Net assets value of the Fund as at the end of the year | 126,437,582 | 144,325,645 | 166,156,807 |
| Net holdings value of the unit as at the end of the year | 132.8853 | 155.7949 | 185.2557 |
| Highest holdings value of the unit | 140.5585 | 165.6004 | 195.7364 |
| Lowest holdings value of the unit | 122.8113 | 132.6279 | 155.2789 |
| Number of units issued at the end of the year | 951,479 | 926,382 | 896,905 |
| Distributed profits value for each unit (if any) | - | - | - |
| Expenses rates | 1.70% | 1.92% | 1.87% |

- Fund Returns

| | One year | Three years | Five years |
|-------------|----------|-------------|------------|
| Fund Return | 18.91% | 43.57% | 13.90% |



| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|--------------------|--------|--------|--------|--------|--------|---------|--------|-------|--------|--------|
| Fund Return | 14.57% | -4.51% | 11.05% | 47.52% | 16.92% | -16.67% | -4.79% | 2.98% | 17.24% | 18.91% |

- **Value of Services and Commissions**

| Type of expenses or commission | Value in SAR | Rate of Fund assets average |
|--|--------------|--------------------------------|
| Subscription fees | 106,557.92 | Up to 2 % of subscription fees |
| Fund management fees (including VAT) | 2,898,868.15 | 1.79% |
| Custodian fees | 43,420.05 | 0.027% |
| Administrative services fees | 42,441.77 | 0.026% |
| Certified Accountant fees | 15,879.46 | 0.010% |
| Independent board members compensations | 10,082.14 | 0.006% |
| Regulatory fees | 6,427.41 | 0.004% |
| Index license fees | 18,525.90 | 0.011% |
| Borrowing fees | - | - |
| Shariah purification fees | - | - |
| Banking fees | 1,716.78 | 0.00106% |
| Transaction expenses | 184,640.22 | 0.11% |

D. Any Material Changes Affect Fund Performance

No material changes affected Fund performance during the year 2019.

E. Any Changes to Fund Terms and Conditions during the Period

| Date | Fund name | Change |
|--------------|--------------------------|---|
| 27 Jan 2019G | (HSBC Saudi Equity Fund) | - Resignation of Fund Board Member H.E. Mr. Ihsan Abbas Bafakih, - independent member |
| 26 May 2019G | (HSBC Saudi Equity Fund) | - Amend the Fund expenses and fees. - Add the term "operational expenses". - Add the term "administrative manager". - Modify the title "Fund Information Summary" on the cover page according to |



| | | |
|-------------|--------------------------|---|
| | | requirements of the Investment Funds Regulations. - Delete the unit owner's declaration from some documents of the Fund. - Resignation of Mr. Majed Najm from his position in the Fund Board. |
| 7 Aug 2019G | (HSBC Saudi Equity Fund) | - Assigning a Fund Board Member Mr. Abdul Rahman Al-Medaimagh— independent member |

F. Any Pricing or Evaluation Errors during the Period

None

3. Fund Manager

A. Investments during the period

During the year, the Fund reduced its exposure to the petrochemical sector, mainly due to lower prices and margins of products, which led to lower profits for the sector. In addition, the Fund increased its exposure to the retail sector due to improvement in the consumer purchasing power as well as the attractive valuations of some companies. Moreover, the Fund increased its exposure to the retail sector due to the sector expected growth and attractive valuations of the sector. On the other hand, the Fund reduced exposure to the insurance and healthcare sector risks due to unfavorable conditions, which negatively affected the sector performance.

B. Irregularities of Investment Restrictions

None.

C. Report on the Performance of Investment Fund during the Period

During the year 2019, Tadawul index increased by 7.19%. In addition, 2019 witnessed a milestone for the Saudi market, by inclusion in MSCI Emerging Markets Index. On the other hand, 2019 has fluctuations, as the Saudi Market Index reached the highest point at 9,361.96, while the year closed at 8,389.23.

During the year, the Fund achieved nearly 18.91% performance, outperforming Index by 11.72%.

D. Any Additional Information that Might Enable Unit Holders to Make Informed Decisions that are Based on Sufficient Information about the Fund during the Period



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

E. Percentage of Management Fees Calculated on the Fund itself and other funds that the Fund is investing in (if the fund is substantially investing in other investment funds)

| Funds | Fees |
|--|-------|
| Local equity funds | |
| HSBC Saudi Construction and Cement Companies Equity Fund | %1.70 |

F. Special commissions received by the Fund manager during the period

The Fund Manager receives reports and research issued by the Dealer through which operations are executed and made available to all Dealer clients, in addition to arranging meetings with the listed companies upon the request of the Fund manager to meet them.

G. Investment of Fund Manager or any counterparty in the Fund

Neither the Fund Manager nor any counterparty invests in this Fund.

H. Annual voting practices

| The general Assembly of the Advanced Petrochemical Co. 17-9-2019 | | | | |
|--|---|-----------|--------|------------|
| Subject of the vote | | HSBC vote | | |
| | | approve | reject | abstention |
| 1 | To vote on the recommendation of the Board of Directors to increase the company share capital through bonus shares by one share for every ten shares held (1:10) with the objective of adjusting the company share capital to its assets level and help support its future investment plans | x | | |
| 2 | To vote on the election of the members of the Board of Directors among the board membership nominees for new term which will be starting October 1, 2019 to September 30, 2022 by the way of cumulative voting system. In the event that the results of the voting will not enable the company to nominate the minimum number of independent members in the Board as required by the applicable regulations, then non-independent members will be replaced by independent members in accordance with the results of the voting. | x | | |
| 3 | To vote on the amendment of article (7) of the company's bylaws concerning the capital of the company if the Extraordinary General Meeting approved item number (1). | x | | |
| 4 | To vote on the amendment of article (20) of the company's bylaws concerning the remuneration of board members | x | | |



| | | | | |
|----|---|---|--|--|
| 5 | To vote on the amendment of article (22) of the company's bylaws concerning the board meetings | x | | |
| 6 | To vote on the amendment of article (30) of the company's bylaws concerning the invitation for the general assemblies. | x | | |
| 7 | To vote on the amendment of article (38) of the company's bylaws concerning the formation of the audit committee. | x | | |
| 8 | To vote on the amendment of article (39) of the company's bylaws concerning the audit committee meeting quorum. | x | | |
| 9 | To vote on the amendment of article (41) of the company's bylaws concerning the audit committee's reports. | x | | |
| 10 | To vote on the amendment of article (45) of the company's bylaws concerning the financial documents. | x | | |
| 11 | To vote on the amendment of article (46) of the company's bylaws concerning the distribution of profits. | x | | |
| 12 | To vote on the amendment of article (47) of the company's bylaws concerning the profits entitlement. | x | | |
| 13 | To vote on the updated Audit Committee Charter. | x | | |
| 14 | To vote on the formation of the Audit Committee for the next term which will be starting October 1, 2019 to September 30, 2022 and its duties, its rules of activities and its members remunerations , subject to the approval of the General Meeting on the item number (7), | x | | |
| 15 | To vote on delegating the board of directors the vested powers of the general assembly meeting as per article (71) of the Companies Law for one year from the date of the approval by the general assembly meeting. Such delegation shall be in accordance with the requirements stipulated in the Regulatory Rules and Procedures issued pursuant to the Companies Law relating to Listed Joint Stock Companies. | x | | |
| 16 | To vote on the updated Remuneration of Board Members, Board Committees and the Executive Management Policy | x | | |

| The general Assembly for Jarir Marketing Co. 28-2-2019 | | | | |
|--|---|-----------|--------|------------|
| Subject of the vote | | HSBC vote | | |
| | | approve | reject | abstention |
| 1 | Voting on the election of the company's board of directors from among the candidates for the new session of the Council starting from 09/03/2019 for a period of three years ending on 03/08/2022 . | x | | |
| 2 | Voting on the formation of the audit committee for the new session, which begins on the date of 3/3/2019 for a period of three years ending on 3/8/2022, and on its duties, work controls .and rewards of its members | | | x |

I. Cases of Conflict of Interests Approved by the Fund Board

All conflict cases related to the Fund's daily management were regularly submitted to the Fund Board. No conflict cases are managed by HSBC Saudi Arabia.



J. Fund Board's Annual report

| Subject | Approval Details | Meeting Date |
|---|---|------------------|
| Voting policy | The Fund Board approved the policy regarding voting on behalf of HSBC investment funds at the annual general meeting of the listed companies | 4 February 2019 |
| Financial statements of investment funds | The authorization of Head of Asset Management and Chief Financial Officer of HSBC Saudi Arabia Company to review and sign financial audit reports of HSBC Saudi Arabia funds. | 4 February 2019 |
| Approval on Dealers | The Fund Board approved Dealers' list with whom the Fund can trade under the independent custody form. | 2 July 2019 |
| Assessing Fund Board capacity | The Fund Board has assessed the existing Fund Board capacity and assured that it has the sufficient capacity to manage the Fund | 11 December 2019 |
| Approval on Financial Auditor | The Fund Board approved the appointment of KPMG Company to be the financial auditor of the investment funds of HSBC Saudi Arabia for the year 2019. | 11 December 2019 |
| Initial public offering subscription policy | The Fund Board approved the participation policy in the stage of preparing the order book for initial public offering of companies | 11 December 2019 |

4. Custodian Statement

The statement is based on the Custodian's opinion on whether the Fund manager has carried out the following:

- Issuance, transfer, and redemption of units according to the Investment Fund Regulation and the Fund's Terms and Conditions.
- Evaluation and calculation of unit price according to the Investment Fund Regulation and the Fund's Terms and Conditions.
- Violation of any of investment restrictions, investment limits, and borrowing powers that are applied on the Investment Funds' regulation.

None, the responsibilities assigned to the custodian does not include the opinion thereof.

5. Certified Accountant Statement

The statement is based on Certified Accountant's opinion as follows:

- The financial statements are prepared and audited according to accounting standards issued by Saudi Organization for Certified Public Accountants ("SOCPA"), provisions of Investment Fund Regulation, and the Fund's Terms and Conditions.



Anne2 x is affixed on page 2 of the Fund's financial statements- the opinion of the Certified Accountant.

- The financial statements are fair and true for the net income, net profits, loses of the investment Fund for the accounting period of such statements. Not applicable.
The responsibilities assigned to the Certified Accountant do not include the opinion thereof.
- The financial statements are true and fair for the financial position of the investment Fund at the end of the period.

Annex2 is affixed on page 2 of the Fund's financial statements- the opinion of the Certified Accountant.

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

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

Independent auditor's report

To the unitholders of HSBC Saudi Equity Fund

Opinion

We have audited the financial statements of **HSBC Saudi Equity 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 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 Fund** ("the Fund").

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

Hani Hamzah A. Bedairi
License No. 460

2 Shaban 1441H
Corresponding to: 26 March 2020



HSBC SAUDI EQUITY 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> | 550,357 | 1,075,669 |
| Investments at fair value through profit or loss (FVTPL) | <i>11</i> | 163,010,401 | 143,299,123 |
| Receivables and advances | | 5,189,463 | 230,642 |
| Total assets | | 168,750,221 | 144,605,434 |
| Liabilities | | | |
| Accrued expenses | <i>13</i> | 2,593,414 | 279,789 |
| Total liabilities | | 2,593,414 | 279,789 |
| Net assets (equity) attributable to the unitholders | | 166,156,807 | 144,325,645 |
| Units in issue (numbers) | | 896,905 | 926,382 |
| Net assets (equity) value per unit – Dealing | <i>17</i> | 185.26 | 155.79 |
| Net assets (equity) value per unit – IFRS | <i>17</i> | 185.26 | 155.79 |

The accompanying notes 1 to 19 form integral part of the financial statements.

HSBC SAUDI EQUITY 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> | 23,705,348 | 19,176,448 |
| Dividend income | | 6,072,264 | 5,375,700 |
| Other income | | 625 | 552 |
| Total income | | 29,778,237 | 24,552,700 |
| Expenses | | | |
| Management fees | <i>14</i> | 2,898,868 | 2,542,539 |
| Other expenses | | 136,777 | -- |
| Total expenses | | 3,035,645 | 2,542,539 |
| Net income for the year | | 26,742,592 | 22,010,161 |
| Other comprehensive income for the year | | -- | -- |
| Total comprehensive income for the year | | 26,742,592 | 22,010,161 |

The accompanying notes 1 to 19 form an integral part of the financial statements.

HSBC SAUDI EQUITY 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 | 144,325,645 | 126,437,582 |
| Net income for the year | 26,742,592 | 22,010,161 |
| Contributions and redemptions by the Unitholders: | | |
| Proceeds from issuance of units | 9,701,256 | 5,459,379 |
| Payments for redemption of units | (14,612,686) | (9,581,477) |
| Net change from unit transactions | (4,911,430) | (4,122,098) |
| Net assets (equity) attributable to the unitholders at the end of the year | 166,156,807 | 144,325,645 |

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 | 926,382 | 951,479 |
| Units issued during the year | 53,456 | 37,289 |
| Units redeemed during the year | (82,933) | (62,386) |
| Net decrease in units | (29,477) | (25,097) |
| Units at the end of the year | 896,905 | 926,382 |

The accompanying notes 1 to 19 form an integral part of the financial statements.

HSBC SAUDI EQUITY 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 | | 26,742,592 | 22,010,161 |
| <i>Adjustment for:</i> | | | |
| Unrealized gain on investments at FVTPL | 12 | <u>(6,333,504)</u> | <u>(9,233,887)</u> |
| | | 20,409,088 | 12,776,274 |
| Net changes in operating assets and liabilities | | | |
| Increase in investments at FVTPL | | (13,377,774) | (16,614,409) |
| (Increase) / decrease in receivables and advances | | (4,958,821) | 771,848 |
| Increase / (decrease) in accrued expenses | | <u>2,313,625</u> | <u>(1,899,251)</u> |
| Net cash generated from / (used in) operating activities | | 4,386,118 | (4,965,538) |
| Cash flows from financing activities | | | |
| Proceeds from issuance of units | | 9,701,256 | 5,459,379 |
| Payments for redemption of units | | <u>(14,612,686)</u> | <u>(9,581,477)</u> |
| Net cash used in financing activities | | (4,911,430) | (4,122,098) |
| Net decrease in cash and cash equivalents | | (525,312) | (9,087,636) |
| Cash and cash equivalents at the beginning of the year | | 1,075,669 | 10,163,305 |
| Cash and cash equivalents at the end of the year | | <u>550,357</u> | <u>1,075,669</u> |

The accompanying notes 1 to 19 form an integral part of the financial statements.

HSBC SAUDI EQUITY 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 Fund (“the Fund”) is an investment fund established through an agreement between HSBC Saudi Arabia (“the Fund Manager”) and the 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 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.

HSBC SAUDI EQUITY 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)

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.

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.

HSBC SAUDI EQUITY FUND
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8. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

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8. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (continued)

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.

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.

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8. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and financial liabilities (continued)

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.

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.

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8. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and financial liabilities (continued)

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 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.

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8. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 |

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

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 no material impacts from adoption are expected.

| <i>Standard / Interpretation</i> | <i>Description</i> | <i>Effective from periods beginning on or after the following date</i> |
|----------------------------------|---|--|
| 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 |

10. CASH AT BANK

Cash at bank comprise of balances 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> | | | | |
| Banks | 45,141,521 | 57,160,694 | 61,319,456 | 74,488,043 |
| Energy | 22,645,528 | 26,318,048 | -- | -- |
| Retailing | 16,795,071 | 22,150,102 | 8,306,398 | 9,926,008 |
| Materials | 16,534,011 | 17,562,928 | 29,122,644 | 33,469,023 |
| Insurance | 7,455,226 | 7,229,590 | 7,766,928 | 7,046,498 |
| Telecommunication Services | 4,131,675 | 4,970,894 | 7,352,651 | 8,883,853 |
| Real Estate management & Development | 4,377,642 | 4,845,109 | -- | -- |
| Health Care Equipment & Services | 4,472,249 | 4,815,774 | 5,115,286 | 5,424,044 |
| Food & Beverage | 4,403,092 | 4,377,418 | 2,465,167 | 2,283,072 |
| Transportation | 3,079,732 | 3,611,571 | -- | -- |
| Consumer Services | 2,240,900 | 2,684,041 | 1,690,343 | 1,778,582 |
| <i>Mutual Funds</i> | | | | |
| HSBC Saudi Construction & Cement Companies Equity Fund | 5,240,000 | 7,284,232 | -- | -- |
| Total | 136,516,647 | 163,010,401 | 123,138,873 | 143,299,123 |

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

| | <u>2019</u> | <u>2018</u> |
|------------------------------|-------------------|-------------------|
| Realized gain for the year | 17,371,844 | 9,942,561 |
| Unrealized gain for the year | 6,333,504 | 9,233,887 |
| Total | 23,705,348 | 19,176,448 |

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

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

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

In the ordinary course of its activities, the Fund transacts business with 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 | 2,898,868 | 2,542,539 | 48,694 | 279,789 |
| | Administration fee | 42,442 | -- | 7,930 | -- |
| | Board member fee | 10,082 | -- | 6,959 | -- |
| SABB | Cash at bank | -- | -- | -- | 1,075,669 |

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14. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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.

As at 31 December 2019, the Fund has invested 232,229 shares (December 2018: 197,527) in SABB having market value of SR 8.1 million (December 2018: SR 6.5 million).

No special commission is accrued against the cash balances in the respective bank accounts with the related parties.

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.

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.

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15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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 at bank | 550,357 | 1,075,669 |
| Receivables and advances | 5,189,463 | 230,642 |
| Total exposure to credit risk | 5,739,820 | 1,306,311 |

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.

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.

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15. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (continued)

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.

Equity price risk (continued)

| | <i>31 December 2019</i> | | <i>31 December 2018</i> | |
|---|-------------------------|--------------------|-------------------------|-------------|
| <i>Net gain / (loss) on investments held at</i> | <i>+ 5%</i> | 8,150,520 | <i>+ 5%</i> | 7,164,956 |
| <i>FVTPL</i> | <i>- 5%</i> | (8,150,520) | <i>- 5%</i> | (7,164,956) |

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.

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16. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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 | 163,010,401 | 163,010,401 | -- | -- | 163,010,401 |
| Total | 163,010,401 | 163,010,401 | -- | -- | 163,010,401 |

| | Carrying value | 31 December 2018 | | | |
|----------------------|--------------------|----------------------|-----------|-----------|--------------------|
| | | -----Fair value----- | | | |
| | | Level 1 | Level 2 | Level 3 | Total |
| Investments at FVTPL | 143,299,123 | 143,299,123 | -- | -- | 143,299,123 |
| Total | 143,299,123 | 143,299,123 | -- | -- | 143,299,123 |

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 185.26 per unit (2018: SR 155.79). The IFRS net assets value per unit on 31 December 2019 was SR 185.26 (31 December 2018: SR 155.79).

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18. 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.

19. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Fund Board on 28 Rajab 1441H (corresponding to 23 March 2020).